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TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Friday, April 3, 1942.

4/2/42

Press Service
No. 30-95

Subscriptions for the Treasury certificates of indebtedness to be offered for cash next Monday will be entertained from the various classes of subscribers on the same basis as those entered for the last two cash offerings of Treasury bonds. That basis was set forth in a Treasury press release dated December 3, 1941, and it will be contained in the formal offering circular. Attention is called to the other provisions of the December 3 statement, which also will be applicable to this offering.

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TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Friday, April 3, 1942.

The Secretary of the Treasury, by this public notice, invites tenders for \$150,000,000, or thereabouts, of 72-day Treasury bills, to be issued on a discount basis under competitive bidding. The bills of this series will be dated April 8, 1942, and will mature June 19, 1942, when the face amount will be payable without interest. They will be issued in bearer form only, and in denominations of \$1,000, \$5,000, \$10,000, \$100,000, \$500,000, and \$1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, two o'clock p. m., Eastern War time, Monday, April 6, 1942. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of \$1,000, and the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 10 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Secretary of the Treasury of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Payment of accepted tenders at the prices offered must be made or completed at the Federal Reserve Bank in cash or other immediately available funds on April 8, 1942.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, shall not have any exemption, as such, and loss from the sale or other disposition

of Treasury bills shall not have any special treatment, as such, under Federal tax Acts now or hereafter enacted. The bills shall be subject to estate, inheritance, gift, or other excise taxes, whether Federal or State, but shall be exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States shall be considered to be interest. Under Sections 42 and 117 (a) (1) of the Internal Revenue Code, as amended by Section 115 of the Revenue Act of 1941, the amount of discount at which bills issued hereunder are sold shall not be considered to accrue until such bills shall be sold, redeemed or otherwise disposed of, and such bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder need include in his income tax return only the difference between the price paid for such bills, whether on original issue or on subsequent purchase and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made, as ordinary gain or loss.

Treasury Department Circular No. 418, as amended, and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

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April 3, 1942.

Dear Randolph:

Thank you for your telegram of congratulations on the new offering. I am glad to know that you regard it as a wise one, and that you think it will be successful.

With best wishes,

Sincerely,

(Signed) Henry

Dr. W. Randolph Burgess,
The National City Bank of New York,
55 Wall Street,
New York, New York.

File N.M.C.

GEF/dbe

WESTERN UNION

(54)

SYMBOLS

DL = Day Letter

NT = Overnight Telegram

LC = Deferred Cable

NLT = Cable Night Letter

Ship Radiogram

CLASS OF SERVICE

This is a full-rate Telegram or Cablegram unless its deferred character is indicated by a suitable symbol above or preceding the address.

A. N. WILLIAMS
PRESIDENT

NEWCOMB CARLTON
CHAIRMAN OF THE BOARD

J. C. WILLEVER
FIRST VICE-PRESIDENT

Filing time shown in the date line on telegrams and day letters is STANDARD TIME at point of origin. Time of receipt is STANDARD TIME at point of destination.

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1942 APR 2 AM 11 01

HONORABLE HENRY MORGENTHAU JR=

SECY OF THE TREASURY WASHDC=

CONGRATULATIONS ON NEW OFFERING WHICH IS JUST RIGHT AND WILL
BE GREAT SUCCESS=

W RANDOLPH BURGESS THE NATIONAL CITY BANK OF NY.

THE COMPANY WILL APPRECIATE SUGGESTIONS FROM ITS PATRONS CONCERNING ITS SERVICE

April 3, 1942
9:15 a.m.

INFLATION

Present: Mr. Bell
Mr. Haas
Mr. Galbraith
Mr. Jones
Mr. Hansen
Mr. Gilbert
Mr. Colm
Mr. Leland
Mr. Paul
Mr. Smith
Mrs. Klotz
Mr. Currie
Mr. Sullivan
Mr. White

H.M.JR: Do you want to start the meeting off, Harold, and give us a little bit the benefit of where we are as of this morning?

MR. SMITH: Well, I don't think, Mr. Secretary, that there is very much that this group here, sophisticated as it is, doesn't know about this problem.

H.M.JR: What is the word?

MR. SMITH: Sophisticated.

H.M.JR: I thought you said sadistic. (Laughter)

MR. SMITH: I think what we ought to discuss is the - primarily the tax aspect of the subject and about that I know very little, but there is an awful lot of talent in this room that has been studying the problem. I think that is the subject that we ought to discuss primarily. You got the general memorandum didn't you, yesterday?

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H.M.JR: Yes, I got it here. And then I had quite a long talk with the President yesterday morning and then he discussed it some yesterday at Cabinet. We are up against a sort of a deadline because he asked me twice, first in the morning and then again in the afternoon, to let him have my opinion by tonight. Well, whatever I give will be kind of rough. Whatever I send him I will send you. But then also in the morning he said two weeks and then in Cabinet he said three weeks. But he still insisted on something tonight. I would be very glad to talk a little bit, if you want to listen.

MR. SMITH: Fine.

H.M.JR: Because we have been thinking about this thing now for quite a long time. As you know - I don't know how many various agencies cooperated with us in working out first what they called the gap and then in the second place, where we could go to raise the money. Now, we have some figures showing that if the amount of money that we have to raise for fiscal '43 is thirty-nine billion dollars, which I think is the figure that we are working on, isn't it? How we are going to get it. I would like to have-- Bell, would it be you or Haas?

MR. BELL: Haas, I think.

H.M.JR: Show you those figures. Now, the way the President put the problem yesterday at Cabinet was this, that he figured that the cost of living was going up about one and a half percent a month. He was afraid it might go to three and if he could hold it down to a half a percent a month he would be very happy. The sources from which we raise this money greatly depend upon what is done on rationing. What we would like to show you from our standpoint is, if nothing happened, where we would get the money. I mean, if the thing wasn't changed at all. And then if they put in rationing, as I am told they are thinking of doing in OPA, getting it second hand, I don't know if that is right,

and then a third column, the changes that would come about if we tried out something which for a better name I call the Harry White Plan of Rationing. The point is, depending upon how much rationing is done, a great deal depends upon how much money the people will have to spend and how much we will get from savings. If we have complete rationing the people will have that much more money and make our job in the Treasury that much easier. What I was thinking of doing, frankly, was to say - giving the President a table like this which shows that we are going to get something like twenty-seven billion dollars from taxes. Well now, the President might say, well, I don't think that is enough. Well, all right, where would you like to get it? We are going to get so much from savings, so much from insurance companies, and so much from the banks; and within that schedule, in that framework, depending upon again what kind of rationing you put in, we could approach the financing problem and also the taxation problem. We also feel here that a great deal more steam should be put behind the Social Security plan. So just to sort of break the ice and get these fellows talking, suppose Haas shows them that thing. How would that be?

MR. SMITH: Fine.

MR. HAAS: I don't have an enlarged one, Mr. Secretary.

H.M.JR: So they can get their razors out and go after you.

MR. HAAS: I don't mind the cutting on these because a lot of it is by ear anyway.

MR. SMITH: Safety razors are being rationed so--

H.M.JR: The old fashioned ones aren't.

MR. HAAS: Most of the people here are familiar with the basic figures in any case. What we have made

up here is a table which in the upper part shows the savings and accumulations based on existing patterns and pressures, in other words, under existing conditions, and the total amount of these savings is estimated at twenty-six billion and a half, and that is derived from the gap analysis, which most of the people in the room are familiar with. I am talking from table two now. We made that figure. That is the figure we had before.

MR. GILBERT: The figure we agreed on.

MR. HAAS: We are in the process of revising it now but that is the purpose of this discussion.

MR. GILBERT: What level of income payments this year is there?

MR. HAAS: Well, it is based upon that level of a hundred and fifteen.

MR. GILBERT: I was asking for what level of individual incomes is assumed for this year is there.

MR. HAAS: Well, it is based upon that level of a hundred and fifteen.

MR. GILBERT: I was asking for what level of individual incomes is assumed for this year, is this savings figure a part?

MR. HAAS: It is that one you looked at sometime ago, a hundred and fifteen. We have taken this twenty-six which is savings of all types, personal and business, and taken the top - the personal saving we have estimated at fifteen, five and then we tried to distribute that over the different types of securities. We have allocated seven billion dollars of the fifteen and a half to Savings Bonds, series E, F and G, and we have listed here, Mr. Secretary, two proposed securities, so-called tap securities and in the short one, a billion and one tenth of personal savings would go into that. It wouldn't go

into it directly, it would go into it by reduction of - for example, like consumer credit, C.I.T., would buy a security. In other words, personal savings would be paid back to this company and that company would buy this particular type of security. It runs along over to insurance companies and there would be one point nine we have estimated of marketable securities sold to insurance companies because of the fact the people's savings went into that much in insurance companies, so much to the banks, etc. We are getting down to - we only account for twenty-six. The rest of it either has to come out of idle balances or out of - be sold directly to the banks and out of idle balances we estimated it would be thirteen point three distributed over these various securities. That makes up the total figure of thirty-nine point eight.

And on the marketable securities, we would have to sell to the banks seventeen billion dollars, but eight of the seventeen billion dollars would be non-inflationary. In other words, there would either be savings going into savings accounts in banks or there would be payments of mortgages to banks or reduction of consumer credit and so on, so that about eight point eight of the seventeen billion dollar securities sold to the banks would be inflationary and the point is that if - this is under existing situations. If there is a change made with regard to over-all price fixing and rationing, rationing of different types, it would change the figure of twenty-six, so the amount - conceivably so that the amount sold to the banks may be negligible. It would all go up in the upper part of the table and we would have to make a whole new distribution and that is what we are working on. We are working on that today so we will have, as the Secretary pointed out three times, one based upon what the situation would be under existing conditions, what it would be under one type of rationing and what it would be under the assumption of a second type of rationing.

H.M.JR: Do you want to ask any questions, gentlemen?

MR. HAAS: This table, I might point out, is obviously very inflationary, this sort of thing, because you have

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got seventeen billion dollars that you are increasing banking deposits - I mean eight billion dollars.

MR. BELL: And you have thirteen billion that is inflationary.

MR. HAAS: That is right, including the idle balances.

MR. BELL: Which means if it is allowed to stand I take it there will be more than thirteen billion.

MR. HAAS: That is right. In other words, it will generate a situation much worse than the one that is pictured here.

MR. GILBERT: I think there is general agreement, Mr. Secretary, of all the people who are working on this problem that there certainly is no less than ten billions of inflationary gap and that it might easily rise to twice that figure. I don't know now any group in town that has been working on this problem that comes out to a figure under ten billions.

MR. PAUL: It seems to me that the point of the discussion here should be not whether there is a gap, we are all agreed on that, but what you do about it, and there is some disagreement about the means on that end. I think a good deal of this disagreement is minor.

H.M.JR: Well, I would like to ask - let's see, who is - you (Gilbert) are representing Mr. Henderson?

MR. GILBERT: Yes.

H.M.JR: How far and how soon are you people prepared to go in rationing and along what lines?

MR. GALBRAITH: Well, we haven't considered what you term "The Harry White Plan" in terms of any actual time schedule. In fact, I think perhaps there is some difference of opinion between ourselves and Harry as to

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the practicability of implementing general or overall rationing. Now, as far as individual commodity rationing is concerned, it has been a long slow process getting the machinery in shape for even that. For any commodity like sugar of universal consumption, you have to have machinery which in effect reaches every individual in the country. Once we are over the hurdle on that, as we will be the beginning of next month, we will be in a position to add further commodities to that rationing set-up and add them rather promptly. We will have basic registration and the basic stamp machinery, and certificate machinery, so that for such further scarce consumers goods as - well, canned goods as a whole, for example. for fats and oils, or even clothing the next steps will be - I hate to say relatively easy, but they will be much less difficult than the original step of setting up the nationwide machinery, getting the nationwide registration and getting the initial registration book in the hands of every individual.

I might say in that connection that we are only contemplating working on the important consumer's goods. On a commodity by commodity rationing basis there a lot of consumer's goods which if they are short in supply will simply have to run out. There will be no alternative for that. My own feeling, there is some difference of opinion about this, but my own feeling is that it is improbable if we can within a year or eighteen months ration more than at the very outside a dozen groups of related items of universal consumption. Now, that is not a very - it is a somewhat misleading way of putting it because I would refer to men's clothing as a unit there. We are working out against the time when we will need, and it may not be far distant, a point system for rationing clothing, but it is a highly complex machinery, very complex, and we have found already that it is necessary to go rather slowly just for the reason that you can only develop your administrative machinery and get it to digest anything as complex as this at a gradual rate.

You have to use a majority of lay personnel, unskilled people whose ability to read regulations

rules and regulations, is limited. I think it is clear that general rationing would, of course, be something very different from that sort of procedure. Since we are not contemplating that at the present time, I would say this picture perhaps has a dozen important groups of consumer commodities being rationed within the next eighteen months. That is the way the thing would project.

H.M.JR: Well, I would like to tell you how I feel because I am in complete disagreement with you. After all, there are ten or fifteen billion dollars which we are talking about. Let's take the top figure, fifteen billion dollars which is looking for something to do. It is either going to be used for spending or it is going to be hoarded or it is going to be saved. Now, just because - I am going to talk in the room here maybe a little rough, but just because Henderson's organization hasn't got a way of going out and rationing this thing, the alternative, as I get it, right or wrong, is that we should go ahead and clamp down on the people with the very lowest incomes, because that is the place where they are going to spend. Now, before I will agree to such a thing I am going to fight to the last ditch because before I tackle or be a part of tackling - after all, the President can make his own decision and once he has made it that settles it as far as I am concerned. But going after the person of fifteen dollars a week on the highly theoretical figure based on 1936 statistics of where the mass purchasing power is, just because Henderson's organization can't get busy and ration and also go after a sales tax which also hits the very poorest people, I think it is just - we are just throwing the thing on the group that Mr. Roosevelt has always stood to defend ever since he has been elected and as far as I am concerned I am not going to be a party to it.

I think that we can have rationing. I think that it can be done. I think it can be done quickly. I think this idea of announcing two months in advance that you

are going to ration sugar and then have everybody run around and buy sugar, or announce that you are going to have Gillette blades or suits, and then tip people off two months in advance that they should get something, and then they all go out and stock up on it, but to me I just think it is terrible. I am saying this in the room here among people all working for Mr. Roosevelt. I am not talking to the press or anybody else, but I am talking to people in the employ of Mr. Roosevelt. Because you people can't tackle that problem, the alternative is that we should go after this low income group.

Now, I just think it is not facing the problem in a realistic manner. Now, we have been unable, trying desperately to get the buying and saving habits of the low income group, to get anything promised to us before May 1. By May first we have been promised that we will have something as of 1942 and as I understand it everything else dates '36. There is nobody can tell me what the actual buying habits of the low income groups are as of today and what their savings are. Everybody has got to guess. We are guessing. I don't know, but certainly if we had complete rationing and then we had - so that we take all of these various factories which are manufacturing consumer goods and say so much goes to the Army and Navy and the rest is for civilians and they are divided up by families throughout the United States, and each family is allotted so much and then you take care of this hoarding and you take care of how the people spend their money and then the money that is left over, if it is fifteen billion or it is twenty billion dollars. Then it is a question how do we get that and mop that money up. We here think we can still get it on the voluntary basis. I have told both the House and the Senate that I would like to have until the first of July to prove that we are right or wrong and they have agreed that they will give us until the first of July. We think if we had some kind - even if we don't have any rationing that we can hit a billion dollars by July, a month. That is what they think. If we have rationing we can do it easier and

we can go way above that. I mean, we might be able to get fifteen or twenty billion dollars if we have rationing. Now, on the tax thing, I don't know whether this is - I don't know how many tax bills I have gone through but at least we are in another one. We are having the greatest difficulty getting the nine billion dollars that Mr. Roosevelt wants. To say that we will lower the exemptions to stave off the sales tax, I don't think it will work. I mean, we have pointed out again and again to the Congress that the people of the United States have a billion dollars worth of loop-holes and until we get those billion dollars worth of loop-holes cleaned up, loop-holes which affect the highest group in the income class, to talk about lowering the seven hundred fifty dollars while the people have very large incomes can escape to the tune of a billion dollars I think is undemocratic. Furthermore, to go up at this last - last fall, everybody got much excited about inflation, myself included, and I rushed up on the Hill and asked to have a fifteen percent withholding tax. They wouldn't even give me a hearing. Now, I want to do, and everybody in the Treasury wants to do, everything that we can to try to stop this rise of inflation. We here, maybe because it is somebody else's department and not ours, think that we should start with rationing. Now, one other thing that I - we have a difference on is this. I happen to believe that labor as a whole, the rank and file, have done more toward the war effort than any other group in the United States. I also, just the way I am asking to have a chance to go through the voluntary plan - the reason I am so strongly for the voluntary plan, I want the man or woman to sit at home and make up their own mind that they want to set aside so much money a week and when they do that and cross that bridge voluntarily, it is a great accomplishment toward the morale of this country.

I also believe that if we could control prices within reason that the pressure from labor for higher wages would cease, and therefore, - you didn't come over here to try out my chair, you wanted to know where I

stand, Harold, and I am trying to tell you just as frankly and honestly as I can and then each fellow can shoot at me - that given a fairly close control over prices, I have sufficient confidence in labor that also leaving labor alone without freezing it, that their demands for increased wages will cease.

Now, on the other hand if the prices continue to rise I think there should be some sliding scale in relation between cost of living and wages, but to freeze wages at this time after what labor has done so far, I just don't think it is fair. Now that, gentlemen, is, without getting into the highly intricate part of the tax bill, whether we should have this much excess or that much or all those many details - I just want to let you know where I stand. I am very glad to have anybody come back at me and hit me just as hard as I have hit them. We will start right in with OPA. You can hit just as hard as you feel like. Don't hesitate.

MR. GALBRAITH: Well, on general rationing, Mr. Secretary, I would just like to say one thing. I think we have been over the experiences of other countries that have done a good deal more rationing than ourselves. Their problem in doing so is a good deal less difficult than that of ours. It is my own considered judgment that the frame-work in which you put it and dividing up those consumers' goods on a basis as between all consumers, that there just isn't any way of doing it. Now, I can go on and elaborate that. I would rather have Gilbert do it.

H.M.JR: Do you mind if I interrupt you? The reason I disagree with you on that is this. When I came into this office I came in after - I don't know what it was, eight or ten years of bootlegging, you see, and Herbert Hoover and his people had been unable to lick bootlegging, and the thing was rampant all over the country. The same goes for narcotics. I was so foolish as to say when I came in that I would either lick bootlegging or quit. Nobody had been able to do it, but we did lick

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bootlegging. We did stop the peddling of narcotics, and certainly the question of selling illegal liquor, nothing could be more difficult to police and control than any problem that you might have. Now Mr. Hoover and his people were unable to do it for ten years because they were not willing to go after the big racketeers. They went after the hillbillies instead of sitting back and saying, "It can't be done." I don't care what we do here, I don't care how severe you make the taxes, I don't care whether you take a hundred percent of a man's profit, I don't care whether we go in and take part of his capital away, I don't care what you do, what method the Treasury does on the President's insistence and the consent of the Congress, until you ration the goods you can't do this thing.

Just as long as the goods are on the shelves the people are going to find a way to buy them. Just as long as there were the stills to manufacture illegal liquor, and just as long as there were places that could take opium and fix it up and peddle it, the people would buy it.

MR. LELAND: That is a perfect case against rationing. It simply means you can't effectively ration in spite of administrative difficulties until you close every single outlet on which money can be spent. It doesn't make any difference what it is, you will have to close them all.

H.M.JR: Why.

MR. LELAND: Otherwise funds will go there.

MR. WHITE: About rationing, hasn't it been the experience of every country that faced with the enormous administrative problem of rationing they have always put it off and put it off and taken one commodity at a time until you find commodities added and added until they are faced with the difficulties of administration, which they were faced with to begin with, but attempted to avoid and they only undertook it after a good deal of

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ground was lost. But what the Secretary has reference to is not another scheme of rationing than what you are talking about. I mean, that isn't only what he has reference to. He is merely pointing to the fact that it seems perfectly inexcusable and it certainly does to me, to talk about achieving rationing in eighteen months. Eighteen months is forever, it is never. There is nothing you couldn't do in eighteen months. It may take three or four months to get your administration going but then the point is, aren't you fellows ready to move forward as rapidly as you can? Of course it is difficult, the war is difficult. The alternatives are worse. And when you talk about eighteen months it seems preposterous.

MR. GALBRAITH: Let me restate my position on that, Harry. There are, as I understand it - we are discussing two things at one and the same time here.

MR. WHITE: Yes. Just let's confine ourselves to the type of rationing you are talking about. We will talk about the other type later.

MR. GALBRAITH: What I say about rationing commodity by commodity, eighteen months is my own guess. I do say, however, that there are limits if you are going to tailor the rationing to the use of the individual commodity which, in my judgment has to be done. You have some things of universal consumption like sugar where you can give an allocate portion to everybody in the country and that type of rationing will not apply to automobile tires and will not apply to automobiles where you would in effect give somebody a proportion which he doesn't want at all. Then you are opened up to a black mark and you have no rationing. Now, if you were going to do it for each individual commodity, then it seems to me that you do have to face up squarely to the ability of the people, people that you are using for your administration, and you need not thousands, but hundreds of thousands of them, and the ability of the people of the country to digest their responsibilities. It is not a question of the

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speed with which WPB and OPA - and I remind you this is a shared responsibility at the moment - it is not a question of the speed with which those agencies move. God knows we have not been as fast as we should have been. It is a question of the speed with which the people will move. Now, I think we should definitely start with the important consumer's goods, razor blades, a hundred things like that. After all, everybody in this room would look better with a beard. (Laughter)

H.M.JR: Incidentally, I started using my blade for the second time this morning. That is why I was a little later.

MR. WHITE: That is why he said you look better with a beard.

MR. GALBRAITH: But even to cover the main items of consumer expenditure which I likened to the short supply relative to what we know about the gap, it is going to take time, Harry. Probably eighteen months is too long, maybe a year. By important commodities I have reference to such things as canned foods, canned fruits and vegetables which cut a big block out of your food items, fats and oils, which cut out another block, and clothing. Maybe we can be over those - the people can be over those that year, but I don't think we can be Pollyanna-ish about it. It does take time.

MR. PAUL: Suppose we assume that it takes a year. Then what are the alternatives? What does OPA think we ought to do in the meantime? I would like to get that clear.

MR. WHITE: Yes, remember we are just speaking of specific rationing. Let's not confuse that with the other type because general rationing may be not better than one single type or the other. Let's remember we are talking about the type of rationing that you are doing.

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MR. GILBERT: It seems to me we are getting off the track here. We have been over this thing pretty carefully with your group, Harry, and I do not think that there is any serious disagreement between us. I think both groups are agreed that individual rationing presents real technical difficulties. We would like to draw, and I think we have drawn, a distinction of this sort. Wherever, by reason of the war effort, the actual supply of goods available for civilian use is sharply curtailed and people have got, in fact, to consume less than they have been accustomed to consuming, then we feel that specific rationing is called for to distribute those scarce supplies. On the other hand, where the supply has not been reduced, may even be increasing, and where the pressure upon this supply streams from a sharp growth - a great growth in consumers' purchasing power, which is always accompanied by great shifts in the distribution of that purchasing power amongst the various groups, the way to handle that sort of problem is through the demand side by taxes or saving or some other side device to cut down the amount of purchasing power to the supply of goods that is available. That is the important distinction upon which I think there is general agreement between us. Now, the two proposals that are before us--

H.M.JR: Will you excuse me? That is where I am not in agreement. I didn't gather that my people were in agreement with you.

MR. GILBERT: Let me just develop that.

H.M.JR: It is a question of which comes first, the chicken or the egg. I am taking the position that if the goods aren't available for the people to buy they won't spend the money. I understand you to say, "Don't let them have the money and then they won't buy the goods."

MR. GILBERT: Mr. Secretary, your group has come to the conclusion that the administration of individual

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rationing, if you are to do that way, is far more difficult and far less effective than a general rationing scheme by which you would ration - hold down the amount of spending that any family could do. That is the nature of this plan that Mr. White and his group have worked out. Now, their attack is to limit the amount of spending that any group could do, in which case the savings would be a by-product and if families can't spend as much, and have larger incomes, therefore, they have a larger amount of savings. The proposal which we are suggesting is just really the same thing turned over. We would say, "Force them to save. Get a compulsory system of saving." If they have got to save more then they can't spend as much. I will say this right now. I think I can say it with the assurance that our office would go along. If the Treasury would prefer this general method of restricting expenditures rather than compulsory savings, we would have no serious objection. I think the two plans are so alike that there is no substantial difference between them. I do not believe that there is any serious difference between the Treasury and the OPA on that point.

MR. WHITE: The only difference is that you have yet to be convinced as we are not wholly convinced that the proposal of general rationing as against forced saving is administratively feasible within the time which it is necessary to put into operation and that requires a little more discussion to see where we differ if we do.

MR. GILBERT: That is right, but I do think I am right in saying, Harry, that we are agreed that in view of the large excess of purchasing power some general device to cut down spending is called for.

MR. WHITE: That is quite true.

MR. PAUL: And are we not also agreed that we should not adopt a sales tax as one of those devices?

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MR. GILBERT: That is right. I was just going to go on to that. It seems to me, Mr. Secretary, in your early remarks about adding to the little income groups, there has been a serious misunderstanding because we share your sentiments completely. We agree entirely with the position taken by the Treasury. We do not believe that a sales tax or a reduction of exemptions is called for, and until the program, as you presented it to the Ways and Means Committee, is put through we think it would be--

H.M.JR: That is news to me.

MR. GILBERT: We think it would be extremely undemocratic and unfair and we think it would be political suicide. We do not think it is necessary to meet the inflationary problem. As far as I know, there is no difference between the OPA and the Treasury on that.

H.M.JR: Well, you had better look at page three, item A, on Mr. Smith's program. I mean, when you say "we," maybe you are talking for the OPA.

MR. PAUL: That is right.

MR. GILBERT: I am referring to OPA.

H.M.JR: Well, that is not in Mr. Smith's memorandum.

MR. WHITE: Are you speaking for yourself, Dick?

MR. GALBRAITH: I am speaking for the OPA.

MR. GILBERT: I am speaking for the OPA.

H.M.JR: Then evidently the OPA and the Treasury on this seem to be very close, but it is different in Mr. Smith's memorandum, because he talks about reduction of married people from a thousand to five hundred - reduction of a thousand and five hundred for single people.

MR. HANSEN: I thought, Dick, yesterday you favored

reduction of exemptions. I so understood you.

MR. GILBERT: The point I tried to make yesterday was something of this sort. I think it is essential to cut the consumption of families with incomes of two thousand and three thousand and four thousand, that below that, families with incomes of fifteen hundred have got to be cut. This was a personal opinion I expressed yesterday. It is my feeling that any system of limited expenditures or any system of forced savings, to which I lean personally--

MR. HANSEN: Well, weren't you advocating both yesterday?

MR. GILBERT: ...will be far, far more popular. Will be extremely popular with the groups effected. It is my feeling that there isn't a family in the country, irrespective of its income, which if forced to save would not, in the course of a month or two look upon that as a blessing.

MR. HANSEN: I agree.

MR. GILBERT: That therefore it would not interfere, it would not undermine morale, it would not interfere with the war effort if a forced saving scheme were put through.

H.M.JR: You have seen the figures out of your own shop that the people run a deficit until they reach fifteen hundred, that level, so when you talk about savings for people of fifteen hundred or under, you are just putting them that much more under water than they are now.

MR. GILBERT: Well, the proposal we talked about--

H.M.JR: I am referring to Hildegard Kneeland's figures. It was fifteen hundred, wasn't it?

MR. GILBERT: No, it is under that.

MR. PAUL: It is five hundred.

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MR. WHITE: Fifteen hundred sounds much too high.

H.M.JR: Well, George can get it, the figures I used in my testimony.

MR. GILBERT: I believe it is seven hundred fifty.

H.M.JR: Well, they are terribly important. I have just had them. I don't think they begin to save until they have passed fifteen hundred.

MR. GILBERT: The point I should make in that connection is that a lot of things that these people ordinarily buy are not going to be available for their purchase within another three or four months. These families do buy toasters and they do buy a lot of other gadgets. These things are not going to be available. So far as their consumption of food and of clothing is concerned, we are entirely in agreement, I think, with the Treasury that it would be folly to cut their consumption of these things. There is barely enough to keep body and soul together at present. We are in entire agreement on it. And any system of forced saving would have to have an exemption, we believe, of about five hundred dollars, and it would apply only to the income above that group.

H.M.JR: Well, I think there must be disagreement between you, then, and Mr. Smith's people. I wonder if they couldn't get that straightened out.

MR. SMITH: Yes.

H.M.JR: There evidently seems to be disagreement there.

MR. SMITH: I haven't been in on the discussion on the technical level, and I don't know what the disagreements are. I assume that we had agreed that there was a problem here that needed to be faced. I assumed that at the outset. I am not sure from the discussion that there is even agreement on the nature of the problem that has to be faced. I hope we don't proceed, as I think we have to some extent at least, on a kind of business-as-usual

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attitude in this field. It seems to me that with the proposed expenditure of approximately sixty billion dollars, with March expenditure for national defense up to two billion seven hundred fifty million, with the increase at quite an accelerated rate, we are going to bring about terrific distortions in the economy the like of which probably none of us can altogether foresee with accuracy. At least it seems to me we are dealing with a dangerous situation. Maybe it can be overemphasized, but at least it also seems to me that we have got an opportunity now to do a little fire prevention rather than waiting and having to put out fires. We have got, it seems to me, developing dynamics in this situation that bring about considerable distortions. At the present time we have got something of a level keel and if you can put in over-all price control and do these other things that are necessary to implement that program, we certainly will avoid a situation which developed in the last war in an eight months' period between fifteen and sixteen when you got something like a fifty-five point rise in that particular index. I think we have to be courageous, and I don't think we get very far by saying, "Well, we think this ought to be done first and this ought to be done second, and so on." I think there has to be a frontal attack on this problem, and I think that is exactly what the President expects of us, is a plan for a frontal attack. I had assumed that we were starting off on that kind of an assumption. I fear that if we say that we do this by rationing or we ought to do that first and we ought to neglect taxation, at least further taxation, and that the price control people are left to do - attempt an over-all price control without drawing out purchasing power further, we may find ourselves in a very difficult position, Mr. Secretary, and I for one don't feel very happy about that sort of an approach. Now, I don't know - I have not - so far as I am concerned, I have not tried to inject my ideas into this or - one way or another. I have hoped that the technicians would get together and give us some sort of a plan, and I think it is necessary, from the evidence that I see, to do something with the lower income groups, either with saving or taxation or both, in order to insure that the price control people have a chance to handle their

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over-all price control, and I had hoped that there might be some discussion of various alternate plans for dealing with this lower income level.

MR. PAUL: We have discussed that, Harold. Do you think in addition that that must be done before - as part of this bill?

H.M.JR: Gilbert, what are those figures?

MR. SMITH: I think the program ought to be worked together.

MR. GILBERT: This table which was based on income payments of a hundred and three billion, which is approximately the rate of January, shows families from under five hundred dis-saving or getting charitable support to the extent of three point five percent; five to seven hundred fifty, two percent; seven hundred fifty to a thousand, one point four percent; a thousand to twelve fifty, less than one percent. Twelve hundred and fifty would be the last.

H.M.JR: I said fifteen hundred, but at twelve fifty they are self-supporting?

MR. GILBERT: That is right.

H.M.JR: And then how much do they save from twelve fifty to fifteen hundred?

MR. GILBERT: Point four percent. Four tenths of one percent.

H.M.JR: Then they save practically nothing until they reach fifteen hundred?

MR. GILBERT: Actually it gets to five percent at two thousand dollars.

H.M.JR: Well, I wasn't far off. They only begin to save something when they pass fifteen. Is that right?

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MR. GILBERT: The income is higher at present and will not fall short of a hundred and ten billions this year and the goods that they can buy will be less.

H.M.JR: Well, it was based on those figures which we checked and went into very carefully that I took the position that I did before Congress that I didn't see how you could tax - as I remember it the - I get rusty George. What was it? That was one set of figures and then didn't we show that a man earning seven hundred fifty dollars paid a hundred and thirty-nine dollars worth of taxes?

MR. HAAS: Yes, we had those figures, too.

H.M.JR: So it was on the basis of those two sets of figures that we felt that we should go after the groups above those and this wasn't very much money to get in those so-called lower income groups.

MR. GILBERT: May I--

MR. WHITE: Harold, it seems to me we are in general agreement on the proposition you have stated. I think that the - we are getting into a period which--

MR. SMITH: I would like to be confirmed in that, Harry, because--

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MR. WHITE: Let's see if that isn't true. We all agree that we are getting into a period in which danger exists, and it is necessary to tighten up all along the line, and I think there is general agreement that the more comprehensive in scope is the approach, the more chances of success it has. I think there is also agreement that we have to be courageous. I think there is also a plan. The plan consists of the present tax plan, getting behind the Social Security, price freezing, going ahead with rationing, specific rationing just as rapidly as we can, and if we can needle them into going ahead more rapidly, we will all try to do so, and then we are left with an area in which there are some funds still to be mopped up, particularly in the second half of this year. The question is, shall they be mopped up by savings, either forced savings or voluntary savings, or shall they be mopped up in some way in - by general rationing which will make those voluntary savings equal to the amount that you are interested in. Now, it is our feeling that there isn't the urgency to decide that question as to whether forced saving or general rationing will bring about the results within the next week or two.

There definitely is urgency within the near future and by the near future, I am speaking not in terms of many months, but possibly in terms of weeks, so that the only difference of opinion which exists, it appears to me, lies in the added suggestion of your group that the situation is so urgent that in addition to freezing prices, in addition to going ahead on specific rationing, in addition to pushing a plan of voluntary saving as much as possible, you want a proposal of forced saving to be initiated at once and increased taxes now before the present tax bill is passed, and increased taxes of a character that I think you will agree very little would be said for if it weren't for the urgency of inflation which appears to be in your mind in the next few weeks. Isn't that the sole difference of opinion? Aren't we all agreed on the general program?

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MR. GILBERT: I would like to say something on that, if I may. I think there is an area of agreement, I should say on about eighty-five percent of the total problem. The disagreements are limited to that fifteen percent. In our discussions I don't think there has been any question but that there was a problem of absorbing about ten billions of purchasing power, more or less. There was no substantial disagreement on that figure. The questions were how to get at it. Now, these are the possibilities. One, there is about nine billion of outstanding consumer credit at present in spite of the reduction of installment credit that has already taken place under regulations "W". Here is an area in which you could get three or four billions of reduction at once without Congressional action, and here is an area in which reductions will be far more palatable than any other device that anybody can conceive. It is also an area in which the expenditures are so distributed that you would get substantial justice through a sharp curtailment. It would seem to me that here, therefore, is an area in which we ought to get a drastic cut in purchasing power at once. Secondly, I think we are all agreed that some form of forced saving or rationing of expenditures is called for. Mr. Henderson has suggested a forced saving program to yield about five to six billion. However that is done, I don't think there is any substantial disagreement on that point. Harry suggests that we hold that off for a while. I tend to share the view of the Budget that the program ought to be announced and suggested and pushed at once. It will take some time before it can be put into effect in any event. The third question is, whether you will need to supplement these by additional taxes or whether you should use additional taxes as a substitute in terms of quantity for one or the other of these procedures. Now, the point I was trying to make before, was that you can get through the first two a mopping up of purchasing power which will be sufficient to hold the line through this year.

H.M.JR: Which two?

MR. GILBERT: Reduction of consumer's credit and the forced saving in some form. Now, I say since you

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can get it and hold the line and meet the inflationary problem in this way; since you have not yet put through the present tax program which I think we are all agreed in terms of equity ought to be put through before you reduce exemptions, then I want to raise the question as to why this particular combination of methods, which is adequate and would be more palatable and more just, isn't the combination that we ought to present.

MR. SMITH: I think I ought to needle, Mr. Secretary, these technical fellows a little bit with a little history that there has been a good deal of flopping around. I wish I could feel that there was the agreement that Gilbert's statement seems to indicate or that there has been consistently. I think there is agreement on most of the points. But I think the area of disagreement ought to be rather clearly defined, and I assumed that it had been, to at least some extent, and we ought to talk about those disagreements.

H.M.JR: Go ahead and needle them, will you please?

MR. HANSEN: Mr. Secretary, might I make a statement?

H.M.JR: Please.

MR. HANSEN: I am perhaps a little bit on the outside, and I must say that I haven't any adamant views at all that aren't subject to change. I think it is perfectly clear that if you could assume a hundred percent efficiency and assume that your machinery could very quickly be put in motion, it is perfectly possible to do this whole job purely from rationing. You can also argue that if you go after it in a tough enough way you can solve the whole problem from compulsory saving and taxes and tackle it entirely on that score. But, when you look at it from the standpoint of plain common sense as well as from the standpoint of experience of other countries, then I think we have to come to the conclusion that the job is a tough one, and you don't stand much chance of success unless you do all you can on all fronts. I remember I made that statement last summer

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when we had that session. I think you were there, Dick. I made it to Keynes. He repeated that, and thought that was absolutely essential. We do have to tackle it, it seems to me, on all fronts. That is what other countries, in fact, have done. In England you have rationing, both the specific rationing as well as the point system rationing in rather large areas, which is more generalized rationing. At the same time you have exemptions on the income tax way down, and you have a sales tax. You have got all of these things. The same is true in Canada, and the same is true in Germany, and in every country. Then the success is not perfect. So that plain common sense, I think, and the experience of other countries, indicates the necessity of moving on all fronts in order to tackle this tremendous program. Now, I had hoped that we - and I make this suggestion purely on my own responsibility. I hoped that out of our discussion we had begun to come to something like a program that we could all more or less agree on, but didn't, as is always the case, satisfy everyone.

I personally am very strong for compulsory saving. I agree with Gilbert a hundred percent on that. I think it would be extremely popular. I think a better term is universal saving. Terms, after all, do mean something. In addition to that, as I understood Gilbert in our discussion yesterday, he would be willing and favor personally, and it may be true of his organization, lowering of the exemptions on the income tax so that you would go at it on both fronts, compulsory saving and lowering of the income tax. If we are really going to move on to a - what is regarded by almost everyone as a thoroughly sound fiscal program in view of the fiscal situation which the Government faces, not only now, but will face after the war, we must build basically upon a strongly progressive individual income tax case the core and center of our tax structure, and that can not do the job without dipping down low into a broad tax base. If that is not done, then more unsatisfactory, more inequitable kinds of taxes are of necessity going

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to come in by reason of the magnitude of the problem. About that, I think there is - I might say it seems to me there is universal agreement by students of the tax system. I don't know of any exception to that. Now, in addition to that, a consumption tax stands on an utterly different plane in a war emergency from what it stands on in other times. We are coming to a time when everyone in the community, not only must, but will want to make a contribution to the war effort. I must say that I was absolutely astounded this winter when my daughter went around and canvassed a certain area for the community fund. In the poor area the report she came back with was that the people who had very low income, uncertain income, wanted to make a contribution. They wanted to make a contribution. She was astounded at the size of these contributions that they made. Now, I think that everyone will want to make a contribution, and a tax paid separate from the retail price is one that reaches everyone, farmers also. You don't reach them through the income tax. I think a war consumption tax is not only legitimate, but stands on good economic grounds in a time like we are in now, limiting it definitely to the war period. Now, I think we might very well if we started off with universal saving and lowering the exemptions and the rest of the Treasury tax program, we might very well now begin to implement the machinery for the collection of a war consumption tax beginning in January, 1943, but not introducing it now. I suggest that purely on my own responsibility.

I think we might - it seems to me, we might get together on a program of this sort which recognizes the seriousness of the problem and does all things, advances on all fronts at once. I am very much impressed with the fact that in the World War we got our inflation in eight months, and we got it just at the point when we had fully reached our full possibility of expansion of production, a little beyond the middle of 1916, a point which we are just now reaching in this situation. The price movement so far, I think, has - is reasonably satisfactory. We have a better balance in our price

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system now than we have had for ten years, and just now is a very important point - it is the point at which to tackle this problem on all fronts, and it would be a masterly stroke if by tackling on all fronts now and freezing prices and freezing wages and doing all these other things in order to make that effective - because otherwise you can't make it effective. We could come through this war with no more advance in prices than we have now, and it would be a tremendous achievement which would go down in history, and which, moreover, would go very far toward insuring a degree of success in managing our economy after the war is over, which is a headache that we have confronting us.

No party can stand any such deflation as we had from twenty-nine to thirty-three, and, on the other hand, no party can stand any such inflation as we are likely to have with a war expenditure of sixty billion a year. It just isn't in the picture, and it needs to be tackled vigorously on all fronts. I think common sense tells us that, and the experience of other countries tells us we have got to tackle it vigorously on all fronts, and there is the gravest danger with the labor situation what it is, and with this prodigious rise in war expenditures that some months hence may already be too late. Now the price distortions are not bad at all. In fact, I think we have got a better balance than we have had for ten years. Four months hence we may have very serious price distortion which in itself makes the price freezing bad, and more or less unworkable.

MR. PAUL: Therefore, you think we ought to move - or did I understand you to say we should not move in connection with this pending revenue bill?

MR. HANSEN: I think we ought to move now on compulsory saving - I am suggesting now purely on my own responsibility, not representing anybody, I am suggesting that we move now with a compulsory saving plan and lowering of the exemptions, and that we say now that we want to get the machinery going at once for a collection of

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war consumption tax beginning January 1, 1943, without passing any measure now or introducing any rates now.

MR. PAUL: In other words, we make an announcement we are for a sales tax, but not until next January.

MR. HANSEN: We put the machinery into effect, however, until we are ready to collect it, until next January.

H.M.JR: What is a war consumption tax?

MR. PAUL: Sales tax.

H.M.JR: I just wondered if it wasn't another name?

MR. HANSEN: I think it is a big improvement as a name. Names mean something. A war consumption tax emphasizes the fact it is for the war, and the war only, and it ought to say it terminates when the war is over. It should be billed quite separately so that the buyer sees what the price is, the same price that was paid before, and here billed separately is this war consumption tax.

H.M.JR: Doctor Hansen, you have left out one thing. Where do you stand on freezing of wages?

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MR. HANSEN: I think it is essential at this moment.

H.M.JR: To freeze wages?

MR. HANSEN: To freeze wages and also the retail prices. Hold the cost of living where it is. Allow time and a half for overtime.

MR. GALBRAITH: Mr. Secretary, I would like to say just one word there. I think that I speak both for myself and I speak for OPA on this, that we are in agreement as to the program that Hansen outlines. In terms of its objective and the objective is more important than the content. Now, there is one--

H.M.JR: May I interrupt you? I agree with the objectives a hundred percent.

MR. GALBRAITH: The one part of the content which we are not in agreement with is the war consumption tax, or sales tax and I would just like to say this: It seems to me that most of the disagreement, most of that one hundred minus eighty-five, that fifteen percent disagreement, centers around that one point, the sales tax or its alternatives.

MR. HANSEN: But not on the lowering of the exemptions.

MR. WHITE: It is not a pointed issue. He is talking about January 1, 1943. You don't need eight months, even if you wanted to put it in at that point, and I am not sure that you do, because you will know a lot more then than you know now. Even if you did want to put it in now, to discuss the desirability of announcing a sales tax or a war consumption tax which I think is a better name eight months ahead, is to me completely politically unrealistic and quite unnecessary, and that discussion can be postponed for at least three months.

MR. PAUL: Particularly when, if you announce it now, you will get it in this bill.

MR. GALBRAITH: I am assuming just that point, Harry,

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that if we talk about it for January 1943--

MR. WHITE: Well, that removes that from the discussion. There is no disagreement there because it isn't necessary either to agree or disagree at this point.

MR. PAUL: The question is whether it should go in on this tax bill - apart from the labor item, the big disagreement is whether we go in on this labor bill and complicate it with demands for additional taxes.

MR. GILBERT: There is a very critical point there, Alvin, that I would like to have you comment on. If you reopen the reduction of the exemptions at this time, if you mention the sales tax in any form, aren't the odds that what will happen will be that you get the sales tax, that you get the reduction of the exemptions, that you get a cut in the rates under the personal income tax and that you get a cut in the excess profits tax. You don't get more taxes, but you get a change in the distribution, a change in the distribution which runs directly counter to this basic core idea of a progressive tax system. Now--

MR. HANSEN: May I say what I think about that?

MR. GILBERT: Just one minute, please.

MR. HANSEN: You are asking another question now.

MR. GILBERT: No, it is just the same thing, further implications of this question I am asking. Now, I think there is agreement that we have got to stop the increase of the cost of living, and we feel very strongly in the OPA that we can not politically or in justice or from any other point of view freeze wages, and we entirely agreed that we mustn't freeze wages unless you freeze the cost of living and unless you get adequate taxation of profits. Now, if you get a tax structure--

H.M.JR: Excuse me, I don't hear too well. Did you say - did you list freezing labor just now?

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MR. GILBERT: Yes. I am saying that if you freeze the cost of living and freeze wages, then to make that politically possible and to get and keep the wholehearted cooperation of labor in the war effort, without which we can't win the war, then you have got to have a really progressive tax system that holds profits in line to the same line that you have adopted for labor and for the farm group.

MR. WHITE: I don't think the Secretary quite understands what you are saying.

MR. PAUL: No.

MR. WHITE: You said that you felt, or OPA felt, that the OPA strongly felt, that you cannot at this time freeze wages, didn't you?

MR. GILBERT: No, I did not say that. No, I agreed that we must freeze wages.

H.M.JR: That is what he said.

MR. GILBERT: But I say that in order to freeze wages and still hold the allegiance of labor, then you have to, one, really hold the cost of living.

MR. HANSEN: Right.

MR. GILBERT: And two, you have to clip profits just as hard as you you clip wages and clip--

MR. HANSEN: Right.

MR. GILBERT: ... and professional men and so on. And up and down the line.

MR. WHITE: Pardon me. This is an important point. I want to make sure I understand the OPA. Do you think we can freeze the income of farmers, the income of professional men, the income of speculators and security holders and business men, do you think we can?

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MR. HANSEN: Not income, Harry, it is rates.

MR. WHITE: There are only twenty-four hours in the day and when you freeze the farmer's hourly rate, you are freezing him entirely.

MR. GILBERT: Harry, just a moment. As a matter of fact, farm output is increasing, and it is going to increase; and with frozen farm prices, cash farm income is going to move up.

MR. WHITE: That is right.

MR. GILBERT: The same is true on the labor point.

H.M.JR: The point that Harry is making, and it is very important as far as we are concerned, are you talking about freezing the income of the laboring man or the income of everybody?

MR. HANSEN: Not the income, the wage rate. The wage rate, not the income.

H.M.JR: I said "income" advisedly.

MR. WHITE: Wage rate is the same as income to labor--

MR. HANSEN: Oh, no.

MR. WHITE: Just a moment. We are on a very important point of difference here, and I think we have got to thrash this thing through.

MR. GILBERT: That is right, but, Mr. Secretary, time and a half is going to make a lot of difference. There is continuous upgrading, and men who were making twenty dollars a week a year ago are making thirty or thirty-five now, and men who are making twenty now are going to make thirty-five before the year is out so that labor's income will go up. All that is under discussion is to freeze wage rates per hour.

MR. HANSEN: That is right.

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MR. GILBERT: I think that is absolutely necessary if we are going to hold farm prices and to do both of those things we have got to prevent any growth in total profits from this time forward. We have got to prevent any upping of the scales - of the salary scales for management and so on.

MR. HANSEN: That is right.

MR. GILBERT: Now, the point I am trying to make, and I want you to comment on that, Alvin, is this: If you propose now to the Congress a change in the total taxes, throwing in these other elements, aren't you likely to undermine the entire program because you will get a less progressive system, you will not get the profits taxes that you have got to get, you will not get the upping of the individual rates that you have got to get, and we shall wind up in the position in which we can't hold the line on the labor front and we can't hold the line on the farm front.

MR. HANSEN: That is the point I want to answer, exactly. That is the point I want to answer. I think if the President came before the country, sent this message to Congress, followed it with a fireside chat, I think there is absolutely nothing in Congress that could withstand it. I think he would get his program, a hundred percent.

MR. WHITE: Nothing in Congress that would withstand what?

MR. HANSEN: That would withstand the President on this general, all-around program. There is nothing in Congress that could withstand it.

MR. WHITE: I am sure Congress would be delighted to go for a sales tax and--

MR. HANSON: On his plan, not on their plan. On his plan. I think he would win hands down against Congress. The Vice President thinks so, too. He thinks Congress

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would welcome this move.

MR. WHITE: I am sure it would welcome freezing--

MR. HANSEN: On his basis, on his plan, not a modification of it. He would win hands down, a hundred percent.

MR. WHITE: I don't think his plan is clear. I think what we are doing is picking out the statement - I must say you have got me more confused than you had me before, Dick. I thought you said the OPA was opposed to freezing wages at this time.

MR. HANSEN: No.

MR. GILBERT: Now, Harry, we feel - as a matter of fact - you ought to speak on this.

MR. GALBRAITH: Go ahead.

MR. GILBERT: We feel you ought to freeze wage rates except for the sub-standard groups earning under forty cents an hour and we ought to provide a cost of living bonus from this time forward which in substance underwrites our promise to the American people that the cost of living will not go up. We think that that cost of living bonus is the counterpart of a parity arrangement. We think it is unfair and impolitic to freeze wage rates at the same time that we permit farm prices to go up if the cost of living of farmers goes up. If the one stands, the other must stand. We do not believe that we can strike parity from the books. Therefore, we think that a counterpart of that has got to be provided for labor. I do not believe that that makes any substantial difference between the position that Mr. Hansen takes and ours--

MR. HANSEN: That is right.

MR. GILBERT: Because we are determined to hold the cost of living and we, therefore, think that this cost-of-living bonus is--

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MR. WHITE: Now, look, why do you identify hours of labor when there are only twenty-four hours in a day, and you can't extend that no matter how much of a magician you are with a bushel of wheat when there is every pressure on the farmer to grow more wheat, and the more wheat he grows, the greater his income. You are not fixing the income of a farmer. If you talk hourly rates, that is just a fancy underhand way of talking about fixing the wage earners' income--

MR. HANSEN: No, Harry. How can you talk like that. Here I am working--

MR. WHITE: Now you--

MR. HANSEN: Just a moment. Here I am working forty hours a week and my wage rate is frozen. Now, during the next month I am going to - my hours are going to increase.

MR. WHITE: Yes, you will keep right on until it is a hundred and twenty hours a week I suppose.

MR. HANSEN: Until it is forty-eight, and I am paid overtime and my income is increasing. Moreover, I am earning something. I am being promoted to a better job. O.K., there is no objection on that. We are not freezing wage incomes.

MR. WHITE: How about--

MR. HANSEN: We are freezing wage rates.

MR. WHITE: How about the man who is already working--

H.M.JR: Wait a minute, Mr. Hansen, if you don't mind my disagreeing with you, there isn't a munitions plant today but where the people now are working fifty or sixty hours. Where is the increase going to come from? The tendency is the other way. I have been in these various plants myself and they find that the seven-day week is not the best for production so the tendency is going

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to be to work less hours per week instead of more.

MR. HANSEN: For the industry as a whole, we are now coming to a period of labor scarcity, and the average hours for industry in the United States is only slightly over forty hours if, indeed, it is forty hours.

H.M.JR: I am talking about munitions plants, airplane plants, plants I have actually been in, where they have tried the seven-day week, and they are going the other way. They find they don't get the maximum. So the plants that I have been in, they are all talking about working less hours instead of more.

MR. HANSEN: Mr. Secretary, for the people who are - and they are relatively few in the country as a whole, and we are considering now the labor of the entire country - for the people who are now working forty-eight hours or more in the figures I have recently seen, it would indicate that in the general war industries it ranges from forty-eight hours up, but that the average is around - and as I recall it, though I may be wrong, the average is slightly below forty-eight. Now, for those that are working those hours, and I agree with you that is probably all they ought to work, that the excess hours are bad, around forty-eight, for those that are working at those hours, they are already getting pay and a half. Their increase in wage incomes has already occurred. It is a very substantial increase. Now, for the great mass of labor in the country who are only working forty hours or less, there is an opportunity, and we must bring it about. We are coming to a period of labor scarcity. We must advance working hours all through the country from forty up to forty-eight, and there will, therefore, be a very substantial increase in wage incomes even though the wage rates are frozen. There will be a very substantial increase. Moreover, even in the munition plants, men are learning - this is a wonderful opportunity for our labor force to learn to become more skilled. Opportunities for promotion to better jobs will be available, even in the war industries that are working forty hours. This is not freezing wage income, labor income. It is freezing wage rates. It is a very different thing.

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MR. WHITE: Well, I flatly disagree with you, with your facts and your interpretation. However, I don't know whether that issue has got to be settled at this point.

MR. SMITH: I am going to suggest we drop it, maybe, Mr. Secretary, and go to another point.

H.M.JR: Let's take up joint returns, for instance.
(Laughter)

MR. PAUL: The question is whether you have ants in your pants so that you have to do this now, or whether you are going to wait until this bill is passed. I believe very firmly that if you complicate this bill, what you will get is no more money and a less desirable tax program. Not only do I think that, but I think affirmatively we are going to get that program in large part anyway unless the President or some person with greater authority than some of us poor people that go up on the Hill comes out and says we mustn't have sales tax.

H.M.JR: Well, Mr. Smith, just so that you people know where I stand, the thing that bothers me about what I have listened to this morning is this: The five billion dollars or thereabouts that we all want to get, it seems that your people are in favor of getting it through forced savings. What we are asking for is another couple of months to see whether we can demonstrate that we can get it on the volunteer basis. There is one difference of opinion, see, as to the method. We both want to get the five billion but as to how to get it. That is one. Then the other question seems to be the difference - and I am talking now - should we freeze the hourly rate of labor or should we not. I have my doubts on that. Where we do seem to be in agreement is on the question of this credit matter that you (Gilbert) talked about, the nine billion dollars of consumer credit. It seems inexcusable. And also that there seems to be two methods of approach on the question of rationing, the one that White explained to me only last night, that the - you tell a man with five thousand dollars income he can spend two of it on consumer goods or you approach it from the other angle

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and say there are only so much goods to buy, but again the result is, we limit the buying and therefore increase the net amount of money that he has either through forced savings or through volunteer savings. Now, is that a fairly good summation, Dr. Hansen, as to at least - where I agree and where I differ personally from you people? What?

MR. HANSEN: Perhaps. Yes, I think perhaps so.

MR. PAUL: I think you left out one important point, Mr. Secretary.

H.M.JR: Just a minute. Hansen made a very good presentation of his case, and I just wondered where - if I left out anything in my own mind.

MR. HANSEN: Well, you see, I feel that it is the general all-around attack that is important, and I think we differ on that.

H.M.JR: Well, I also - yes. Well, the one thing that also - I am still not convinced that we should lower the exemptions. I mean, there are those differences.

MR. HANSEN: Yes.

MR. PAUL: Well, there is the other difference of the time factor.

H.M.JR: Oh, I am for the present moving now. I am sold on that. I think we should make a move now, the President should. I think it is long past due.

MR. PAUL: I meant the time factor in relation to whether he moves in connection with this tax bill.

H.M.JR: Well, that is one thing again, but I am all for the President doing something now and making a presentation to the public. I think he should have done it before, and I am delighted that he is interested. I have got certain views, and you people have certain views, and all we can do is to present them and he will do the

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way he always does, make up his own mind, but as to his doing something, going to the public - before the public now, I am all for that.

MR. SMITH: I hope, Mr. Secretary, that this isn't one of those meetings where everybody - I am adopting the roll, you see, of needler.

H.M.JR: That is all right.

MR. SMITH: That everybody loudly professes agreement about objectives and then goes out and goes their individual ways, and we don't get down to resolving what we all recognize, apparently, as a rather minor area, although perhaps important, of disagreement and resolve those issues. Now, you stated, Mr. Secretary, what the issues are in your mind. It seems to me that this situation is such - I may be overemphasizing it - that we ought to resolve the differences as far as we can and go with a comprehensive program, an integrated program. I feel that unless the President presents such a program to the Congress, to the people of the country, we are not going to - we are going to have a lot of trouble with over-all price control, wage control. The difficulties with your tax program are going to be multiplied in presenting it to Congress and I think sometimes we mix medicine. I would like to have the economists tell me what their thoughts are on the economic issues without mixing them too much with strategy and political issues, and then somebody else - I mean, we ought to announce we are discussing the two things together, and that the strategy side of it can be resolved in the last analysis, of course, by the President.

I am very hopeful, Mr. Secretary, that we don't dissolve this meeting without some program of further work on these issues. I think if we do, or if we don't, we are all going to be damn sorry for it, and of course that may be another year.

H.M.JR: Well, here is the point. I am sorry the President wants something tonight. I mean, I don't understand why he wants something tonight and in the next breath he says he won't move for three weeks. I don't

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understand that. But as far as continuing the work is concerned, from my standpoint, it would be very worthwhile if you would have another meeting, say, Tuesday morning. I mean, if you have got the time. I have got nothing which is as important as this.

MR. SMITH: Well, it seems to me--

H.M.JR: Pardon me. You see, I only saw your memorandum yesterday. I was only able to study it briefly. I haven't heard Hansen and these other people - I mean, this is the first time I have heard them, and I would like to think about it very carefully over the weekend. I have got no personal hobbies on this thing. I want to accomplish the end, and I would like them to be exposed to some of the things that we think, for instance, that we can do on the volunteer saving. I don't think that they have had that explained to them, what they think we can do. I don't think that they have thought of it. Maybe they have. I don't think they have thought of it sufficiently in terms of if you have rationing the volunteer savings plan is just about a hundred percent easier than it is the way it is now. As I say, there is nothing more important than this that is before me, and if it is agreeable to you, I would like to meet again Tuesday morning at nine-fifteen and spent another hour or two on this thing.

MR. SMITH: I hope in the meantime that the technicians - that is a poor term - that the boys here will get together and agree. I am certainly confused by this discussion as to what the different attitudes are, and it seems to me that it is so important that we ought to more clearly define the differences, and you have set forth a number of differences that are in your mind. Well, let's take up that list and see what we can do with them and how we come out. There are alternatives. So far as this memorandum which I sent you, Mr. Secretary, that was done under forced draft and the Boss said, "I want to take something up to Hyde Park."

H.M.JR: Well, that is the situation I am in now.

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MR. SMITH: So it is very sketchy and subject to, I assume, all manner of changes, and it is - in fact it was so - done under forced draft that I didn't want it to get into circulation. It gives some sort of a benchmark.

H.M.JR: Well, the President wanted me to see it. Well, I am ready either Tuesday or Wednesday. If this group is met - this is Friday. If you would rather have it Wednesday and give them more time, let's make it Wednesday morning.

MR. SMITH: It doesn't make any difference to me. I will be on the job any time you set the time, Mr. Secretary.

H.M.JR: Well, today is Friday--

MR. HANSEN: I would prefer Wednesday, but it doesn't make any difference.

H.M.JR: I would prefer Wednesday a little bit. It will give me a little more time. At nine-fifteen, and I will save the whole morning. This to me has been very helpful, and in my whole nine years I have been here at the Treasury, I have yet to push any personal hobby. As far as I am concerned, it is never this or nothing, and I have learned a lot this morning. I think that - for instance, if I understood, it was only yesterday that OPA changed on the sales tax.

MR. GILBERT: No, Mr. Secretary, our position has been very badly misunderstood. We have never changed position on the sales tax or - it is the position which we have held consistently from the start. We think it just as important today and for the same reasons as it was earlier.

H.M.JR: Well, as far as I was concerned, I got some idea of where somebody stood. I even accused Harry yesterday of being for the sales tax. I think it has been a good meeting. From my standpoint, it has been very worth while.

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MR. GALBRAITH: May I make one short comment, Mr. Secretary? Apropos of a further meeting, we passed over this morning rather hurriedly the question of measures, price-fixing measures to stabilize the cost of living of retail. That in itself is a policy of very sweeping proportions. The implications of that in terms of the extent of Government control and in terms of the ancillary policies that are necessary to make it work are very great indeed. It has in itself a very close bearing on this question of the sales tax. If the relations - and the prospective inching up of those prices on the retail front as a result of imposing a sales tax although even in the context in which Alvin Hansen puts it, of something added onto the price and billed separately, it seems it is worthy of very close examination. There is one other question too, the point that Harry and Dick were debating, whether that can be done unless measures are taken to stabilize wage rates. In my own judgment, it can't be done. My own judgment is that the Administration cannot move on prices without at the same time making a move to stabilize wage rates.

H.M.JR: Well, of course, the wage rate thing, it seems to me we have got all the machinery the Government wants on the wage rate thing now, and you have got all these volunteer agreements with the unions.

MR. HANSEN: Mr. Secretary, Mr. Leiserson told me this about the way that machinery is working now. He says the conciliators all through the country are acting all the while as nothing more or less than wage rate boosters. That is the way it is working out. They are eager for one thing to conciliate a dispute, and they are acting all the time as wage boosters.

MR. WHITE: Give them new instructions. It is very simple.

MR. HANSEN: That is what I want, Harry. I want the President to put this thing up so there will be no mistake about it.

MR. WHITE: There is no similarity between the two instructions. You take away, as I am sure you agree, Alvin

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and let me say I dislike very much to disagree with you because ninety-eight percent of the time we are in agreement, and this is the two percent, you take away the chief cause for a wage increase if you keep the cost of living down. That has been their chief argument. You indicate to the conciliators of the War Labor Board that the only conditions of a wage increase must be, A, in the case where an increase in wages is accompanied by an increase in productivity and you will admit that that is quite possible; B, where it can be definitely demonstrated that a wage increase will not increase prices and that is also possible, it may come out of other areas; C, where there are sub-standard wage rates; and, D, where there are certain special circumstances which may result in an increasing incentive necessary for the war effort, and with those criteria established by the President, they can't strike. You have got your labor conciliators, your War Labor Board. You have got the wage problem licked provided you freeze prices and do these other things which will enable the price fixing arrangement to bear satisfactory proof because obviously you can't freeze ceiling prices on homogeneous goods, et cetera, I don't see that it is necessary to do more than what has just been indicated and come out the same place you do. We do want to stop general sweeping wage increases, of course; but I think the machinery is there, provided you have the cost of living stopped, and that there still is room for adjustments in wage rate increases.

MR. HANSEN: Mr. Secretary, I think we ought to say that we have discussed the wage rate freezing thing in detail with Millis, Leiserson and Altmeyer. All three are a hundred percent for it, for wage rate freezing. They are all a hundred percent for it.

MR. WHITE: I have discussed it with more than three persons, and they are all against it.

MR. HANSEN: I am just telling you this, as a matter of fact, that we have gone into detail with these three men and they are all a hundred percent for wage rate freezing.

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MR. WHITE: That still leaves us both--

MR. HANSEN: Who are your gentlemen, I would like to know?

MR. GILBERT: I dislike raising a political situation after what Mr. Smith has said.

MR. SMITH: As long as you announce it, it is all right.

MR. GILBERT: Just the fact that the Canadians have coupled a wage freeze with a price freeze. Consider the background of the Congressional debates at the time the price bill was up. Consider the attitude of Congress. Practically speaking, how can we freeze farm prices in view of this situation and not move on the wage front?

MR. WHITE: We could do it by administrative order.

MR. GILBERT: That is all that is proposed.

MR. WHITE: That is right. You freeze prices by administrative order. You don't need permission of Congress. You put it into effect.

MR. HANSEN: That is what we are proposing.

April 3, 1942.

Memorandum for the President:

Answering memorandum of the
Treasury signed D.V.B. 4/1/42

1. Whatever the reasons for hoarding gold and silver, it is the first unerring symptom of inflation.
2. High prices for gold and silver, like anything else, are due to a policy of restriction or scarcity which always comes with inflation.
3. I do not suggest that the British government supply gold and silver but that the United States government undertake it directly with the Indian government. It would have to be done with the consent of the British.

In any peace negotiations it might be useful for the Indian government to feel that the United States had been its friend in the difficult circumstances now facing it. If the new Indian government do not wish it, that is another thing but I am quite certain they would like to have hard money - gold and silver - to supply at some price to their frightened people. Except victory, it would tend to do more than anything to stabilize conditions in India, just as the issuance of Chinese silver dollars would have the effect of stabilizing prices there. Cannot anything be done to lessen the evils that flow from hoarding? Observing it does no good.

Supplying gold and silver would cause a greater flow of jute, manganese and mica because if they cannot get gold and silver, there will be a tendency to hold on to raw materials. Inflation always starts with trying to get hard money, then things, and then, as in Germany, even second hand furniture.

4. Your memorandum says "She can, of course, buy all the gold she is able to pay for at \$35 an ounce." It may be that the United States government would sell to the National Bank of India at \$35. an ounce but I would not say what price we should put upon gold and silver now until we see what concessions we can obtain for the gold and silver we might want to sell or give as a loan - the metal to be held here until six months after the signing of peace. On this basis, the Bank of India could dispose of its present stock of silver, knowing it would be replaced by earmarked stocks here.

One of the important factors in keeping the Indians in the last war was the supplying of silver.

Your memorandum says "Silver is selling in New York at about 35 1/2 cents an ounce." But, the supply is very limited. It might be advisable to let that price advance gradually to say just under 40 cents. It would help our Good Neighbor policy and would stimulate the

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increase of copper, lead and zinc south of the Rio Grande and not interfere with industrial uses here.

5. British and American gold coins are selling in the Argentine at a premium of about 40%. I am aware that the Argentine government does not supply gold to its people. It might be arranged that if Argentine came along with the United States, they could be given a loan of gold dollars, earmarked in our Treasury until six months after peace, to do with it as they wished. I need not enlarge upon these possibilities.

In Portugal, American paper dollars sell at 10% to 15% discount against dollar checks or cable transfers. American gold coins is selling for about 100% premium in paper dollars. Would it not be a good idea to permit banks in New York to bring in paper dollars from Portugal until such time as paper dollars no longer sell at a discount? It is bad psychology to have the American dollar sell at a discount anywhere in the world.

I suggest we wait the result of the Treasury's inquiry with the British government and that we also explore through the Indian representative here whether it would be helpful to lend to the Indian government such gold and silver as to maintain some stabilization and avoid the continuance of social and economic panics of its people, provided the government comes along whole-heartedly with England, China and the United States in our war with Japan.

High prices for hard money, particularly gold, tend to spread panic among all peoples of the world, and make them suspicious of their own paper currency, with a tendency towards inflation and the disruption of manufacture and distribution.

(initials) BMS

(Benson to [unclear])

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April 3, 1942.

MEMORANDUM FOR THE PRESIDENT:Re: Anti-Inflation Program.

I have participated in discussions with both Mr. Smith's group and the Treasury group. I concur in Secretary Morgenthau's memorandum which is being sent to you tonight, except that I have some reservations on the discussion on voluntary vs. forced saving. Personally, I do not feel that "voluntary" saving under the compulsion of quotas is as equitable as forced saving. I think we will eventually have to take the position that if increased saving is essential to the war effort, it should be imposed universally and equitably.

Lauchlin Currie

LC:em

April 3, 1942
12:13 p.m.

HMJr: Hello.

Operator: Lewis Douglass.

HMJr: Hello.

Lewis
Douglass: Yes, Henry.

HMJr: How are you?

D: Nobody's poisoned me yet.

HMJr: What?

D: Nobody's poisoned me yet. How are you, Henry?

HMJr: Why should they?

D: Did you have a good time?

HMJr: Very fine rest.

D: Oh, good.

HMJr: A very fine rest. You called me.

D: Oh, yes. Henry - about Mrs. Purvis.

HMJr: Yes.

D: What do you think?

HMJr: Well, perfectly frankly, Lew, I think with the terrific shortage for space and Army officers standing in a waiting line.....

D: Yes.

HMJr:if she's going over there to live and take three children with her.....

D: Yes.

HMJr:I just wouldn't have the nerve to ask the State Department.

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D: I guess you're - I think you're right, Henry.

HMJr: I just wouldn't have the nerve.

D: I think you're right.

HMJr: I mean, I think that - as fond as I am of them - Mrs. Purvis and three children, if they want to go to England, that they shouldn't take the seats of Army and Navy officials.

D: Of fighting people.

HMJr: Fighting people.

D: I think that's right, Henry.

HMJr: I hate to say it, but that's the way I feel.

D: I think you're just as right as you can be, sir, really.

HMJr: Well.....

D: (Laughs)

HMJr:that's the way I feel, and.....

D: Yeah.

HMJr:that's.....

D: Yes, I think - no, I think you're just a hundred per cent right.

HMJr: Okay, Lew.

D: All right, sir.

HMJr: Take care of yourself.

D: I'm glad you had a good time out at La Osa.

HMJr: Yes, I did. It's a nice spot.

D: It is a lovely spot. I hope I see you soon.

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HMJr: I hope so, too, Lew.

D: If you've got a minute, we might have lunch together or something.

HMJr: Fine.

D: Would you?

HMJr: Yes, I'm - would you like to come over next Tuesday?

D: Next Tuesday for lunch?

HMJr: Yes.

D: I'd love to, Henry, unless something else more important for you turns up.

HMJr: Well, it won't.

D: All right, sir.

HMJr: All right. That'll be Tuesday.

D: Next Tuesday.

HMJr: Yeah. One o'clock in the Treasury.

D: Fine, Henry.

HMJr: Okay. Good-bye.

D: Good-bye.

April 3, 1942
12:15 p.m.

HMJr: Hello.

Operator: Dwight Davis.

HMJr: Yes. Hello.

Dwight
Davis: Good morning, Mr. Secretary.

HMJr: Yes, Mr. Davis.

D: Sorry to bother you. This is Dwight Davis.

HMJr: Go ahead.

D: I just wanted to ask you about Mr. Chester
Bernard.

HMJr: Oh, yes.

D: I understand he was down here with you for a
while.

HMJr: That's right.

D: Is he a pretty good man?

HMJr: Very good.

D: Very good.

HMJr: Yeah.

D: Do you suppose there'd be any chance of his
coming back again? Did he indicate at all
when he left?

HMJr: Well, the way he felt when he left was that
his own business needed him, that they had
such expansion up there.

D: Well, that's probably what I thought.

HMJr: But he left under very pleasant circumstances.

D: Yeah. Then he would be a good man if I could
get him?

- 2 -

HMJr: Yes, he's an excellent man.

D: Thank you very much.

HMJr: Okay.

D: Sorry to bother you.

HMJr: No bother.

D: Hope to see you soon.

HMJr: I hope so.

Conference in Secretary Morgenthau's Office
April 3, 1942
2:30 P.M.

Present: Secretary Morgenthau
Dr. Soong
Mr. White

The conference was called at the request of Dr. Soong.

Dr. Soong stated that he had come not to discuss business, but rather to communicate a personal message from Generalissimo Chiang Kai-shek to Secretary Morgenthau.

Dr. Soong stated the Generalissimo instructed him to call personally and convey to Secretary Morgenthau the Generalissimo's personal thanks and gratitude for the assistance which Secretary Morgenthau had given in obtaining financial aid. The Generalissimo also wished to express his appreciation for all that Secretary Morgenthau had done in the past and assure the Secretary that if the Secretary felt the funds were not wisely used or wished to advise or comment on their use, that the Generalissimo would be only too glad to receive his advice and comments.

Secretary Morgenthau thanked Dr. Soong and said that the important thing, after all, was the word of "Two gentlemen" and not written agreements, and that China had demonstrated many times that her word was as good as her bond and he had every confidence it would continue to be so. Dr. Soong thanked him and assured him that it would.

The Secretary asked Dr. Soong what he thought of the Indian situation and whether he thought that Calcutta was as good as gone. Dr. Soong replied that he thought there was an excellent chance of holding Calcutta. He said that the Japanese forces were considerably extended, and if they met with any "hard core" of resistance they would have great difficulty going on. Dr. Soong added that he was not optimistic about the situation in the Middle East. He said that some stuff was going into China — not a great deal, but some.

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Dr. Soong said that General Sikorsky, the Polish Prime Minister, hoped that late in the summer when the German forces were completely involved with the Russians that the British and Americans would open new fronts in Europe. The Secretary said he thought there was another approach to the problem. Speaking purely as a layman, and in no way representing anyone's views, he thought the best thing to do was for the American forces to take over the Russian front opposite Finland and down to Leningrad. The Finns would soon stop fighting and maybe the Swedes would join the Allies and the Americans could thereby relieve possibly a million Russian troops and insure an avenue of supply. He thought the United States could land without too much difficulty one-half a million troops in the near future for that purpose. The Secretary said he hoped to be able to convince the appropriate persons that that proposal ought to be carefully considered.

April 3, 1942
2:50 pm

INFLATION

Present: Mr. Haas
Mr. Gaston
Mr. Sullivan
Mr. Paul
Mr. Kuhn
Mr. Blough
Mr. White

MR. PAUL: Perhaps we should explain there that we have developed the thought of making a short summary statement under each one of these points, and then have a longer statement following. That new statement, summary statement of argument, hasn't been completed yet.

MR. BLOUGH It is being typed. It will come in.

H.M.JR: All right. Well, would this be the thing that goes to the President?

MR. PAUL: Then Herb has a letter, I think.

MR. GASTON: It will be in in a moment.

H.M.JR: To go to the President?

MR. GASTON: Yes, transmitting it.

MR. PAUL: And then in addition, I have a statement, a sort of footnote statement as you suggested, that Currie is willing to go along with one reservation. Shall I read that?

- 2 -

H.M.JR: Please.

MR. PAUL: I agree with this plan, except that I think compulsory saving is both more effective and equitable than voluntary saving, and that it will probably prove advisable to switch to compulsory saving a few months hence. Personally, I resent voluntary patriotic saving, and feel that if saving is essential to the war effort it should be imposed universally and equitably.

H.M.JR: That would go along?

MR. PAUL: Currie is willing to go with us with that reservation.

H.M.JR: That should be attached. Is he coming over?

MR. PAUL: Yes, he will be here.

H.M.JR: Shall I start to read on this? Has everybody seen this but me?

(Mr. Bell entered the conference.)

H.M.JR: Dan, they have got something for us, if you like to read it.

MR. BELL: I had a big conference going in there.

H.M.JR: Well, this is Hobson's choice. You can stay or go as you please.

MR. BELL: I would like to continue with my conference unless you particularly want me here.

H.M.JR: Get the Hell out of here then. Go ahead.
(Facetiously)

- 3 -

MR. BELL: I would like to read it, though.

MR. KUHN: The first page is all that is important.

MR. BELL: Let me read the first page.

H.M.JR: I may not see you again. You and I will do prices tomorrow morning.

MR. BELL: On the telephone?

H.M.JR: Yes. This is a very good job. I don't know how many people did it, but it is a very workman-like piece of work.

MR. GASTON: I was the reporter, and Roy was the editor. All the rest supplied the ideas.

H.M.JR: Well, it is a very workman-like piece. If this is going to be rewritten, I think wherever the word "not" is, it should be underlined, because he might read this in a hurry, you see. Things that should not be done, you should have "not" underlined. Herbert, I think in each case so there is no misunderstanding, I would keep repeating, the things not to be done.

MR. GASTON: Yes.

H.M.JR: He might turn over that page and read--

MR. PAUL: You can say things not to be done, and continue it right up to the top.

MR. BLOUGH: Or make it no compulsory saving.

H.M.JR: He might just pick up compulsory saving and say, "Hell, the Treasury is for it."

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MR. SULLIVAN: I think it will be clear in the new form of the draft that is to come in. I don't think there will be the likelihood of such an error.

H.M.JR: I think it is a masterpiece.

MR. PAUL: I think it is a swell memorandum considering the time allotted.

H.M.JR: Let me see your piece.

MR. HAAS: The cooks have been worrying about the spice. (Handing charts to Secretary.) Over here is - you get this personal saving. This whole thing is thirty-nine and a fraction billion dollars.

H.M.JR: You ought to show that.

MR. HAAS: At the present time there is so much for personal savings and so much for business idle funds, and these are inflationary idle funds. Assumption two, specific rationing like Henderson is doing now, assuming it is fifty percent effective, and then you cut down some of the inflationary--

H.M.JR: Can't you just turn the bank thing around so it will be up on the top? Can you turn that over again?

MR. HAAS: Oh, sure.

H.M.JR: You see, the bank thing, so if he looks--

MR. HAAS: He will see it in the same spot.

H.M.JR: Yes.

MR. HAAS: And here, over here--

H.M.JR: Wait, let me just see. Idle funds would be the same--

MR. HAAS: That should be called idle funds. Those are those reserves for depression in business and so on.

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H.M.JR: It is the same?

MR. HAAS: That would be the same, but here is the increase that goes over it. Personal savings increases here five and a half billion. You see, this cross section is additional. That is the addition to this personal savings because of the specific rationing.

H.M.JR: Couldn't you take, for instance, an arrow down here and say, "Through using this plan you get five and a half billion more available personal savings"?

MR. HAAS: Yes, that would help it out a lot.

H.M.JR: I mean, just take an arrow and run it down here, and the same with this.

MR. HAAS: Yes, over here you get all this.

H.M.JR: Now this, you don't go to the banks at all?

MR. HAAS: No banks. That is Harry's--

H.M.JR: I think you ought to say under this plan, "Please note that you don't have to go to the banks at all."

MR. HAAS: That is presumed to be a hundred percent effective.

H.M.JR: Harry's plan is so good it makes me think of the days when Herman Oliphant--

MR. WHITE: Harry's plan is so good it will never be adopted.

H.M.JR: I was going to say Oliphant said, "Mr. President, I can get you all the increased revenue you want without anybody feeling it through the undistributed profits tax.

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MR. HAAS: Well, he assumed, too, that all loopholes would be closed. There is a very important assumption here, too.

H.M.JR: Oh, you remember those days, do you, George?

MR. HAAS: Oh, yes.

H.M.JR: What is the thing here?

MR. HAAS: The assumption here is that it would be fully a hundred percent effective.

H.M.JR: How is the President going understand number three?

MR. WHITE: He can't.

MR. HAAS: He can't understand it. We just named it.

MR. WHITE: I think rather than use that now if you have any choice, if you give George a chance to work over that next week, he will have a real good chart because that doesn't quite bring out the idea that you are replacing inflationary - I think he needs a little more time to think about it.

MR. HAAS: This idle funds dropped off, we are not using it at all, and this eleven we inserted in.

H.M.JR: No, I want to send it over as a teaser to show the President we have something.

MR. WHITE: Then take that slice of the pie out and drop it below.

MR. BLOUGH: I know you like pies, but could you do a better job with three-bars and make dotted lines over from one bar to the next and show how one segment drops out altogether and another segment gets much bigger.

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MR. HAAS: I like bars better than pies. (Laughter.)
Candy bars.

MR. SULLIVAN: Oyster bars.

H.M.JR: This has to go over tonight. You can try bars, I don't care, but I certainly would send the President something.

MR. WHITE: He can use that if he just drops the quarter section out. If you give him another couple of hours, I think he can have it.

H.M.JR: I will sign the letter; and as long as it gets over there - Herbert, see that a Secret Service man takes it over tonight, see.

MR. GASTON: Yes.

H.M.JR: What?

MR. GASTON: Yes, we will see that it gets over there.

H.M.JR: But, I certainly would send this thing over. Otherwise the President will say, "Well, that is that. What has Henry got? He has got nothing new."

MR. PAUL: That is a good teaser.

H.M.JR: You have got to have a white rabbit. This is the white rabbit.

MR. SULLIVAN: Or a red herring.

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H.M.JR: Maybe it is a white rabbit that has swallowed a red herring. It is so wonderful that I know it can't work, as Harry says.

MR. WHITE: Well, maybe the advantage is that he won't understand it, but he thinks he should, and that will give you a chance to give him another one later.

MR. HAAS: It explains the principle. If it does work a hundred percent effective, you get a picture something like that.

MR. BLOUGH: You should put in red ink at the top, "assuming it works."

MR. HAAS: Well, it says so there, a hundred percent effective.

H.M.JR: Oh, by all means send it over.

MR. PAUL: It is a good teaser anyway.

H.M.JR: It is a teaser. And wherever possible, use the word "cost of living" instead of inflationary, if it is possible. Now, what are we waiting for?

MR. GASTON: I am waiting for that letter. God knows why it hasn't come in.

H.M.JR: Don't swear. Be relaxed for a minute. I am supplying the blood and Herbert the sweat.

MR. GASTON: That is right, and we will both supply the tears. I repeated in the letter just a little.

H.M.JR: The amount of money available in consumer expenditure. That is all right.

MR. WHITE: We don't favor that yet, do we?

MR. GASTON: We do it through individual rationing or otherwise.

MR. PAUL: Harry means we don't want to take the position yet.

H.M.JR: He said if we adopted a program.

MR. PAUL: He says which we favor.

H.M.JR: "Which we in the Treasury strongly favor."

MR. GASTON: We can eliminate that.

MR. PAUL: Which we are inclined to favor or something like that.

MR. GASTON: I thought that was--

MR. WHITE: If you would say, "rationing" it would be all right. Then it is vague enough so we could shift.

MR. GASTON: A general rationing would cover that.

MR. WHITE: That is right.

H.M.JR: I think we can strike out, "which we in the Treasury strongly favor." Instead of saying, "in the Treasury's proposal," I would say, "in the Administration's proposal." Damn it, he approved this. I mean, it is the Administration, it isn't the Treasury.

MR. PAUL: I would like to put a sentence in there. I would like to add some sort of a plug against the sales

tax more firmly than we have because the President has got to help us if we are going to resist this.

H.M.JR: Well, you have got time. Not much time but you have got time. This has to be signed, you see.

MR. PAUL: It is in here.

MR. GASTON: We have got it in there. There is more of this here.

H.M.JR: Do you want to go as strong as that, "unnecessary, impractical, and exceedingly dangerous"?

MR. PAUL: Those are the words we used.

MR. KUHN: It is just as strong in this text.

H.M.JR: All right. I think it is excellent. You fellows can have another fifteen minutes.

MR. HAAS: The reference to the chart has to be changed.

MR. WHITE: There is just one change, Mr. Secretary, that I myself consider important. I wonder whether you would be willing to consider it. I think on this quota thing, we should say, "But we will know whether this will be successful in a month or two," so they won't be able to say as they are now and as they will say to him, "You are going to wait until the end of July? We don't think this program is going to work and another five months will have gone by."

H.M.JR: What I told Congress was that I would know between now and the first of July. That is what I told Congress and I want to stick to that.

MR. KUHN: And the idea is you hope to get the quota of seven hundred million for May, eight hundred fifty for June, and a billion for July.

H.M.JR: Yes. If you want to put anything in, I would

simply say, "between now and the first of July we will know."

MR. WHITE: Yes, well, something like that. It says the end of July there.

H.M.JR: No, I said, "between now and the first of July we will know."

MR. WHITE: The success of that plan--

H.M.JR: Success or failure.

MR. WHITE: We will know whether we will be able to achieve that.

H.M.JR: Yes.

MR. WHITE: So there will be some assurance that you are not going to wait until the end of July.

H.M.JR: No, between now and the first of July.

MR. GASTON: We agree on this change, if you agree to it.

H.M.JR: What is that?

MR. GASTON: This sentence here. Instead of striking out, "which we in the Treasury strongly favor," leave it, "If we adopt a program of strict rationing of consumer expenditure." We are preparing to strike out "consumer expenditure and say, "If we adopt a program of strict rationing which we in the Treasury strongly favor, the amount of money available for Federal borrowing will be greatly increased."

H.M.JR: That is all right.

MR. GASTON: And then leave that in that we favor rationing on some plan.

H.M.JR: And on the letter, what I would say on the

simply say, "between now and the first of July we will know."

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H.M.JR: That is all right.

MR. GASTON: And then leave that in that we favor rationing on some plan.

H.M.JR: And on the letter, what I would say on the

bottom is, "Copy to Mr. Harry Hopkins and to Mr. Harold Smith," and those copies can go over tomorrow. On my letter to the President, on the bottom, "Copies to Harry Hopkins and Harold Smith, and Lauch Currie."

MR. GASTON: That will include copies of the memorandum, of course.

H.M.JR: Yes.

MR. GASTON: And then shall we stick a sentence in this letter to the effect that Lauch Currie agrees with us except as to compulsory savings?

H.M.JR: Well, you can get Lauch to sign that little memo. Let Lauch write a letter to the President and enclose it with mine. Just let him sign the thing.

MR. PAUL: And his letter doesn't have to go to Smith, that is a better idea.

MR. GASTON: All right, and we won't mention it in this letter at all.

H.M.JR: Lauch's letter can go to the President and Harry Hopkins.

MR. PAUL: And it doesn't have to be part of this letter which goes to Smith.

MR. GASTON: That is Hopkins, Currie and Smith.

MR. BLOUGH: Do you wish to go over this first page or two which is being done over.

H.M.JR: No, I want that letter, Herbert, written as fast as possible to sign it, you see.

MR. GASTON: Yes. Now what is that you wanted to add on page two, Harry?

MR. WHITE: Simply say, "We will know whether we will

be able to achieve this--"

H.M.JR: "We will know between now and the first of July whether we will be able to accomplish this." I didn't feel as good as you did, John, about this meeting.

MR. SULLIVAN: Oh, I thought you knocked the wind out of their sails.

H.M.JR: I don't think I made any dent on Hansen or--

MR. SULLIVAN: Oh, no, but these fellows thought this was their mission and they were carrying the ball and what they wanted they were going to impose on us, and you fooled around with them about ten or fifteen minutes and then you went to town after Galbraith talked, and you talked for about fifteen minutes and all the gump went out of them.

H.M.JR: I told you when I first came back, everybody was worried, it gets down to, "Have we the intelligence or haven't we?" I don't know, but this is a fine piece of work and I am glad to put my name to it. Harold Smith hasn't spent much time on this.

MR. PAUL: That is what gets my goat, that this Gerhardt Colm is running the Budget.

MR. SULLIVAN: They have one terrific disadvantage, Mr. Secretary, in doing this job. They are trying to shape a lot of things to arrive at their ambition of the sales tax and at the same time pretend that they are not for a sales tax per se and it blocks them on a lot of things they try to do.

MR. KUHN: This is going to serve the President's purpose.

H.M.JR: For the first. There are a lot of things that he could use there, but for the first shot - after all, you haven't got much time. At least this is going to hold the fort until we can get around and I think

the strong point I made this morning was when I said to these fellows that they are doing everything the New Deal stand against by taking it off the rich and putting it on the poor.

MR. SULLIVAN: You slipped over one nasty crack two or three times without them coming back to you. You said, "After all, I haven't any hobby here, I am just trying to do a job." I thought the second time you used it somebody was coming back. Do you recall?

MR. PAUL: This all goes back to the time when Smith took a position with the President in favor of a sales tax.

MR. KUHN: Is it going to be at least three weeks before the President moves?

H.M.JR: That is what he says, but I don't believe it.

MR. SULLIVAN: That is the thing I am afraid of.

H.M.JR: Why should he keep saying he wants this tonight?

MR. SULLIVAN: If he hasn't already foreclosed this in his own mind, I think you have got Smith licked.

MR. WHITE: The other men in the Budget want a meeting Saturday or Monday on this general rationing so it is contemplated to have Henderson's group and their group.

MR. PAUL: They are all coming over Monday morning at ten, Harry. I arranged it with them before they left. I will be glad to turn them over to you on the rationing if you want.

MR. BLOUGH: When is the meeting on Monday?

MR. PAUL: Ten o'clock in the morning.

H.M.JR: Do you want to take a little time, Harry, on Cuba, is that what you want?

MR. WHITE: Oh, no. Cuba is one thing but that isn't rushing. It can wait until Monday or Tuesday, but there is Iceland and Bolivia.

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4/3/42

Draft dictated by Secretary Morgenthau.

April 3, 1942

My dear Mr. President:

You have asked me to let you have a memorandum tonight on the cost of living.

Everybody in the Treasury is in agreement that we should not leave a stone unturned to keep the cost of living as nearly as possible at present levels.

There seems to be general agreement that there will be somewhere between \$10 billions and \$15 billions of money in the pockets of the people of the United States with nowhere to go. The question resolves itself into "What can we do to keep that money from competing with itself for the goods which still remain available for purchase by the civilian population?".

We in the Treasury feel that there must be some kind of rationing. The rationing can take two directions: either through withholding the goods from the civilian population, or through withholding the money with which to buy the goods. We feel that the \$9 billions worth of consumer credit at this time must be greatly curtailed.

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In our studies to finance the estimated deficit of \$39 billions for the coming fiscal year of 1943, if no changes were made, we have arrived at the following conclusions: that you can get X money from this source, X money from that source and X money from that source. The amount of money that you can get from current incomes greatly depends upon whether you have rationing and what kind of rationing you have. If you would have complete rationing, the sale of Defense Bonds could be easily doubled and the amount of borrowing from the banks would be decreased by an equal amount.

The principal points of difference between Harold Smith and his advisers and ourselves are the following:

I. We feel that any change at this time in the proposed tax bill would most likely lead to getting less revenues from personal income taxes and corporations and getting more income, consequently, from the lower income groups. The reason that we are opposed to lowering the exemptions at this time on married men and single men is (1) we find that until the typical American family reaches

-3-

an income of \$1250 a year, they do not begin to save any money. We also find that a man with \$750 income already pays \$139 a year in Federal and State taxes.

We are of the belief that any suggestion to Congress for a sales tax at this time would be accepted by them with a corresponding reduction in, as I have said, the corporate and individual income tax and with no net gain to the Treasury.

The Social Security thing should be pushed aggressively.

We in the Treasury feel that until the various loopholes, amounting to about \$1 billions in revenue, are closed by the Congress, it is unwise and unfair to recommend the lowering of exemptions or sales taxes, both of which fall on the low income group.

We, furthermore, are in disagreement on the question of freezing wages for labor. It is our belief that if labor could be assured that the cost of living would remain more or less constant and that corporations and individuals would not be permitted to get rich out of the war, that the hue and cry from labor for increase in their hourly wage

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would subside. We feel that this is such an important point that in view of labor's splendid attitude to date in regard to the war effort, it is certainly worthy of being given a fair trial. Furthermore, we believe that if you now would move publicly to check the cost of living, that our volunteer plan for sale of Defense Savings Bonds would be greatly accelerated. We are proposing, next week, to notify the 44,000 corporations who already have the volunteer payroll plan in force and the unions in those various corporations that we consider a 10% deduction in their gross wages the goal which they should aim for. To date we have refused to give them a goal, but we feel the time has arrived that we should.

We are also proposing to announce, on April 13, a quota for the United States by counties for May, June and July, reaching in July \$1 billion per month. We feel also that we have a good chance of reaching this goal if between now and the first of July you move on other fronts. I think that you will agree with me that if we could reach \$1 billion a month through volunteer rather than forced savings, this would be a great accomplishment and benefit for the morale of the country as a whole.

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Both Mr. Smith's groups and ourselves want to get another \$5 billions in savings from the people and we here feel that we have a good chance of getting it through the volunteer method and they feel it must be done through the compulsory.

The staffs of the Budget, OPA and the Treasury will work continuously from now until Wednesday morning when we will meet again and see if we cannot get a closer meeting of the minds. The fact that you stated at Cabinet that you did not propose to do anything for three weeks certainly should give all of us time to give you a comprehensive plan with which to meet the cost of living situation.

Yours sincerely,

April 3, 1942.

My dear Mr. President:

You asked me to let you have tonight a memorandum on the cost of living and what ought to be done about it. I am enclosing such a memorandum, together with a chart in which we have tried to show under three different assumptions approximately how the estimated deficit of \$39 billions for the coming fiscal year may be financed.

Everybody in the Treasury is in agreement that we should not leave a stone unturned to keep the cost of living as nearly as possible at the present level. You will notice in the plan proposed we have not limited ourselves to fiscal measures for we do not believe that fiscal measures alone are adequate to meet the situation. If we adopt a program of strict rationing, which we in the Treasury strongly favor, the amount of money available for Federal borrowing will be greatly increased and it will come from sources that will not be inflationary. This will very greatly modify the divisions of the chart here presented.

There are radical points of difference between our conclusions and those of Harold Smith's group, as you will notice by reading the annexed outline and discussion. We feel strongly that it would be a mistake to yield to the clamor for a sales tax. Rather we think the revenue bill will contain a sales tax unless resistance to a sales tax is greatly intensified. One very cogent reason against consenting to a sales tax is that we think the effect of recommending a sales tax would be that Congress would use this as an excuse to make drastic cuts in the Administration's proposals for increases in personal and corporate incomes and profits, with the result that we should get no more revenue but simply have shifted the source of revenue to the lower income groups.

We object on the same grounds to lowering the personal exemptions and we have in mind that the typical American

- 2 -

family does not save on an income of \$1250 a year or less, and that a man with a \$750 income already pays \$139 a year in Federal, state and local taxes.

We also, as you will note, are in strong disagreement on the proposal to freeze wages, which we think unnecessary, impractical and exceedingly dangerous.

We believe that the system of voluntary savings through the sale of war savings bonds and stamps should be continued and should not be complicated or destroyed at this time by any compulsory savings plan. We are inaugurating a system of quotas which we believe will result in pushing up the sales of war savings bonds to a billion a month by the end of July. We will know between now and July 1 whether we can reach this result. Both Mr. Smith's group and ourselves want to get another \$5 billions from savings. We feel that we have an excellent chance to get it through the volunteer method and that that method is such to be preferred.

The staffs of the Budget, OPA and the Treasury will work continuously from now until Wednesday morning when we will meet again and see if we cannot get a closer meeting of the minds. The fact that you stated at Cabinet that you did not propose to do anything for three weeks certainly should give all of us time to give you a comprehensive plan.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The President,

The White House.

cc: Harry Hopkins
Harold Smith
Lauchlin Currie
Leon Henderson
Vice President Wallace
Donald Nelson

April 3, 1942

A PROGRAM TO CONTROL THE COST OF LIVING

During the coming fiscal year there will be at least \$10 to \$15 billions of money in the pockets of the people of the United States with nowhere to go. What can we do to keep that surplus purchasing power from driving up the cost of living?

Things That Should Be Done Now

- (1) Freeze the price ceilings of consumer goods, services and rents at current levels.

This should be the first step. It is not in itself enough, but is an essential part of a complete program.

- (2) Urge the speedy enactment of the entire Administration tax program.

This \$7.6 billion program is the most that we can expect to get at this time. It is a balanced program which should have substantial effect in restricting consumer demand.

- (3) Enlarge scope of social security benefits and levy additional social security taxes as proposed by the President.

This will reduce consumer demand particularly in the lower income levels without having adverse effects to be expected from other devices dipping into incomes close to the subsistence level.

- (4) Intensify the drive for sale of war savings bonds introducing quota features to raise an estimated \$12 billions in fiscal year 1943.

This will have a substantial effect in reducing consumer purchasing power because

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the big increase is expected to come from the wage earner through the newly developed plan of voluntary payroll savings.

(5) Increase surveillance over credit and impose further restrictions on installment credit, speculative loans, loans for consumption purposes, and all credit for non-productive purposes.

The \$9 billions of outstanding consumers' credit should be reduced by further restrictions of credit for consumer purposes.

(6) Increase scope of rationing to cover as rapidly as possible all consumer goods where shortages exist or are expected to develop.

Rationing of goods on a broad scale is clearly inevitable if there is to be anything like a fair distribution of consumer goods which will be available if the war demand intensifies and existing stocks are depleted. Rationing is fair. It makes available the limited supplies of necessities of life to poor and rich alike.

(7) Give immediate consideration to a plan for restricting or rationing total expenditures which individuals may make for consumption goods, using income as a guide as in progressive surtax brackets.

This would not be a substitute for all rationing of goods, but it would eliminate the need for the specific rationing of many commodities. Administrative problems make this a matter for continued study rather than for immediate action.

Things That Should NOT Be Done

(1) A general retail sales tax should be strongly opposed.

The lower income groups are already disproportionately taxed. The sales tax would upset price ceilings and immensely increase

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the burden of tax administration. Unless active steps are taken, a general sales tax will be substituted in the current tax bill for part of the income taxes now proposed.

(2) Income tax exemptions should NOT be lowered.

Personal exemptions have been lowered twice in the last two years and the increase in the cost of living is in effect lowering them further month by month. Certainly the already heavy taxes on the low-income group should not be further increased until the various loopholes amounting to about \$1 billion in revenue are closed by the Congress.

(3) NO form of compulsory saving should be enacted or proposed at this time.

It would probably destroy completely the voluntary savings plan now under way, at least so far as the lower income groups are concerned. It might well result in forcing immediate redemption of a very large proportion of the \$8 billions worth of United States savings and defense bonds now outstanding.

(4) Proposal to freeze wages should be strongly resisted.

It would have a disastrous effect on morale, would be grossly unfair, and would be discriminatory against wage employees. It is unnecessary if other steps are taken to stabilize the cost of living.

A PROGRAM TO CONTROL THE COST OF LIVING

(Discussion of outline)

Few effective steps have yet been taken to deal with the rising cost of living. Tax increases at the rate of approximately five billions a year have been imposed but prior to March 1942 were only partially reflected in funds available for consumer expenditure. Some price ceilings have been imposed but their number and importance have not been such as to offset the cost of living substantially. Consumer rationing is not yet in effect. Action to control credit has not yet been fully developed from the standpoint of inflation control. The prospect of shortages and higher prices probably had done more to stimulate price increases than has been done to counteract them.

I. Things that should be done now.

1. Price ceilings

Most of the things that should be done now are for the purpose of reducing consumer demand. Along with all of these it is important that the cost of living be stabilized by fixing price ceilings at current price levels for all goods and services. In the absence of general price ceilings the price situation will become very confused. Profiteers will take advantage of temporary shortages and "runs" on goods for which shortages and higher prices are anticipated will be stimulated.

It is too much to expect that prices can be rigidly frozen with no flexibility whatever. There are maladjustments among prices which must be corrected. Furthermore, some prices must be allowed to rise if goods are to be produced at all, unless extensive subsidization of producers is to be provided.

However, if appropriate measures are taken to reduce consumer demand it should be possible to set

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price ceilings in such a manner that the cost of living will not rise more than perhaps 5 percent a year. Experience has shown that price control can be effective. The Office of Price Administration's analyses of the Bureau of Labor Statistics' wholesale price index shows almost complete absence of rise of formally controlled prices between March and December, 1941, whereas uncontrolled prices have risen from 100 to 117 percent.

2. Treasury tax program

The Treasury program now before Congress proposes tax increases to produce annual revenue in excess of 7 billion dollars. It is a balanced program based upon ability to pay and includes drastic increases in individual income tax rates, in corporate taxes, estate and gift taxes, and in excise taxes on luxuries and scarcity goods. This program when enacted should have a substantial effect in restricting consumer demand and thus controlling the cost of living. It will not have any substantial effect until it is enacted, since discussion in Congress roams over a wide field and leaves the greatest uncertainty as to the character of the program which will be written into law.

Any substantial changes in this program proposed by the Administration would further greatly confuse the situation, delay enactment, and on these accounts materially increase during the interval inflationary tendencies. There is little or no prospect of increasing the tax yield beyond the amount asked for in the Treasury program. The prospect is rather that any demand for a change in the program now would only result in a tax bill with lowered exemptions and a sales tax at the expense of the proposed corporate and individual surtaxes.

3. Social Security program

The enlargement of social security benefits, coupled with an increase in social security taxes in the amount of approximately 2 billion dollars, would have a decided effect in reducing consumer demand, particularly in the lower income levels, without having adverse effects to be expected from

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other devices for dipping into incomes that are close to the subsistence level. Congressional consideration and passage of the program should be pushed aggressively.

4. Voluntary war savings

The possibilities of additional voluntary savings for the purpose of restricting consumer demand through the sale of war savings bonds have not been by any means fully exploited. An effective organization has been built and the experience of December and January indicates clearly that by pursuing payroll allotment and quota methods sales can be increased to a level of approximately one billion dollars a month, or an increase at the rate of approximately five billion dollars a year, which will have a very decided effect upon consumer purchasing power and should be a material factor in improving the price situation.

5. Credit restrictions

There are now outstanding some 9 billion dollars of consumer credit. Much can be done to cut down this source of consumer buying by extending controls already authorized by law. Installment selling of consumer's goods, book credit, loans for consumption purposes -- all of which have the effect of increasing the demand for goods and thus contributing to a rise in the cost of living -- can be drastically curtailed. Bankers of the nation have shown great willingness to cooperate with the Government and it is believed they will be willing to enlist in an effort to impose credit controls that would help bring about the desired contraction of consumer credit.

6. Rationing of goods

We have hardly begun to feel the impact of shortages in consumer goods. This impact has been delayed by the availability of large inventories and the fact that war production has not yet by any means reached its full peak. Rationing of goods on a broad scale is clearly inevitable if there is

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to be anything like a fair distribution of the supply of consumer goods that is to be available as the war demand intensifies and existing stocks are depleted. Rationing is equitable. It imposes the sacrifices of war on poor and rich alike. Taxes and other fiscal measures used without rationing leave the rich free to consume as they please while the poor bear the burden of the shortages.

The rationing program must move rapidly. The difficulties are admittedly great, but the job must be faced. In establishing the machinery for rationing it is probable that time could be saved and duplication avoided by the extensive use of existing agencies of the Government. These could be supplemented by the much wider use of voluntary effort now frequently employed on enterprises that are mere outlets for patriotic energy but contribute very little to the war effort.

7. Total expenditure limitation or rationing

It should be possible very greatly to simplify the problem of rationing by an over-all plan of limiting or rationing total expenditure by individuals. This could almost certainly be applied to the total amount of money spent on commodities that are necessities of life and possibly to the money spent on all goods and services for which shortages are anticipated. Expenditure rationing would have the double effect of conserving supply and diverting funds, which would otherwise go into consumer expenditure, to investment in Government securities. Administrative problems make this a matter for continued study rather than for immediate action.

II. Things that should not be done now.

1. No general sales tax

The proposal to obtain a substantial or even major proportion of additional Federal revenue from a general retail sales tax is a proposal to increase the tax burden on the poor and hold down the burden on the well-to-do. The lower income groups are

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already disproportionately heavily taxed through Federal excise taxes and more especially through state and local taxes that violate the principle of ability to pay.

The general retail sales tax has other disadvantages and dangers. It would upset price ceilings and induce well based demands for wage increases. Its apparent simplicity is deceptive for the burden of administration and collection would be immense. It would introduce a form of tax into our tax structure that would be likely to nullify many years of effort to accomplish an equitable distribution of the tax burden.

Unless active steps are taken, a general sales tax will be passed as part of the current tax bill, and the revenue anticipated from it used as an excuse for lowering the proposed tax rates on corporations and individuals.

2. No lowering of personal exemptions

The personal exemptions of the income tax should not be lowered at this time. They have been lowered twice in the last two years and the increase in the cost of living is in effect lowering them further month by month. Certainly the already heavy taxes on the low-income group should not be further increased until the various loopholes amounting to about one billion dollars in revenue are closed by the Congress.

3. No compulsory saving

The introduction of any scheme of compulsory saving at this time would probably destroy completely the voluntary saving plan now under way, at least so far as it affects the lower income groups. The voluntary plan has not been given a sufficiently thorough trial to justify its abandonment. As previously indicated, it is being rapidly developed and expanded.

There are at present outstanding United States savings and defense bonds having a total redemption value in excess of eight billions of dollars. A

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compulsory savings plan might well have the result of forcing immediate redemption of a very large proportion of these outstanding securities and to the extent that any such redemption occurred it would nullify the effect of compulsory saving and other efforts to restrict consumer expenditure.

Any compulsory savings plan, to be effective, must accordingly be on a very large scale. Such a plan should not be adopted unless and until the voluntary system, combined with other measures, has proven inadequate.

4. No wage freezing

Besides being grossly inequitable, any attempt by statute to freeze wages at existing levels would certainly have a disastrous effect on public morale. Labor organizations have led a long and fairly successful fight against the treatment of human labor and personal service as a commodity. A proposal to freeze wages regards labor as a commodity and proposes to discriminate against wage employees by placing an arbitrary ceiling on their income and by failing to place similar ceilings on incomes derived from other forms of personal services, as incomes from professions, incomes from trade and the higher levels of personal service incomes from industry.

Wage freezing is an impractical proposal. It would probably not achieve its objectives since a multitude of exceptions would have to be made for special situations. Wage ceilings would have to be adjusted to make additional allowances for those who are now underpaid, to take care of changes in the cost of living, to meet urgent demands of war production industries, and to prevent an undue amount of labor shifting from occupation to occupation.

Furthermore, if the cost of living is stabilized the principal pressure for wage increases will have been removed. The mood of labor to improve its position, which was apparent in the early stages of

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the defense program, has largely disappeared. Labor has given up the right to strike. National machinery has been established to control wages. There seems to be no need for setting a ceiling on wages as a method of stabilizing the cost of living.

The sound objectives of wage freezing can be attained by improving existing machinery for wage adjustments and through efforts to accomplish a better distribution of labor supply through increased activity on the part of Federal and local agencies already set up for this purpose. Wage demands up to the present moment have not been excessive nor has labor been unduly favored in the increased industrial activity caused by the war program. Labor organizations have gone to great lengths to cooperate in the war effort. In this situation there seems nothing to warrant a proposal of extremely doubtful value at best which could not be interpreted otherwise than as a slap in the face of labor.

UNITED STATES SAVINGS BONDS

Comparative Statement of Sales During
First Two Business Days of April, March and February 1942
(April 1-2, March 1-3, February 1-3)
On Basis of Issue Price

(Amounts in thousands of dollars)

Item	Sales			Amount of Increase or Decrease (-)		Percentage of Increase or Decrease (-)	
	April	March	February	April over March	March over February	April over March	March over February
Series E - Post Offices	\$ 5,476	\$ 8,786	\$12,006	-\$ 3,310	-\$ 3,220	- 37.7%	- 26.8%
Series E - Banks	<u>18,780</u>	<u>24,327</u>	<u>42,037</u>	- <u>5,547</u>	- <u>17,710</u>	- <u>22.8</u>	- <u>42.1</u>
Series E - Total	24,256	33,112	54,044	- 8,856	- 20,932	- 26.7	- 38.7
Series F - Banks	4,499	3,672	8,984	827	- 5,312	22.5	- 59.1
Series G - Banks	<u>17,178</u>	<u>17,506</u>	<u>39,313</u>	- <u>328</u>	- <u>21,807</u>	- <u>1.9</u>	- <u>55.5</u>
Total	<u>\$45,933</u>	<u>\$54,290</u>	<u>\$102,341</u>	-\$ <u>8,357</u>	-\$ <u>48,051</u>	- <u>15.4%</u>	- <u>47.0%</u>

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

April 3, 1942.

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

Daily Sales - April, 1942
On Basis of Issue Price

(In thousands of dollars)

Date	Post Office Bond Sales	Bank Bond Sales				All Bond Sales			
	Series E	Series E	Series F	Series G	Total	Series E	Series F	Series G	Total
April 1942									
1	\$ 2,476	\$ 10,517	\$ 2,380	\$ 9,608	\$ 22,504	\$ 12,993	\$ 2,380	\$ 9,608	\$ 24,980
2	2,999	8,264	2,119	7,570	17,953	11,263	2,119	7,570	20,953
Total	\$ 5,476	\$ 18,780	\$ 4,499	\$ 17,178	\$ 40,457	\$ 24,256	\$ 4,499	\$ 17,178	\$ 45,933

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

April 3, 1942.

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

Comparative Statement of Sales During
First Three Business Days of April, March and February 1942
(April 1-3, March 1-4, February 1-4)
On Basis of Issue Price

(Amounts in thousands of dollars)

Item	Sales			Amount of Increase or Decrease (-)		Percentage of Increase or Decrease (-)	
	April	March	February	April over March	March over February	April over March	March over February
Series E - Post Offices	\$ 8,697	\$ 12,180	\$ 16,899	-\$ 3,483	-\$ 4,719	- 28.6%	- 27.9%
Series E - Banks	<u>26,353</u>	<u>33,160</u>	<u>58,575</u>	- 6,807	- 25,415	- 20.5	- 43.4
Series E - Total	35,050	45,340	75,474	- 10,290	- 30,134	- 22.7	- 39.9
Series F - Banks	5,684	6,329	12,921	- 645	- 6,592	- 10.2	- 51.0
Series G - Banks	<u>23,413</u>	<u>30,064</u>	<u>57,828</u>	- 6,651	- 27,764	- 22.1	- 48.0
Total	<u>\$ 64,147</u>	<u>\$ 81,733</u>	<u>\$146,223</u>	<u>-\$17,586</u>	<u>-\$64,490</u>	<u>- 21.5%</u>	<u>- 44.1%</u>

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

April 4, 1942.

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

Daily Sales - April, 1942
On Basis of Issue Price

(In thousands of dollars)

Date	Post Office Bond Sales	Bank Bond Sales				All Bond Sales			
	Series E	Series E	Series F	Series G	Total	Series E	Series F	Series G	Total
April 1942									
1	\$ 2,476	\$ 10,517	\$ 2,380	\$ 9,608	\$ 22,504	\$ 12,993	\$ 2,380	\$ 9,608	\$ 24,980
2	2,999	8,264	2,119	7,570	17,953	11,263	2,119	7,570	20,953
3	3,222	7,572	1,185	6,235	14,992	10,794	1,185	6,235	18,214
Total	\$ 8,697	\$ 26,353	\$ 5,684	\$ 23,413	\$ 55,449	\$ 35,050	\$ 5,684	\$ 23,413	\$ 64,147

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

April 4, 1942.

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.

Mrs Klotz

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4/3/42

MEMORANDUM TO MR. GASTON:

FROM MR. H. J. VOLLMER.

The attached is a brief description of the New York Laboratory of the Bureau of Customs, the character of the technical and scientific work which falls within its scope, its equipment, and a word about its staff.

In view of the size of the organization it is, of course, impossible to treat this matter in great detail from a scientific or technical point of view. Should any further and more specific inquiry arise I would, of course, be happy to amplify any indicated aspect of the set-up.

NEW YORK LABORATORY - BUREAU OF CUSTOMS

This laboratory is located on the 12th floor, 201 Varick Street, which is the appraiser's stores building, and is directly above the Houston Street Station of the Seventh Avenue line of the I. R. T.

In a general way, its functions may be divided into four parts. First is the testing of all importations where such testing will enable a more competent administration of the tariff and other acts. This necessitates laboratory examination of some two thousand or more different types of commodities, raw materials, manufactured products, etc., including the following:

Sugars

Molasses

Fish

Food Products

Fixed Oils and Fats, etc.

Essential Oils

Alcoholic Products

Petroleum, etc.

Coal Tar Dyes and Lakes

Crude Coal Tar Products

Ores, Metals, Alloys, etc.

Manufactured and Inorganic Chemicals

Textile Manufactures and Raw Materials

Gums and Resins, natural and synthetic

Opium and other narcotics

Etc., Etc.

These miscellaneous items are usually examined to determine first, whether a certain constituent mentioned in the Act is present and, if so, to what extent. This may require very involved and delicately controlled techniques in many cases. The tests themselves are, of course, frequently simple chemical laboratory tests involving the usual chemical equipment found in all laboratories. Some of these tests, however, require specialized equipment, specialized microscopes for textile work, highly accurate polariscopes for testing sugar, electrical equipment for determination of melting points of organic materials, dyeing equipment, weaving equipment, electrolytic equipment, etc., etc.

The second function of the laboratory relates to law enforcement investigations. In this field, the chemists are called upon to employ their knowledge and experience in specialized techniques to assist the Customs Agency Service in unraveling or making more comprehensible some otherwise unrelated piece of evidence. This activity is pursued in the best tradition of the "crime laboratory". There is, of course, a great difference between the usual layman's concept of the work of a crime laboratory and the actual carrying out of this function. Most of the tests in connection with investigations are of a relative simple matter; sometimes, however, they are unique. X-ray equipment is available in New York for specialized investigations that require this tool. A photographic dark room, of course, is available.

The third function of the laboratory is to conduct such scientific and technical research as may be necessary for a future amplification of its own facilities in investigations or as may be necessary for a better understanding of certain unknown factors related to the administration of the tariff act. It was in the New York Laboratory, therefore, that the fundamental work was done upon which the eventual wool testing technique used in Boston was developed.

The fourth function is to run such analyses and tests as the laboratory may from time to time be called upon to do by other Treasury bureaus or government agencies.

This activity obviously requires a large staff of specialists and aides which is headed by Mr. Louis B. McSorley as Chief Chemist. Mr. McSorley is an industrial and laboratory chemist of years of experience with a wide range of knowledge in this field. He is aided by competent supervising subordinate chemists, among whom is a Miss Della Kahn, specialist in sugar testing. The total staff consists of forty employees of whom twenty-eight are technically trained, the balance being office help, mechanics, laborers, and messengers.

As is to be expected, when considering the variety of work that the New York Customs Laboratory is called upon to do, the specialists themselves vary in their background from men with a wealth of practical experience to men of profound theoretical knowledge. This provides for flexibility in attacking new and difficult

problems. To further augment its activities, which are probably more extensive in kind than in any other government laboratory with the possible exception of the Bureau of Standards, the laboratory maintains a relatively large library of books and further rounds out its source of information by industrial and scientific contacts both in and outside government circles.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE APR 3 - 1942

TO Secretary Morgenthau
FROM Mr. Foley

In accordance with existing instructions, there is submitted herewith a summary report of studies and projects carried on by the Legal Staff for the month of February 1942.

S. W. + L

Attachment

SUMMARY REPORT ON STUDIES AND PROJECTS IN
THE OFFICE OF THE GENERAL COUNSEL
FEBRUARY, 1942.

The following matters received attention in the Office of the Chief Counsel for the Bureau of Internal Revenue:

1. Amortization of Emergency Plant Facilities: Of importance in connection with the amortization of emergency plant facilities is the repeal of section 124 (i) of the Internal Revenue Code by Public Law 486, approved February 6, 1942. The repeal of this section relieves taxpayers having emergency facilities from the necessity of obtaining certificates of Government protection or nonreimbursement in order to protect their rights to amortization of deductions. Such repeal is retroactive to October 8, 1940, the date of the original enactment of section 124. A Treasury decision amending Regulations 103 to conform with this change in the law was drafted and has been issued. (T. D. 5119).
2. Use of Seals on Mail to Raise Revenue: A legislative suggestion has been received from Mrs. Arthur Schouw to the effect that to increase the revenue needed for the prosecution of the war, the Government should sell Victory Seals, to be used on letters and parcels, the same as

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tuberculosis seals at Christmas time. The matter is being given consideration.

The following work was done under the supervision of Assistant General Counsel Cairns:

3. Requisition by Army of Foreign-Trade Zone: On February 23, 1942, a meeting of the Foreign-Trade Zones Board was held, and was attended by Commissioner Johnson and Mr. Chambers on behalf of the Treasury Department. The War Department, which has recently obtained a court order to take over the zone at Staten Island, New York, opposed the suggestion that one or more of the piers in the zone be allowed to operate zone activities, on the ground that all of the piers, and additional shipping space as well, will be needed for war purposes. However, there was agreement on the suggestion offered by Mayor LaGuardia that the foreign-trade zone grant should not be cancelled by the Board; that a zone office should be continued in the present zone territory; and that the City of New York and the interested Government agencies will cooperate in efforts to establish new zone territory in other parts of New York City and to transfer most of the present zone activities and merchandise to such territory.

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4. Entry of Relief Articles Free of Duty:

(a) At the request of the Bureau of the Budget, the Chief Counsel's Office, Bureau of Customs, reviewed a proposed Presidential proclamation, prepared by the Secretary of the Interior, which, if issued, will authorize the importation free of duty, under section 318 of the tariff act, of jerked beef for distribution in Puerto Rico, where the natives are reported to need a cheap substitute food for the supply of cod fish which has been cut off by the war. A reply was prepared stating that the Department has no objection to the proposed action.

(b) In reply to a letter from the Red Cross regarding entry free of duty, under section 318 of the tariff act, for relief supplies for the Red Cross, a letter was prepared agreeing to assist that organization in the necessary procedural steps if it decides to request a Presidential proclamation. Free entry has not yet been authorized for either the jerked beef or the Red Cross supplies.

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5. Diamonds of A. van Moppes: On February 16, an informal appraisal was made at the Georgetown custom-house of a number of diamonds owned by A. van Moppes, contained in a package addressed to the Netherlands Legation. The package was opened by an official of the Netherlands Legation. Certain diplomatic correspondence also contained in the package was turned over to the Legation, but the diamonds were held in customs' custody with the consent of the Legation, which disclaimed any interest therein. The foreign value of the diamonds was found to be \$50,568.20. Arrangements for the appraisal were made by this office at the request of Foreign Funds Control, which has been considering issuing a license so that the diamonds may be exported to van Moppes in South America.

6. Regulations Prescribing Standards and Conditions of Bonds of Certifying Officers: An opinion addressed to Mr. Bartelt, which was written by Mr. Feidler, and signed on February 5, 1942, considers four specific questions in connection with proposed regulations governing the bonds of certifying officers required by section 22 of the Act

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of December 29, 1941. The opinion concludes that (1) the Secretary of the Treasury may not fix the minimum and maximum amounts of certifying officers' bonds; (2) a separate bond is required under the statute rather than an amendment to an existing bond; (3) the head of a department, who certifies vouchers, is not required to be bonded; (4) the "conditions" which the Secretary may prescribe are only the conditions of the bond.

7. Practice of Tax Law by a Former Officer of the Treasury within Two Years of the Termination of his Employment: An opinion addressed to Mr. Paul, Assistant to the Secretary, which was written by Mr. Gilmore with the assistance of Mr. W. T. Plumb of the Bureau of Internal Revenue, and signed on February 10, 1942, concludes that section 190 of the Revised Statutes (U.S.C., title 5, sec. 99) forbids a former officer or employee, within two years of the termination of his employment, to aid in the prosecution of any claim pending in the Department while he was employed either (a) before the Department (b) in the Court of Claims (c) in the District

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Court sitting as a court of claims (d) by suit against the collector; and that the word "claim" in the statute does not include resistance to the assessment or collection of taxes. The opinion also considers when a claim is "pending" and what constitutes acting as "counsel, attorney, or agent" within the meaning of the statute.

8. Availability of Bureau of Internal Revenue Appropriation to Pay for Production and Distribution of Motion Picture Film Prepared by Mr. Walt Disney entitled "The New Spirit". An opinion addressed to the Secretary, which was written by Mr. Feidler and Mr. DuBois, and signed on February 11, 1942, concludes that there is ample authority to use funds appropriated for the Bureau of Internal Revenue to pay for such motion picture film.

9. Availability of Funds for Series of Films for Defense Bond Campaign, to be Prepared by Walt Disney Productions, Inc.: An opinion addressed to Mr. Thompson, which was written by Mr. Feidler, and signed on February 12, 1942, advises that it is doubtful that funds which may be appropriated in First Deficiency Appropriation Act, 1942

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for expenses of loans may be used for production of the films.

10. Payment to Short Line Railroads of Awards Made by the Interstate Commerce Commission: An opinion addressed to Mr. Bartelt, which was written by Mr. DuBois and Mr. Feidler, and signed on February 25, 1942, concludes that warrants should be drawn in favor of and payment made to the carriers named in the certificates of the Interstate Commerce Commission, unless the Secretary is restrained by court order or has notice that title to payment is in dispute, in which case the Secretary should withhold payment pending determination by the court. Cases involving bankruptcy, conservation or reorganization proceedings should be referred to the General Counsel. It is not necessary to refer the question of propriety of payment to the Comptroller General.

11. Application of the District of Columbia Income Tax to Officers and Employees of the Treasury Department:

This memorandum, dated February 25, 1942, which was prepared by Mr. Gilmore with the assistance of Mr. Plumb of the Bureau of Internal Revenue, is intended for the use of all officers and employees of the Department and analyses

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and summarizes the factors which the Supreme Court in District of Columbia v. Murphy (Dec. 15, 1941) 62 Sup. Ct. 303, considered relevant in determining liability to the tax.

12. Payment of Mint Employees for Overtime and Night Work: An opinion addressed to Mr. Thompson, which was written by Messrs. Feidler, Meyer and Gilmore, and signed on February 27, 1942, concludes that time and one-half for overtime and a night differential may be paid to the field employees in the various mints if appropriations are available and if it is administratively determined by the superintendent of the particular mint with the approval of the Director of the Bureau of the Mint that such overtime and differential pay is customary and reasonable for such occupation.

13. Photographs of Defense Savings Stamps: An opinion addressed to Chief Wilson, which was written by Mr. Meyer and Mr. Ranta of the Legislative Section, and signed on February 28, 1942, concludes that it is a violation of section 150 of the Criminal Code (U.S.C., title 18, sec. 264) to photograph defense savings stamps without authority from the Secretary of the Treasury.

The following work was done under the supervision of Assistant General Counsel Bernard:

14. Public Debt Act of 1942 (for description see January, 1942 report, Item 29): The Public Debt Act of 1942, which was drafted by Messrs. Bernard and Ahroon, was introduced by Mr. Doughton on February 27, 1942. The bill is designed (1) to increase the public debt limit; (2) to give the Treasury greater and more flexible control over Treasury bonds, bills, notes, and certificates of indebtedness as media of financing; (3) to give the Treasury the authority to receive any obligations of the United States, redeemable upon demand of the owner or holder, in payment of any taxes imposed by the United States; (4) to authorize the exchange of obligations of the United States for obligations of any agency or instrumentality which are unconditionally guaranteed both as to principal and interest by the United States; (5) to clarify the authority of the Treasury to purchase outstanding obligations of the United States; (6) to terminate the issuance of postal-savings stamps when defense stamps are issued by the Treasury; and (7) to subject all shares

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and other evidences of ownership issued in the future by any agency or instrumentality of the United States to Federal taxation by removing all privileges of exemption from such taxation which they now enjoy.

15. New Five-Cent Coin and Conditional Gift Legislation (for description see January, 1942 report, item 31): Mr. Spingarn and Mr. Rupert continued their work on this bill, the Second War Powers bill, which contains two Treasury-sponsored titles, the conditional gift legislation as Title XII and the silver-nickel coin legislation as Title XIII. They attended sessions of the House Judiciary Committee on approximately five days. Mr. Spingarn testified before that committee, and prepared those portions of the committee report which concern the provisions of the bill sponsored by the Treasury. The bill, S. 2208, was reported in the House on February 9, 1942. A number of memoranda were prepared by Mr. Spingarn and Mr. Rupert and furnished to Representative McLaughlin who handled the bill in the House. The memoranda contained factual and background material on the two Treasury-sponsored titles.

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16. Third War Powers Bill: Mr. Spingarn attended a meeting of the War Legislation Committee at the Department of Justice. The purpose of the meeting was to discuss the submission of a Third War Powers Bill to Congress as soon as the Second War Powers Bill, now pending in Congress, has been disposed of. The mimeographed draft circulated at the meeting contained fifteen titles, each incorporating separate legislative proposals to be considered for possible inclusion in the Third War Powers Bill. Many of the titles in the draft are of interest to the Treasury.

17. Proposed Legislation to Regulate Production of Opium Poppies (for description see April, 1941 report, Item 17): Mr. Spingarn recommended for inclusion in the Third War Powers Bill, which is now being considered by the War Legislation Committee, the Bureau of Narcotics' proposed legislation (which has now been cleared with the Bureau of the Budget) to authorize the production of opium poppies in the United States for legitimate purposes under strict governmental supervision and control. The war nature of this proposal was emphasized in view

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of the cutting off of our supply of opium previously obtained from the Balkans and the consequent necessity of producing it in this country if we are going to have an adequate supply of narcotic drugs. This proposal seemed to be well received by the Committee. Oscar Cox and Judge Townsend were given a draft of the bill and our proposed letter of transmittal in explanation thereof. Miss McDuff worked on this.

18. Federal Tort Claims Bill (for description see January, 1942 report, Item 28): The Legislative Section completed a canvass of the various branches of the Department with respect to their views on the pending Federal Tort Claims Legislation. After consideration of the various memoranda which we received, it was decided that while there were many comments and suggestions which could be made to the Congressional committees handling the bill, it would be best for us to keep hands-off and informally advise the committees that we had no comments to make but favored the legislation in principle. Everyone agrees that it is constructive legislation and the whole history of this type of legislation is that it has

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always failed of enactment because no one could agree on the details. After clearing this decision with Mr. Foley, this office informally so advised the Judiciary Committees of both Houses. Messrs. Spingarn and Cross handled this matter.

19. Un-American Activities Committee (for description see August, 1941 report, Item 16): Mr. Spingarn attended a further conference on the proposed executive order to establish a general Government committee to consider charges of Un-American activities against Government personnel. Some additional minor changes were made in the proposed order. It is anticipated that the matter will be discussed at Cabinet meeting in the near future. On February 2 a memorandum, signed by Mr. Foley, was sent to the Secretary to familiarize him with the proposal and its background so that he would be prepared to discuss it at Cabinet meeting.

A number of matters relating to the work of this committee were handled by Mr. Spingarn, including the preparation of a lengthy memorandum to Mr. T. F. Wilson and Mr. Pehle about a case which had been referred to the

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Treasury Committee on Un-American Activities involving an employee of the Foreign Funds Control Division, and an extensive investigation of the case of William Wheeler Hinckley, who has been given a three-months' appointment by the Defense Savings Staff, subject to favorable investigation.

20. Board of Legal Examiners (for description see July, 1941 report, Item 15): Mr. Bernard, as a representative for Mr. Foley, attended a meeting of the Board of Legal Examiners on February 13, 1942, and is continuing his work on that Board.

21. Law Committee of Defense Communications Board (for description see November, 1940 report, Item 23): Mr. Spingarn (who is the Treasury representative on the Law Committee of the Board) is continuing his work on this Committee.

22. Economy Committee Material (for description see November, 1941 report, Item 29): There is being prepared for the use of the Secretary of the Treasury in his work as a member of the Joint Committee on Reduction of Non-Essential Federal Expenditures, established by section 601

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of the Revenue Act of 1941, a fourth report on legislation pending in Congress. A memorandum for the Secretary on S. 1481 proposing annuities for workmen on the construction of the Panama Canal was prepared by Mr. Cross for Mr. Foley's signature.

23. State Cooperation with Federal Agencies in Defense Efforts (for description see November, 1941 report, Item 30): Last month Messrs. Spingarn and Cross prepared a draft of a bill for state enactment which Under Secretary Bell sent to the Department of Justice for it to turn over to the Council of State Governments. The purpose of the bill is to facilitate the sale of Defense bonds by authorizing institutions and individuals to act as issuing agents for them when designated for that purpose by the United States Treasury. Recently the Office of Government Reports, which has state directors in each of the states, who have excellent legislative contacts in those states, indicated to this office its willingness to help in securing enactment of this legislation, and the Department of Justice wrote us to suggest that we avail ourselves of this offer of help. Thus,

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this office had prepared letters for Under Secretary Bell's signature, which were sent to the Department of Justice and the Office of Government Reports, stating that we were glad to have the help of the latter office. Largely due to the efforts of that office, the bill has already become law in Rhode Island and will probably become law in several other states in the near future.

24. Equalizing Privileges of Government Obligations

(for description see September, 1941 report, Item 14):

Copies of this proposed bill and an explanatory memorandum on this matter, which were prepared by Messrs. Spingarn and Cross, were forwarded last month for the consideration and comments of Messrs. D. W. Bell, J. J. O'Connell, W. Heffelfinger, George Barse, T. W. Cunningham, and Walter Wyatt of the Federal Reserve System. Thus far, no comments have been received.

The following work was done under the supervision of Assistant General Counsel Bernstein:

25. Reorganization: On February 12, 1942, the legal work connected with Foreign Funds Control was functionally reorganized and redistributed. There are now six

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divisions: Division A, headed by Mr. Luxford, handles drafting of documents, securities and censorship problems, etc.; Division B, headed by Mr. DuBois, deals with Proclaimed List and other trading problems; Division C, headed by Mr. Aarons, handles interpretative matters, compliance problems, patents, insurance, trusts, etc.; Division D, headed by Mr. Sherbondy, deals with ad hoc blocking and business enterprise problems; Division E, of which Mr. W. H. Reeves is the head, handles TFR-300 reports and litigation problems; and Division F, of which Mr. Lawler is the acting head, deals with vesting and liquidation problems.

26. Control of Axis Business Enterprise (for description see January, 1942 report, Item 36):

Vesting of Property

(a) General Aniline and Film Corporation: The documents necessary to vest in the Secretary of the Treasury 97% of the outstanding shares of General Aniline and Film Corporation were prepared. Messrs. Lawler, DuBois, and Kehl worked on this matter. Prior to this, numerous studies were necessary with regard to administrative

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experience in the last war and the case law and statutes arising out of that experience. In addition it was necessary to prepare a set of regulations governing the claims to comply with the due process requirements of the Constitution. Miss Goode, Miss Klein and Messrs. DuBois, Lawler, Kehl, Golding, and Brenner worked on this.

Mr. Lawler participated with Messrs. Foley and O'Connell in drafting a letter expressing the Department's policy in handling the General Aniline and Film Corporation. He also assisted Mr. O'Connell and Mr. Pehle in setting up a method for providing for receipt of share certificates and accounting.

(b) Schering Corporation: Documents were prepared for the contemplated vesting in the Secretary of the Treasury of all the common stock, a portion of the preferred stock, and all the outstanding stock of the affiliates of Schering Corporation of New Jersey. Messrs. Lawler, Sherbondy, DuBois and Clay handled this matter. Attempts are now being made to find a satisfactory man to head the Corporation.

Investigation and Control:

(c) H. A. Brassert and Company Investigation:

A corps of twelve investigators has completed the field work in the investigation of the records of this Company, which is dominated by Herman Brassert who assisted Goering in the recent construction of steel mills in Germany. It is contemplated that an oral examination of Herman Brassert will be made in the next few days, after which a final report will be prepared. Messrs. Sherbondy, Lesser, and Park worked on this project in collaboration with investigators from Mr. May's unit and from Internal Revenue.

(d) Luscombe Airplane Corporation: An investigation of this Corporation has been completed and report submitted. Members of the staff are now working closely with the Navy Department, War Department, Civil Aeronautics Board, and the Reconstruction Finance Corporation on a solution for the problem. It is contemplated that the foreign owned stock of the Corporation will be vested and certain undesirable foreign elements eliminated. The Navy is prepared to make prompt use of facilities of the

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plant. Messrs. Sherbondy, Williamson, McMurray, and Kahn handled this matter.

(e) Saint-Denis Kuhlmann Sait-Clair Dyestuff Corporation: A study is almost completed of pertinent information relative to this Corporation. It is contemplated that the final report will recommend liquidation of the concern, which is part of the French Kuhlmann enterprises. The French Kuhlmann has recently entered into a merger with I. G. Farbenindustrie in Germany. Messrs. Sherbondy and Ackerman worked on this matter.

(f) Sterling Products, Inc.: Mr. Lawler had several discussions with Mr. George S. Hill concerning the report by Sterling Products, Inc. to the Departmental Committee. A number of discussions took place with members of the State Department concerning the transmission of a circular wire to the Missions and concerning various advices received from the Missions, and with representatives of the Board of Economic Warfare concerning the various changes which have taken place in the personnel of Sterling Products, Inc. within the last five months.

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27. List of Persons Blocked "Ad Hoc": A complete summary of all business enterprises and individuals which have been blocked "ad hoc", with certain pertinent related information, has been completed by Miss Hmiel, Messrs. Sherbondy, Garlock, and Locker. A punch card system has been arranged for the list, and it is expected that the list will be kept up-to-date.

28. Liquidation Problems:

(a) General Authorization No. 89. Messrs. Aarons and Lawler, members of the staff, assisted in preparing a general authorization which will enable the Federal Reserve Banks to facilitate the liquidating or continued operation of German, Italian, and Japanese business enterprises which have been closed as a result of the detention of their owners. Such liquidation or resumption of operations will proceed in accordance with a voluntary power of attorney given by the owners and will not involve any supervision by the Federal Reserve Banks. This procedure applies to concerns having assets and liabilities under \$10,000.

(b) Japanese Banks in Seattle, Washington. The two Japanese banks in Seattle to be liquidated are the Yokohama

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Specie Bank, Ltd., Seattle branch, and the Sumitomo Bank of Seattle. On February 27, 1942, Preston Delano, Comptroller of the Currency, was placed in charge of such liquidations and was given full authority to exercise the authority delegated to the Secretary of the Treasury under the Trading with the Enemy Act in connection with such liquidations. Messrs. Aarons and Lawler handled this matter.

(c) Japanese Banks in Hawaii. Members of the staff assisted in the perfection of plans for the liquidation of the Pacific Bank, the Sumitomo Bank of Hawaii, and the Yokohama Specie Bank, Ltd., all located in Honolulu. In accordance with a cable to Governor Poindexter of Hawaii from the Treasury Department stating that Preston Delano, Comptroller of the Currency, has been instructed to supervise liquidation of these banks and that he had designated Roger E. Brooks to act for him and to assume full responsibility in the matter of liquidation of the banks, Governor Poindexter, on February 28, 1942, appointed Roger E. Brooks to act in this capacity. Messrs. Aarons and Lawler worked on this matter.

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(d) Bank of Guam. Members of the staff have been participating with the Administrative staff in devising a technique to handle the partial liquidation of the Bank of Guam. Complete liquidation of the enterprise is impossible since the bank, a large part of the assets, and an unknown number of the depositors have fallen into the hands of the Japanese. The principal problem was the sale of distressed merchandise and the honoring of outstanding drafts. These matters are being taken care of at the direction of the Treasury Department by the Wells Fargo Bank of San Francisco, the Bank of Guam's American correspondent. Messrs. Aarons and Lawler worked on this.

(e) Specific Applications for Liquidation. Messrs. Lawler and Marks, members of the Legal staff, participated in committee meetings with members of the Administrative staff to take action on specific applications for liquidation of enterprises whose total assets or total liabilities exceed \$10,000.

29. Extension of Freezing Control: Freezing control was automatically extended to British Malaya and to the occupied portions of Burma and the Netherlands East Indies.

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The fall of Singapore required the amendment of outstanding general licenses and certain other adjustments. These were effected by the issuance of Public Circular No. 16 on February 18, 1942. Messrs. Luxford and Murphy handled this matter.

30. "Scorched Earth" Program for Hawaii: This office participated in the formulation of, and is drafting the documents with respect to, a program to prevent Japan from gaining access to securities and currency in the case of an attack on Hawaii. Financial, Government and Military authorities in Hawaii have requested protection for securities and currency in Hawaii and extensive plans are in the process of preparation. Miss Goode and Messrs. Aarons, Luxford and Murphy are working on this matter.

31. Trading with the Enemy and Censorship (for description see January, 1942 report, Item 40): The over-all problem of the course of action which is to be followed under freezing control with respect to transactions and communications involving enemy territory and enemy nationals is continuing to be studied by Messrs. Luxford and DuBois of this office. The work on a proposed general ruling is

nearing completion and has been cleared through the interested Government agencies and the banking community in New York. Issuance is being delayed in order to permit the issuance of this general ruling at the same time a proposed general license will be issued by the Office of Censorship. This general license has been drafted by this office and cleared with most of the interested government agencies. It will permit the synchronization of the restrictions of trading with the enemy with those relating to communications with the enemy.

Further work is also being done in connection with the formulation of a program for cooperation between freezing control and censorship in order that each may obtain the greatest benefit from the other. This office is preparing a general order to be issued by the Office of Censorship with respect to dealing with property found in the mails. It is also working on an educational program, pursuant to which representatives of this office and the administrative staff will lecture to censorship men on the subject of freezing control. A representative of this office is at present attending censorship lectures in order that he may be fully acquainted with the scope of the

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problem. Messrs. Luxford, Rains, Murphy and Naiden are working on this program.

23. Problems Arising in Connection with the Attachment of the "Clearance" Certificate (Form TFEL-2) to Philippine Securities: Arrangements were made whereby Form TFEL-2 would not be attached to securities held by the Treasury Department or the Department of the Interior, whether or not for their own accounts, unless securities were actually to be sold or otherwise dealt in. General Authorization No. 90 was drafted which deals with the problem of stock certificates which have the clearance certificate attached but which are exchanged by transfer agent for new securities to a different registered owner. Mr. Aarons handled this.

24. Proposed Moratorium on Funded Obligations of Philippine Companies: This office is studying the desirability of a moratorium on the funded obligations of certain Philippine corporations, such as the Manila Electric Company and the Manila Gas Company. Certain Philippine companies having substantial assets within the Philippines are finding it difficult to meet interest payments on their funded obligations. Failure to meet such payments may result in losses to the stockholders and bondholders out

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of all proportion to actual losses resulting from the invasion of the Philippines. Some of the companies involved have requested the Treasury Department to provide relief in the form of a moratorium in order that interest payments may be postponed until such time as it is possible to evaluate more accurately the financial condition of such companies. Messrs. Luxford, Cook, and Golding are studying this problem.

25. Proposed Philippine Decree: The office has given some consideration to the possibility of either the Philippine Government or this Government issuing a decree, voiding the transfer of Philippine assets to Japanese invaders. A decree of this character would attempt to interfere with Japanese economic penetration along the lines being followed by Germany with respect to occupied portions of Europe. Messrs. Luxford and Golding are considering this matter.

26. Patent Program: A study was made in connection with the formulation of a program to be followed in the handling of patent applications and payments within enemy territory. A study of the problems of compulsory licensing

of enemy-owned patents was also made. Messrs. Aarons, Kehl, Merriam, Luxford, and Murphy made this study.

Messrs. Lawler and Sherbondy discussed with representatives of the Department of Justice the possible action by the Treasury Department in connection with patents owned by enemy aliens the use of which is important to the war effort..

27. Workmen's Compensation Benefits: This office participated in conferences relating to and the drafting of instructions to all Workmen's Compensation Commissions with respect to payment of Workmen's Compensation Benefits to aliens subject to foreign funds control. This was done in conjunction with the Labor Department which is issuing the instructions. Mr. Luxford and Miss Klein handled this matter.

28. Securities Matters: This office participated in the preparation and issuance of Public Circular No. 14, prohibiting the purchase for any blocked account of more than 1 percent of the outstanding shares of any corporation except pursuant to special Treasury license. This restriction is intended to prevent blocked funds from being employed in purchasing control of American corporations.

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At the same time a new report form, relating to the purchase and sale of securities, was issued which will permit the effective enforcement of this restriction. Messrs. Luxford, Aarons and Golding handled this.

29. Repatriation Cases: Conferences were held with members of the Administrative staff of Foreign Funds Control, in the consideration and disposition of numerous applications to pay dividends declared by French corporations prior to June 17, 1940, - one application to make a capital withdrawal from a French subsidiary and an American corporation and three applications on the part of American enterprises to sell property located abroad to citizens of neutral European countries. Mr. Lawler attended these conferences.

30. Publicity and Educational Program (for description see January, 1942 report, Item 42): As in the past, in connection with the issuance of each major document, explanatory press releases were issued. Such releases were intended to explain to the public in simple language what the purpose of each document was and its general provisions. In addition, work has been done in connection with the

issuance of press releases for the benefit of special groups, including in particular the foreign language newspapers of the United States. Messrs. Luxford and Naiden handled this.

31. China Program: Conferences were held with A. M. Fox of the China Stabilization Board, Messrs. Stopford and Wade of the British Embassy, and representatives of the administrative and research staffs of the Treasury Department, concerning problems that have arisen under the China Program as a result of developments in the Far East. Such conferences provided us with a better background of the situation in China and also assisted in the coordination of British-American policies in connection with the China Program. Mr. Luxford handled this matter.

32. Reports on Neutral Country General Licenses: The reporting requirements on the general licenses relating to Spain, Portugal, Switzerland and Sweden were modified by Public Circular No. 15. The new reporting requirement fixes responsibility on a particular bank engaging in each transaction over \$5,000 to obtain complete details regarding the transaction and furnish such data to the Department

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on a report form especially designed to enable us to get a better understanding of operations under such general licenses. Messrs. Luxford, Murphy, and Golding handled this matter.

33. General License No. 42: The new amendment to General License No. 42 in effect licenses as generally licensed nationals all persons residing in the United States on February 23, 1942, except Japanese nationals, persons who are acting on behalf of blocked countries, and persons who are blocked by special instructions from the Department.

34. Japanese Aliens: Discussions were held with representatives of the Department of Justice concerning the effect upon Treasury regulations of the forced migration of Japanese, German, and Italian aliens from the West Coast. Mr. Lawler participated in these discussions.

Departmental discussions were held in connection with an inquiry from Chairman Tolan of the House Committee Investigating National Defense Migration and the problem of liquidating property of evacuees from the West Coast area. Messrs. Luxford, Aarons, DuBois and Lawler took part in the discussions.

35. Interpretations: Correspondence was handled which involved questions of interpretation of Executive Order No. 8389, as amended, especially questions of the applicability of General Licenses Nos. 42 and 42A to specific cases. Miss Hodel, Miss Klein and Miss Goode handled this correspondence.

36. Trusts and Estates: Members of the staff in conjunction with members of the Administrative staff of Foreign Funds Control made a study of the numerous outstanding applications concerning the establishment and administration of trusts. A report on these cases has been made, and it is expected that within a short time an over-all policy for such cases will be adopted, and the pending applications disposed of in conformity with such policy. Miss Klein and Mr. Murphy made this study.

A study has been made of problems arising out of the applicability of the freezing control to the administration of decedents' estates. A report has been made, and the desirability of formulating a new policy in connection with such cases is now being considered. Miss Klein and Mr. Aarons worked on this study.

37. Gold Exports and Foreign Funds Control: In cooperation with the Bureau of the Mint, Miss Hodel and Mr. Brenner, members of this office, have evolved a procedure for the coordination of gold export licensing and the Foreign Funds Control program.

38. Government Checks and Foreign Funds Control: In cooperation with the Bureau of Accounts, instructions were drafted for disbursing officers in the United States with respect to the payment of Government checks to blocked nationals in the United States and Canada. Miss Hodel worked on this matter.

39. Census Reports (for description see January, 1942 report, Item 45): Public Circular No. 4B and Form TFR-300, series K, for the reporting of property within the United States of nationals of the Philippine Islands were prepared and distributed. In addition, letters were sent to various trade groups, including bankers, brokers, export and import associations and insurance companies, which in turn published and distributed bulletins to their organizations. Messrs. Reeves, Arnold and Hannett handled this matter.

Extensive correspondence with state officials with regard to reports to be filed by state agencies was handled and numerous conferences were conducted with agencies of the Federal Government in regard to the reporting requirements. Messrs. Reeves, Arnold, and Hannett also took care of these matters.

40. Article of First War Powers Act: A Law Review article concerning the First War Powers Act was drafted by Messrs. Reeves, Arnold, Hannett and Wolf.

41. Suits Involving Freezing Control Problems: A study has been made and a proposed procedure outlined for a program dealing with suits in which freezing control problems are raised, especially those involving assignments and those begun by attachment of the property of blocked nationals. In connection therewith, the procedure and experiences under the Trading with the Enemy Act during the last war was examined. Messrs. Reeves and Wolf made this study.

42. Applications Relating to Attachments and Related Problems: Mr. Fisher, a member of the staff, reviewed applications involving attachments and related matters

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and made recommendations as to their dispositions. This phase of the work included attending conferences with attorneys who represent the applicants and handling correspondence involving these problems.

43. Use of Records of Foreign Funds Control: Members of the staff have worked on the formulation of a policy regarding the use in litigation of records of this Department. A special circular letter regarding the handling of such records was prepared for Federal Reserve Banks. Messrs. Reeves and Wolf worked on this matter.

44. Investigations: Reports of certain individuals, particularly those of Kenji Iki were examined with a view to prosecution for violation of the freezing control and reporting requirements. Messrs. Reeves and Hannett did this work.

Members of the staff have also been analyzing and evaluating investigation reports of alleged violations of the President's Proclamation of July 17, 1941 and Executive Order No. 8389, as amended. These reports are of investigations conducted by Treasury agencies in this country and by State Department Missions in the other American Republics. These reports have produced evidence

of shipments made to Proclaimed List nationals who should have known that they were shipping goods to consignees who were either on the Proclaimed List or acting as cloaks for Proclaimed List nationals. Such cases are actively being considered. Many of the reports have indicated that further investigations are necessary. In view of the inadequacy of some of the reports, this office has under consideration issuing more detailed instructions to field investigators. Messrs. Fisher and Mann handled this matter.

45. The Proclaimed List: During the month of February a member of this office attended the meetings of the Proclaimed List Nominating Committee. On February 7, 1942, Revision I of The Proclaimed List of Certain Blocked Nationals was published. This Revision makes available in one pamphlet all the names appearing on the Proclaimed List as of that date. It is contemplated that such revisions will be published periodically as a convenience to the public using the Proclaimed List.

On February 28, 1942, Supplement No. 1 to Revision I of February 7, 1942, was issued. This Supplement contains

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additions and deletions of firms in the European neutrals and Turkey, as well as in Latin America. Mr. Frampton worked on this.

One of the important deletions appearing in this Supplement is Banco Aleman Antioqueno in Colombia. That bank is said to be the most important bank in Colombia. The bank has been reorganized, the stock of Proclaimed List nationals and of Germans residing in Axis occupied or controlled countries is being held in trust by a government bank in Colombia, undesirable personnel is being eliminated, the name is being changed, and assurances have been given concerning the deletion of the bank. The Colombian Government has been extremely cooperative in working out a plan for the deletion of the Banco Aleman Antioqueno. Such deletion is the biggest development concerning the Proclaimed List thus far in Colombia.

46. Application of Proclaimed List to Certain Blocked Nationals: During the month of February a representative of this office worked with representatives of the State Department in preparing instructions to the American Diplomatic and Consular Officers in Latin America on The

Proclaimed List of Certain Blocked Nationals. Such instructions have been cleared and are now being mimeographed by the State Department for distribution. Such instructions will supersede the instructions of September 20, 1941, as amended by the circular telegram of December 13, 1941. Messrs. DuBois and Mann handled this matter.

The above-mentioned circular instructions of September 20, 1941, did not concern the application of the Proclaimed List to insurance transactions. However, on January 17, 1942, a circular instruction on the application of The Proclaimed List of Certain Blocked Nationals to insurance transactions was prepared by the State and Treasury Departments and distributed to the Diplomatic and Consular Offices in the American Republics. Such instruction was merely a preliminary instruction and dealt primarily with direct insurance by American concerns of Proclaimed List nationals and their property. Such instruction envisages that additional steps will be taken. Accordingly, during the month of February a questionnaire was sent to the American Diplomatic and Consular Officers in Latin America requesting information on certain insurance transactions and dealing largely with the question of

reinsurance and plans of local governmental reinsurance in operation in the Latin American Republics. Members of this office worked on the preparation of such questionnaires. Messrs. DuBois, Kehl and Mann worked on these matters.

47. Peruvian Freezing Control: Representatives of the Peruvian Government attending the recent Rio conference drafted a memorandum of six pages containing numerous inquiries concerning freezing control. Messrs. DuBois and Mann, of this office, prepared an eight-page memorandum in response to the questions raised. Such memorandum sets out the policies which this Government is presently pursuing in freezing control. Inasmuch as the answers to the questions raised concern in a general way the many problems that are raised in connection with the freezing control, the memorandum reply is being mimeographed and distributed to the American Diplomatic and Consular Officers in Latin America for their information.

48. Miscellaneous Problems: Members of this office have spent considerable time answering correspondence which raises miscellaneous questions on the Proclaimed List, the

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President's Proclamation of July 17, 1941, and various freezing control problems in connection with Latin American trade. This office has also worked with the State Department in advising its Missions on problems concerning freezing control and previously issued circular instructions. Messrs. DuBois, Mann, Frampton, and Fisher handled these matters.

49. Transfer of Assets of Netherlands East Indies Banks and Corporations: Working with representatives of the Dutch, arrangements were made (which included the issuance of appropriate licenses) some time prior to the invasion of Java, which enabled the assets in this country of certain Netherlands East Indies banks and companies to be transferred to the Netherlands Purchasing Commission as soon as the Dutch Minister gave the word. Mr. DuBois handled this.

50. Transfer of Assets of Singapore Banks: Less than two days before the actual fall of Singapore, the British advised us that arrangements had not been completed by them for the transfer of the assets of the offices of the British banks in Singapore to the London offices. Working with the State Department, we assisted the British in completing these

arrangements (which included the issuance of licenses to banks throughout the country), enabling the transfers to be made in due time. Mr. DuBois handled this matter.

51. Certification Under Section 25(b) of the Federal Reserve Act (for description see January, 1942 report, Item 47). Appropriate licenses, notifications, etc., were issued in connection with the certification by the State Department of the Thai Minister's authority to draw on certain accounts of the Thai Commercial Bank, Ltd.; and in connection with the certification of the authority of the Governor of the Bank of Greece to draw on the account of the Bank of Greece. Mr. DuBois handled this.

52. Brazilian Freezing Control: At the request of the Brazilian Government, we made certain comments and suggestions concerning the Brazilian local freezing control decrees. Mr. DuBois handled this matter.

53. Ecuadoran Stabilization Agreement: Working with Monetary Research, we drew up the stabilization agreement between the Government of Ecuador and the Secretary of the Treasury, providing for the purchase of sucres up to the amount of 5 million dollars. Mr. DuBois worked on this project.

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54. Netherlands Decree: We studied and commented on a letter of the Secretary of State, to be presented to the Court of Appeals of New York in connection with the Transandine Case. Messrs. Friedman and DuBois handled this matter.
55. Latin American Program (for description see January, 1942 report, Item 37): We worked on and submitted to State and B.E.W. a proposed program for assisting the Latin American countries in carrying out a real program of economic warfare. Messrs. DuBois and Mann worked on this program.
56. President's Memorandum Delegating Authority to Secretary of Treasury: The President signed the memorandum delegating all authority to the Secretary of the Treasury under sections 3(a) and 5(b) of the Trading with the Enemy Act.
57. Silver Legislation (for description see January, 1942 report, Item 49): This office cooperated with the Legislative Section and Dr. White's office in the preparation of drafts of bills which would provide for the sale of silver

in the monetary stocks of the United States for industrial purposes as well as the repeal of the whole silver purchase program. Miss Hodel and Mr. Brenner worked on this matter.

58. Mexican Claims: This office cooperated with the Bureau of Accounts and the Department of State in the preparation of legislation concerning the payment of certain claims of American citizens against the Government of Mexico. Miss Hodel and Mr. Brenner worked on this matter.

59. Financial Aid to China (for description see January, 1942 report, Item 51): This office cooperated with others in the Treasury and the State Department in the drafting of the agreement for \$500 million financial aid to China and participated in all the discussions respecting the arrangement. Mr. Bernstein handled this matter.

MR. GRAVES' OFFICE TO

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April 16

W. MC HUGH:

For your records: On April 5, the Post Office Department wrote the Postmaster at Los Angeles to have the complaint re. the lack of stamps at the West Los Angeles post office investigated.

Mr. Mahan has had no report from the Post Office Department.

MFH

124- Report submitted.

4/9/42-

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Followed up with Graves

4/9/42 - Mahan is writing
to W. Los Angeles P. O.

4/14/42 - Followed up with Graves
again - Haven't heard -

MEMORANDUM FOR THE SECRETARY.

April 3, 1942.

Since the last abstract was sent down Monday, and included some letters received that day, this one, prepared early Friday morning, does not represent a full week's mail return and therefore is smaller than the usual weekly report.

Taxation still leads as the subject most under discussion. There has been quite a little favorable comment upon the proposals to exempt money spent for educational purposes and for hospital and medical expenses. Needless to say, all comments on this are decidedly favorable. Letters opposing joint returns still outnumber those approving them in the ratio of 6 to 1. There were two letters opposing a withholding tax, and one approving it. There were only five letters approving the sales tax, and a great many communications protesting it.

General protests have decidedly fallen off. There are the usual kicks about non-essential Government spending, but the volume is less and the letters are not so violent.

Two new subjects appeared in these protest letters - payments to Japanese aliens interned and put to work, and high salaries in factories doing defense work, particularly the Jack & Heintz Company of Cleveland.

The White House is sending us quantities of letters from individuals and organizations in regard to drunkenness among soldiers in various towns and communities, sale of liquor around camps, etc. There is nothing we can do with these except to acknowledge them. However, they are increasing steadily in number, and calling more and more definitely for restrictions in the sale of liquor to men in camps, etc.

E. G. Forbush

General Comments on the Present Emergency

Charles Hayden Gunter, "Calamine" Power and Smelting Corp., Smithville, Ark. The enclosed "Clippings" may prove of interest in connection with my incessant endeavors to interest different governmental departments in the remarkable "Zinc & Lead" deposits of "Sharp and Lawrence" counties, despite the damaging "Bulletin 353" issued some years ago by U. S. Geological Survey - since emphatically contradicted by far more authoritative reports, charts, and drill records discovered from old files. * * * After recent exhaustive survey by engineers for "American Zinc Lead & Smelting Company", the field was unquestionably confirmed by the conditional desire of the company named to start immediate work, conditioned upon their securing 10,000 acres (virtually 16 square miles) on a basis of 5% royalty. * * * Their officiousness was little short of shocking, but refusal to do their bidding has resulted in failure to interest others financially, and to operate. * * * Years ago your Father got me out of jail in Istanbul, after a boyish carousal, and the giving to a Turk a dead chicken! After diligent and efficient endeavor, it seems that I am unjustly doomed to failure for even the "Reserves Metals Corporation" is not courteous enough to acknowledge an inquiry pertaining to financing. * * * I ask your kind indulgence in an interest by referring me to someone who will help to lead us out of the wilderness to a means of developing the remarkable sources. * * *

Ebben Schramm, Counsellor at Law, N.Y.C. Flying Officer Douglas Van Buskirk of Bronxville, N.Y., one of the first U. S. airmen to enlist in the Royal Canadian Air Force, died at the controls of his Stirling Bomber when he was shot down over Germany on November 7, 1941. In appreciation of his valor, the six employees of my office desired to make a contribution to a fund to buy an American Bomber and the money collected among them was forwarded by me to the New York Post, asking if they would consider a drive to buy a bomber in honor of Officer Van Buskirk. After considering the matter, and discussing it with the War Dept., they concluded that the purchase of Defense Bonds would make the money available for the Army or Navy faster than any other at the present time. * * * (Encloses check for \$30.)

Favorable Comments on Taxation

S. F. Darling, President, Appleton Cooperative Assn., Appleton, Wisconsin. I have studied your proposed tax program to raise the twenty billion dollars necessary to prosecute the war to victory. I believe it is a fair and equitable tax program and should be passed by Congress. As a representative of an organization of twelve hundred consumers in this community, I am writing our Representatives in Congress, urging them to take positive action on this Bill proposed by you. I am sure the majority of consumers and other small income taxpayers are willing to pay their just share of the war bill, and believe the tax program proposed by you is fair and should be passed. You have our support, and I only hope the voice of the average consumer will be heard at the hearings now going on, as well as those of the manufacturing interests.

A postal card campaign opposing the levying of a sales tax brought in 358 cards signed by different persons and carrying the following wording: "I want you to know that you have my full support, as well as that of my neighbors, for the general purposes of your taxation program based on the democratic principle of 'ability to pay'. I congratulate you particularly on your opposition to the general sales tax which could only serve to place the financial burden of this war on the lowest income group."

Unfavorable Comments on Taxation

Henry B. Lane, Belvedere, Calif. Several weeks ago I saw a Donald Duck movie short on the simplified method of income tax filing. It was clever and timely, but inaccurate in one important detail. As portrayed in this short, the taxpayer could prepare his return, write a check, place them both in an addressed, stamped envelope and mail the letter, thus completing his return. This overlooks the requirement that the jurat on the form must be executed before a Treasury official or a Notary Public. In movies this may be done by correspondence, but in actual practice it requires a special visit by the taxpayer. In my personal experience, this is the greatest difficulty in the mechanics of preparing and filing my return. Our next door neighbor, ill with a contagious disease, was unable to file a complete return on time because of the jurat requirement. * * * For those in isolated areas or working odd hours, the execution of the jurat is a great inconvenience. I believe the well publicized efficiency of Treasury men, and the natural awe of the Government held by small taxpayers make it unnecessary for the protection of revenue to have a jurat on the small taxpayers' form. * * *

John J. Wilson, Jr., Washington, D. C. I am one of the several million who had to file returns this year, and if the average taxpayer spent the same time I did in locating a Notary Public, then a great many million hours were wasted. Though living in Washington, I work in Bethesda, Md. I took time off to have my return notarized and spent about two hours looking for the notary. I found five signs saying "Notary Public", but in every instance the person in question was out or otherwise not available. That afternoon I spent two and a half hours looking for a Notary before finally finding one in. * * * The State of Maryland collects income taxes, but does not require the return to be notarized - they are merely signed by the taxpayer as being true returns. I believe it would be a great service to the majority of American taxpayers if the requirement that income tax returns be notarized would be waived in the future. The law can just as easily provide the same penalty for a false return whether notarized or not, and the Govt. would not stand to lose a cent.

General Comments on Bonds

John W. Affolter, Louisville, Colo. I am a merchant in a small town. We take in quite a few food stamps, which are backed by the U. S. Government. Why the hell don't you fix things so that we can trade these two-bit stamps into Defense Stamps? I'll bet there are thousands of merchants would like to do that instead of going through all the trouble of pasting them on cards and handing them over to some wholesaler. From my own experience I wait until I get thirty or forty dollars worth of these Stamps and then paste them on cards. I'd a lot rather go to the Post Office and trade them in on Defense Stamps, because, for one reason, I wouldn't miss the money if done in that manner. This idea would probably bring in many more millions of dollars for the making of guns and stuff to give those yellow-bellied-Jap suns-of the rising sun that will soon sink in oblivion.

Julia L. Mitchell, Central Commercial & Technical High School, Newark, New Jersey. Our school has organized for the sale of Defense Bonds. * * * Our students, who are not even well-to-do, must bank \$18.80 in order to procure a Bond. Five-cents of this sum must remain on deposit to keep their account open. This is the bank requirement for a Bond. To obtain such a large amount at the rate of five or ten-cents a week, which is all the majority can afford, will take years of saving, and by that time the war may be over. It is our belief that our country needs our money now, therefore we are encouraging the sale of these Bonds. * * * We believe there would be a large sale of \$1 or \$5 Bonds since the children would be enabled to reach their ultimate goal much sooner, and the amount saved would not appear staggering. * * * The Howard Savings Bank of Newark, N.J., and other Newark banks, seem reluctant and, we may say adverse, to furnish Stamps to schools. They want deposits. * * * The banks imply and suggest to the children that it is safer to save in a bank than it is to stick Stamps in a book, since the book may be lost. * * * We contend that in a school as large as ours, we could raise more money for defense through the sale of Stamps plus the sale of Bonds. * * * We have a registration

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of over 2,200. If only one-half of this group bought one 10¢ Stamp per person each week for the duration, we feel it would be very worth while for defense. Does the Treasury prefer, according to the bank, that the children invest their money in banks for an indefinite period without ever cashing in for a Bond, or, does the Treasury prefer the money for defense now? * * * The banks are loath to give us the Stamps. May we have your opinion on this so that we may carry back the answer to them? * * *

Frank Siegel, Red Level, Ala. I have a little money saved up to buy a few acres of land with, whenever I have enough to buy at least ten acres or so. I would like to put it into Defense Bonds, but what would happen if inflation would come? If I had my money in Defense Bonds, would it still be good in case inflation came? I want to put my money where it will be safe for its taken me over a year to save up \$130 towards some land.

Favorable Comments on Bonds

James Payne, Fort Wayne, Ind. Today I received by payroll deduction, my 5th Defense Bond. (\$25.) I am married and have two small children and earn \$170 each month. Until five months ago, I put \$10 a month in the bank. Then I took a fling and had my employer take a Bond each month out of my earnings, and the results are that I really do not miss the difference. I feel that I have done a little to help arm our country, and I am sure that if you could get each person to take a chance and buy a Bond each month, they would learn how easy it is to make this sacrifice, if you can call it a sacrifice to save your country and your money too.

Unfavorable Comments on Bonds

Z. Chafes, Providence, R.I. I am in receipt of your communication without date, requesting me to encourage the enthusiastic participation of employees in a payroll allotment plan for the purchase of Defense Bonds. My reaction is that I shall be happy to participate in such a plan if I can be assured that the money so provided will be used in an effective way "to march against a common enemy". Recent disclosures in the papers, however, give me pause, for I see that public money, including presumably that from the sale of so-called Defense Stamps and Bonds, is being used for purposes which to many minds are non-essential for the conduct of the war, and which are not referred to in your circular, and this to an aggregate of about two billion dollars per annum. * * * With the money being diverted as at present, isn't the title Defense Bonds a bit of a misnomer in your circular, and the tenor of your circular itself a bit misleading? If your circular is to stand, and the money is to be used as stated for militant purposes, should there not be some official allocation by which the money received from the sale of Bonds and Stamps can be used only for the purposes specified? * * *

Elizabeth Hill, Los Angeles, Calif. Can you tell us why no bank or Post Office in West Los Angeles has had Defense Stamps of the 10¢ or 25¢ denominations for the past month? This is not of importance to me personally, as I buy a Defense Bond each month, but I do not see any value of issuing Stamps in the 10-25¢ denominations so that children and people with small incomes can contribute financially to national defense, unless it is made possible for these people to buy the Stamps. The Postmaster and banker advise us they cannot get them. What will be done about this immediately?

For Your Information

April 3, 1942.

To: Archibald MacLeish
From: Alan Barth

EDITORIAL OPINION
ON THE WAR:
TWILIGHT OF IMPERIALISM

Attack

Editorial delight over the British raid on St. Nazaire affords one more indication of the eagerness with which the American press awaits offensive action against the enemy. The prevailing feeling is that this attack, if not wholly successful, served at least to give the Nazis cause for serious worry. But the elation in most comments appears to spring from a hope that this was but the forerunner of raids to come -- perhaps even of a full-dress invasion later in the Spring.

The Christian Science Monitor, for example, finds "some reason for believing that United Nations strategy now looks on the British Isles as an offensive base. For two years the British have had to wonder where Hitler might strike. Now they can cause Hitler to do some wondering. Should they increase these raids and combine them with the bombing of

Nazi communications, something like a western front will appear. Axis forces will have to be called back or withheld from the drive on Russia. From that standpoint every offensive move, even though costly, even should its objectives not be completely attained, is a success."

But The Lynchburg News, ordinarily more bellicose than The Monitor, warns that "A reckless offense may be worse than a feeble defense. A position lost may be regained; an army lost is something else." A good many commentators, indeed, have added a note of caution on this score to their recently vociferous demands for a seizure of the initiative. They seem slightly worried lest their earlier counsel be heeded prematurely. No lessening of the ardor for attack need be inferred from this, however; all that is demanded is adequate preparation.

Columnist Samuel Grafton inveighs against even this degree of caution. The theory that the offensive must wait until sufficient equipment has been accumulated, he contends, is actually an isolationist theory. "A policy of taking the offensive in 1943," says Grafton, "is a policy of taking the defensive in 1942. Let us call things what they are.

A promise to act next year is, equally, a promise not to act this year."

In the midst of this etymological debate over whether the war should be fought offensively or defensively, most of the press is waiting tensely for the Axis to make its next move. The past week has been one of relative quiescence on the actual fighting fronts, as far as the editorial pages were concerned. The commentators have their eyes fastened apprehensively on future theaters of the war.

Empire

The prime focus of interest during the past week has been India. The press sees the great sub-continent as Japan's next objective and a possible meeting ground for the German and Japanese ends of the Axis. And it is gravely fearful that the Indians, when the test comes, may not range themselves with the United Nations.

For the most part, American editorial opinion has been warmly sympathetic to the Indian demand for independence. But as they studied the problem, commentators became more aware of its complexity, more tolerant of the British attitude that India is not yet wholly ready for self-government.

They examined the conflicting demands of India's religious groups and discovered that these could not be met satisfactorily by a simple declaration of independence.

Accordingly, the proposals presented by Sir Stafford Cripps went beyond the expectation of most editorial writers here and were considered, on the whole, extremely generous. And there is now a feeling of real impatience with the Indian Congress leaders for their failure to accept them. The Atlanta Constitution says the proposals "go all the way If the Indian leaders do not accept the British offer it will be all the evidence needed that they have no desire to cooperate with the free nations of the world in the struggle for universal freedom, it will show they have already surrendered, in spirit, to the machinations of the Axis Fifth Columnists among them."

This impatience stems, of course, largely from a recognition that time is of the essence in solving the Indian problem. As a Scripps-Howard editorial puts it: "The fact is that Britain and India must 'hang together or hang separately' at the hands of Axis invaders ... If this unity formula fails, another will have to be

worked out Thus the probability is not that talk will stop. Rather, the danger is that the talk will go on and on until the Japs arrive -- when tongues will be hanging out in a different way."

Editorial feeling about India is tied in with general satisfaction over the creation of a Pacific War Council. American commentators are not without a certain pride in the fact that Washington has become the planning center for United Nations strategy, at least in the Far East. But they feel also that the equal representation given to Australia, China and India is a significant factor in determining the character of the war to be waged: it completes the transfer from a defense of imperialism to a peoples' struggle. There is beginning to seep through the press currently a belief that western exploitation of the Orient cannot be restored; that the British can never regain their control over Burma, Malaya, Hong Kong and India; that the United Nations can fight only for the genuine liberation of peoples everywhere.

The Pacific War Council is applauded, too, as an instrumentality for conducting the war more effectively. About the only criticism leveled against it is that it fails

to go far enough. The suggestion is now being advanced that a Supreme War Council be established to plan the global strategy of the whole United Nations war effort.

For your information.

April 3, 1942.

To Ferdinand Kuhn, Jr.

From Herbert Merillat

EDITORIAL COMMENT ON TAXES:
OVERTIME AND EXCESS PROFITS

On the home front editorial attention is still concentrated on abolition of the forty-hour week. The press campaign for a general sales tax appears to be in abeyance -- temporarily, it must be supposed in view of the determined and concerted drive for such a tax in recent weeks. The exposure of excessive profits made by Jack and Heintz Inc., provoked a demand for effective limitation of war profits, but few papers regard as practicable or reasonable the proposal to limit profits on war contracts to 6 percent of the cost of performance. Implicit in the various demands of the conservative press is the idea that labor and the Government are guilty of "business as usual." Overtime pay must be reduced, strikes must be banned, non-defense spending must be sharply cut, heavy taxes must be imposed on everyone, including the lowest income-earners, before the press will be satisfied that the country's war effort is all-out.

Forty-Hour Week

The vast majority of the press continues to clamor for abolition of the basic forty-hour work week. David Lawrence and Mark Sullivan have added the contention that overtime is paid by the taxpayers and that the taxpaying public should rise up to end this iniquity. There are significant rifts in the front, however, and some of the most powerful voices in the conservative press have advised against tampering with the forty-hour week at this time. The Wall Street Journal, Barron's Financial Weekly, even the Chicago Tribune, think extension of the work week would cause more dislocations than it would be worth. Even the grass roots do not present the unified front which the Gaylord papers in Oklahoma have tried to develop. A country editor, in the Parkersburg, Iowa, Eclipse, has this to say: "We get a big chuckle out of people arguing against a forty-hour week that don't know anything about organized labor. The forty-hour week to a union man is a symbol and as a symbol it means more than just a space of time and should be left alone.... The Eclipse sincerely believes that certain interests are trying to use the war as a means of eliminating the forty-hour week gain made by organized labor, and we for one hope they fail."

Excessive Profits

The Jack and Heintz case served to point up the fact that at least some war contractors are making excessive profits which the present excess profits tax does not recoup for the Government. It has aroused an editorial demand for an effective limitation of profits and editorial criticism of a Federal procurement policy which will permit such profits to be made.

The leading metropolitan papers, however, do not think the limit of 6 percent on cost of performance is the proper way to attack the excess profits problem. They endorse Mr. Paul's criticisms of the 6 percent limit and urge Congress not to enact that hastily devised measure.

The Spokane Spokesman-Review, campaigning like the Gaylord papers for an end of the forty-hour week, urges its readers to support the profit limit as well. In such campaigns the New Republic sees a scheme to obtain restrictions on labor by tying them in with high-sounding but impracticable and ineffective profit limit proposals.

Government Economy

Several papers, not usually warm in praise of Secretary Ickes, have given him a pat on the back for voluntarily recommending a cut of \$10,000,000 in the Interior Department appropriation bill. The total cut of 30 percent in the new appropriation

over the current year's appropriation is hailed as evidence that substantial cuts in non-defense government spending can be made if there is a will to do it. Here, says the press, is a clear indication that the \$2 billion cut recommended by the Brookings Institution and the National Economy League can really be effected.

The CCC and NYA are the current targets of an economy-minded press. The Washington Post speaks for most of the press when it complains of the "tenacity with which the Administration clings to emergency organizations after they have served their original purpose." If NYA and CCC do in fact perform work useful to the war effort, these critics say, they should be merged with the appropriate agencies after the useless functions and administrative staffs have been amputated.

Wives, Invalids, and Collegians

The press has warmly received the Treasury's proposals to allow deduction of medical expenses, a credit for dependent children in school, and a credit for the earned income of wives. The proposal to allow deduction of medical expenses especially has been applauded. Hugh Johnson says: "It is an intelligent noble change that the Treasury Department is considering. It should go through without obstruction." The Scripps-Howard chain: "The Treasury is on a humane and timely track."

The credit for working wives has received less attention but has been approved by those papers which have noted it. The New York Herald Tribune, however, smells a rat. The proposed allowance, it suspects, is "an attempt to make more politically palatable the Treasury's proposal for mandatory joint income-tax returns by husband and wife." The Chicago Daily News favors the credit, but not "as a means of greasing the ways upon which to launch mandatory joint returns for husband and wife."

The mandatory joint return proposal continues to be the target of much editorial abuse. The St. Louis Post-Dispatch emerges as the most ardent champion of the joint return. "Few public issues," it says, "have been so beclouded with flimflam.... The sanctity-of-marriage argument is so much hokum and hot air. So is the argument that the joint return would deprive women of their rights.... The joint return simply prevents her husband from using her name as a cyclone-cellar for an over-stuffed income."

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE 4/3/42

TO Secretary Morgenthau
FROM E. H. Foley, Jr.

I am attaching a copy of a memorandum which I sent to you on March 3, 1942, in which it was indicated that Foreign Funds Control is following the principle of permitting no remittances to persons in enemy and enemy-occupied areas except very limited amounts to American citizens through the State Department. You asked that we recanvass this position and give you a further report.

The Division of Monetary Research has reviewed this policy and Mr. White and Mr. E. M. Bernstein are in agreement with our policy to permit remittances only to American citizens. There is attached a copy of a memorandum from Mr. Bernstein to Mr. White which concludes that the prohibition against remittances to non-American citizens through private channels achieves two desirable results, (1) cutting off communication with our enemies and, (2) limiting the acquisition of free exchange by them. Such free exchange could be used by our enemies to further their war effort and to hamper ours.

This question was also raised at a meeting at the State Department in Dean Acheson's office on April 2, 1942. The group present included, among others, Dean Acheson, Breckinridge Long and

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Joseph Green of the State Department, Noel Hall and A. K. Helm of the British Ministry of Economic Warfare, and John Pehle and Bernard Bernstein of the Treasury. It was the view of all of those present that we should make no exceptions to our present policy.

8-1076.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 3, 1942.

TO Secretary Morgenthau
FROM Messrs. Foley and Pehle

You will recall that you received a cable from two refugee organizations in Shanghai, dated January 22, copy of which cable is attached. On January 29, we sent you a memorandum, copy of which is also attached, indicating that the matter had been discussed with the Red Cross, and that the Red Cross had suggested that possibly the JDC might remit through the State Department.

You were also advised that the JDC was attempting to make arrangements for a remittance of funds against the payment of \$90,000 to some one in this country who was holding in Shanghai the equivalent in local currency.

The JDC has now filed an application to pay \$90,000 to one Anatole Ponevejsky, New York, against the transfer of the equivalent in local currency to the JDC's committee in Shanghai.

We feel that this application must be denied in spite of the obvious desperate plight of the refugees in Shanghai and in spite of the fact that no free foreign exchange would become available through the transaction to the enemy.

There are, of course, thousands of people in the United States who desire to make remittances to enemy (and enemy-occupied) countries. These are people who have relatives and close friends in such areas dependent upon them for support. The only remittances to enemy territories presently being allowed are remittances of from \$60 to \$80 per month to American citizens only, which remittances may be effected only through the State Department and the Swiss Government, which represents our interests in

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such areas. The ordinary American citizen who wishes to remit to non-American citizens in enemy-occupied territory cannot make arrangements so as to effect remittances against blocked dollars, and the principle which we are following in regulating remittances is that no remittances should be permitted to such areas except to American citizens through the State Department.

The effective control of transactions with the enemy requires that private communications with enemy territory be prohibited entirely. If we allow the JDC to communicate with enemy territory and work out special arrangements for transmitting funds to such areas we cannot readily deny similar privileges to other private persons.

The plight of large numbers of people in such areas as Shanghai, Poland and Greece cannot, of course, be dealt with through the remittance of funds, but must be dealt with, if at all, by actual importation of food. In certain cases food has been allowed to be sent into Greece to relieve conditions there.

(Signed) J. W. Pehle

(Initialed) E. H. F., Jr.

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SHANGHAI 242 PM JAN 22 1942

DLT Morgenthau

Treasury Dept Washington

Twenty thousand Jewish refugees from Central Eastern Europe facing hunger death already no funds for bread local Jewish communities now penniless implore grant Joint Relief Association permission remit funds via Switzerland other neutral countries prohibition remittances will be inhuman similar sentencing death children women escaped from Europe.

Topas Chairman Shanghai Jewish Askenazi Communi
Assn Communal

Assn of Jewish Refugees Sephardin Comunal Assn.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE Jan. 29, 1942.

Y
TO Secretary Morgenthau
FROM Messrs. Foley and Pehle

This is a report on the cable you have received from the refugee organizations in Shanghai, a copy of which is attached.

Mr. Bell called Norman Davis of the Red Cross who said that when war broke out with Japan the Red Cross had approximately 1,000 tons of wheat at Shanghai which it was distributing to 3500 Americans and 20,000 refugees. Another ship was on the water when the war began but has not been heard from since. The Red Cross suggested that possibly the JDC might remit through the State Department.

Pehle discussed this matter with M. A. Leavitt of the JDC, which before the outbreak of war remitted approximately \$30,000 a month to Shanghai for the support of 20,000 refugees. The JDC has heard that there is a possibility that it can obtain local currency in Shanghai against the payment of \$90,000 to an as yet unnamed American in this country. The JDC secured the permission of Navy Censorship to cable Shanghai via South America to ascertain the name and address of this American. Mr. Leavitt has indicated that when they receive a reply from Shanghai he will communicate with us further.

It is our recommendation that no reply be made at this time to the cable from Shanghai.

(signed) J. W. Pehle
(Initialed) E. H. F. Jr.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE April 2, 1942

TO Mr. White

FROM E. M. Bernstein

Subject: Remittances to Enemy and Enemy-Occupied Territories

1. The Department of State has completed arrangements for financial assistance to American nationals in territories where the interests of the United States are represented by Switzerland. Those able to qualify for such assistance will be entitled to receive from the Swiss representatives monthly payments determined by their established needs and the prevailing cost of living in the country concerned. All recipients will be limited to the monthly payments established for their place of residence, regardless of their ability or the ability of others interested in their welfare to repay greater amounts than the sums advanced.

According to State Department estimates, the maximum monthly payment for the head of a household will range from \$60 to \$80, with smaller allowances for additional members of the household. The monthly payments are subject to revision from time to time, to meet changing living costs. In addition, the Swiss representatives are authorized to make special advances for such extraordinary expenses as medical care, legal defense, burial charges, etc. Both the monthly payments and the special advances are to be regarded as loans, rather than as subsidies. It is expected that all sums advanced will be repaid by the recipients or by relatives, friends, business associates, etc.

These arrangements for payments apply only to American nationals who are not prisoners of war or interned civilians supported by an enemy government. For such imprisoned and interned Americans, only small sums (pocket money) are available. Aliens (including alien spouses and alien children of American nationals) are ineligible for any payment whatsoever through the government.

The method of payment is for the United States to purchase Swiss francs and for Switzerland to pay the enemy countries in such manner as may be agreed upon by Switzerland and the enemy. Switzerland represents the interests of the United States in Germany, Italy, Japan, Bulgaria, Hungary, Rumania, and occupied territories (excluding the Philippine Islands and other areas in which Japan does not allow diplomatic representation).

2. The established policy toward enemy countries is to cut off all communication and trade with these countries which may in any way directly or indirectly contribute to their war effort. The acquisition of free exchange, whether free dollars, Swiss francs, or other neutral currencies, contributes to the war effort of the enemy by facilitating the acquisition of materials and by providing funds for subversive activity. The ideal policy would be to prevent any transactions that result in supplying the enemy with free foreign exchange.

It would have been most favorable to the maintenance of a policy of denying the enemy free exchange if Americans were not present in enemy and occupied territory. Unfortunately, some 36,000 American citizens are now in enemy and occupied territory. It would appear to be impossible to deny American citizens in enemy and occupied territory the protection of this Government in providing them with a minimum of subsistence, but remittances for this purpose should be restricted to a bare minimum and transferred exclusively through Government channels. Even with the restricted remittances now contemplated for American citizens in enemy and occupied territory, the enemy may acquire free exchange from such payments to the extent of \$20 million or more annually.

Any broadening of the categories eligible for relief from this country would add substantially to the volume of free exchange accruing to the enemy. If we permit relief agencies to remit funds for refugees, we shall be faced with the equally reasonable request to permit relief remittances by private persons to needy friends and relatives in enemy and occupied territory. And we shall be compelled again to face the problem of providing general relief for all the people in occupied territory. Such a program of relief which might develop if we permit a broadening of the categories eligible for relief would provide the enemy with scores of millions of dollars annually in free exchange that could be used to further their war effort and to hamper ours. In fact, if we show any disposition to relax our present rigid restrictions, we encourage the enemy to shift to us the burden of maintaining the population of occupied territory.

3. Present regulations regarding remittances exclude all such remittances to enemy and occupied territory except those on behalf of the United States Government. This restriction has the two-fold effect of cutting off communication with the enemy and limiting the acquisition of free exchange by the enemy. On the whole, the public has shown no disposition to question the necessity of these regulations.

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Division of Monetary
Research

The Joint Distribution Committee has filed two applications for licenses to acquire local currency in Shanghai for relief work. The first of these applications, to purchase \$90,000, has already been denied. A second application, involving the purchase of \$50,000, is now pending.

The manner of remittance contemplated by the Joint Distribution Committee would probably not result in free exchange for the enemy. However, it would necessitate a departure from the present regulations permitting remittances to enemy and occupied territory exclusively for the benefit of American citizens and exclusively through Government channels. To grant this application for a license would invite similar requests from equally worthy relief agencies who do not have the means of acquiring local currency in the manner open to the Joint Distribution Committee. In order to maintain a firm and consistent attitude of impartiality in refusing to license any non-governmental remittances to enemy and occupied territory, this application should be denied.

Statement of Mr. Edward H. Foley, Jr.,
General Counsel of the Treasury Department,
before the Senate Special Committee to
investigate the national defense program

April 3, 1942.

During the hearings currently taking place before your Committee relating to the Standard Oil Company and its relationship to the I. G. Farben Dye Trust, mention has been made of a proposed sale by the Standard Oil Company of its Hungarian oil producing properties to I. G. Farben for \$24 million.

Mr. Farish, the President of the Standard Oil Company, stated on March 31, 1942 that the Standard Oil Company lost the sale and the Government of the United States lost \$24 million in gold.

The Acting Chairman of the Committee, Senator Mead, stated: "In view of the fact, Mr. Farish, that you take issue with the Treasury Department and contend that they made an unwise decision, the Committee will ask them for their side of the controversy."

The Treasury Department appreciates this opportunity to present its view of this situation. The facts with respect to the proposed transaction are as follows:

In July, 1941, the Standard Oil Company filed an application with the Treasury Department, for a license, under the freezing control order, to sell its Hungarian subsidiary to I. G. Farben. The application stated that the consideration for the sale was the payment by I. G. Farben to Standard Oil of:

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- (1) \$5,500,000 in Swedish, Swiss and Latin American currencies,
- (2) \$13,500,000 in gold to be delivered in Lisbon, Portugal. This gold was later to be brought to the United States and sold to the Treasury.
- (3) A promissory note of the I. G. Farben for \$5 million to be paid three months after the end of the war. This note was secured by the American assets of I. G. Farben which were already blocked and under this Government's control.

The Interdepartmental Committee on Foreign Funds Control, which consisted of the Assistant Secretary of State, Dean G. Acheson, Assistant Attorney General Francis M. Shea, and the General Counsel of the Treasury, Edward H. Foley, Jr., carefully studied this application and consulted with their respective departments. The three departments agreed that in view of all the facts and circumstances, the approval of the application would not be in accordance with the policy of this Government in administering the freezing control order. The application was accordingly denied.

Upon inquiring if the Foreign Funds Control Committee would deny such application even though the total purchase price of \$24 million was paid in gold at Lisbon,

the Standard Oil Company was advised that such an application would also be denied.

An approval of this transaction would have permitted the Standard Oil Company to have been preferred by Germany over other American owners of capital investments in Germany and the occupied countries. The proposed transaction may have been even more generous than a mere preference. Mr. Farish in his testimony indicated that "the \$24 million represented a good bit more than the cost of the properties" to the Standard Oil Company and that the Standard Oil Company was "getting something for nothing."

Germany wanted to purchase the Standard Oil properties in Hungary as a part of its program to acquire through so-called "legal" methods complete economic domination and control over Europe. For this Government to have approved the proposed sale of Standard's Hungarian oil properties to Germany would not merely have facilitated Germany's program of economic domination of Europe but would have been tantamount to an approval of Germany's economic new order in Europe.

It is a fundamental policy of our freezing control program to prevent Germany from acquiring the assets of overrun countries or from being able to make use of any such assets that it may have looted. To have permitted Germany to use \$24 million of looted gold or other

foreign exchange assets to pay for the oil property in Hungary would have been a direct contradiction of the purpose of our freezing control. It would have exposed us to the charge of being willing to accept the spoils of looting to help preferred American companies.

Mr. Farish admitted in his testimony that his company had no way of knowing where and from whom Germany acquired the gold that was being offered in payment.

This country had much more to gain, in terms of retaining the confidence and good will of overrun European peoples and subjugated Governments, by maintaining the high moral principle of preventing Germany from acquiring or making use of looted assets than this country lost in not permitting the Standard Oil Company to sell its Hungarian properties for funds looted by Germany.

An approval of the transaction which contemplated shipment of gold from Lisbon to the United States would have involved us in a breach of the British blockade of Europe which was being maintained to weaken Germany's economic and military position.

The application of the Standard Oil Company to sell its European properties was comparable to a number of other applications to sell American-owned properties in Europe, which applications were denied by Foreign Funds Control in accordance with the policy of the Interdepartmental Committee.

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A comprehensive statement of the Governmental policy with respect to the various applications for the sale of American-owned property in Germany and Italy and countries occupied by them was prepared by the Interdepartmental Committee on Foreign Funds Control in September, 1941. A copy of this memorandum was furnished to the Vice President as Chairman of the Economic Defense Board in September, 1941, in response to a request from him.

I desire to read to this Committee the memorandum of September 15, 1941.

STATEMENT OF POLICY
WITH RESPECT TO THE SALE OF AMERICAN-OWNED
PROPERTY IN GERMANY, ITALY, OR COUNTRIES
OCCUPIED BY THEM.

1. For the guidance of Foreign Funds Control, the State, Treasury and Justice Departments have approved the principle that American-owned property in Germany or German-controlled countries should not be sold for payment out of accounts blocked in the United States belonging to nationals of Germany or the occupied countries. This principle was adopted for several reasons.

It was felt that such sales would result in the disposal of blocked assets in favor of particular investors or creditors in the United States, who would thus enjoy a preferred status with respect to such blocked assets to the detriment of other claimants. The policy of first come, first served, with respect to the disposition of such assets, would not be desirable; but this is not a true first come, first served, situation. Due to its rigid control over the owners of the blocked assets the German Government would be effectively dictating which interests in the United States should be paid in full and which interests should receive partial payment, or no payment at all.

With respect to the use of blocked assets of occupied countries in these transactions, there is always the possibility of duress, with the result that the blocked assets which Foreign

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Funds Control seeks to protect would be used to facilitate German acquisition of ownership of European industries or properties under a cloak of legality. It was felt also that even in cases in which the initiative appeared to come from groups in occupied countries who were apparently acting in their own interests and free from duress, the proposed transactions might nevertheless be on behalf of German interests and inimical to the interests of the United States.

Usually the physical evidences of title are located in this country and the proposed transaction contemplates the removal of these physical evidences to some other country where they will no longer be readily amenable to our control.

2. When the parties interested in purchasing American holdings in Germany and the occupied countries became aware that Foreign Funds Control would not permit such purchases out of blocked accounts in the United States, they turned to the use of gold or other assets looted from occupied countries and held physically outside of the United States. Illustrative of this development was a proposal that German interests purchase American properties in Europe for gold which was to be delivered in Lisbon. It seemed clear that this proposal represented an attempt by the Germans to use assets for which, under existing conditions, they had little other use, to acquire "clean" title

- 8 -

to American-owned property in Germany and the occupied countries. This proposal also involved an attempt to obtain American support for a breach of the British blockade, through the transportation of the gold to this country. It would, moreover, have involved the purchase by the United States Government of gold the title to which was not "clean". Even though the gold offered in any particular transaction may have been acquired in normal commercial channels, it must always be borne in mind that transactions involving such gold are inextricably intertwined with transactions involving other assets acquired by conquest or duress.

3. More recently proposals to acquire American-owned properties in Germany or occupied countries have turned from the use of gold to the use of the currencies or foreign exchange of neutral countries, both European and South American. As in the case of gold, the Germans have been attempting to use looted assets which otherwise have little present value to them. The probable origin of these assets is indicated by the fact that it was in the late summer and early autumn of 1940 that the Germans suddenly initiated large-scale purchases of American holdings. In one instance American sellers of properties in Germany have indicated that their proposals were suggested to the Germans prior to the fall of France and were rejected by

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the Germans at that time--presumably because of the German shortage of foreign exchange--whereas the Germans on their own initiative recently reopened negotiations on this transaction.

4. Most recently--after it had been indicated that Foreign Funds Control would reject the use of blocked dollar assets, gold, or foreign exchange held openly in German names for the purchase of American-owned property in Germany and the occupied countries--the Germans have apparently begun to use as go-betweens the financial institutions of neutral countries, allegedly acting on their own behalf. In one transaction for which approval was recently denied, certain interests in a neutral country would have acquired majority ownership of important industrial properties in German-occupied territory. In spite of the fact, confirmed by the applicants themselves, that the German Government was in complete control of the properties, these interests were willing to make loans and purchase securities to an amount which seemed out of all proportion to past earnings and probable economic gains from mere ownership of the property in question. The suspicion was, therefore, deemed to be well founded that the interests which put forward the proposal, either on their own initiative or in collusion with German interests, contemplated the subsequent disposal of the assets to German interests. It was thought unwise that Foreign Funds Control should permit

actions through a neutral cloak which would not be permitted if they were undertaken openly on German account.

5. The same principles which apply to Germany and German-occupied countries should, of course, be applied to Italy and Italian-occupied countries. The application of these principles to other Axis countries will depend on the extent to which these countries follow the German and Italian models in economic affairs.

It is believed that the principles set forth in this memorandum represent a logical interpretation of the provisions of Executive Order No. 8389, as amended. Any other interpretation would result in a discrimination between American owners of assets under Axis control, the delegation to the Axis Governments of the power to make discriminatory concessions to favored American interests, and the use of American commercial channels in disposing of looted property.

September 15, 1941.

oOo



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

~~186~~
AM

April 8, 1942

MEMORANDUM TO THE SECRETARY:

In line with our program of consolidating purchases of agencies other than the Military Services and Maritime Commission, I issued an order effective March 9th requesting that all requisitions for lumber in excess of a car-load, likewise all requirements for electrical equipment or supplies in excess of \$500, or machinery of any character in excess of \$300 be routed through the Procurement Division for consolidated purchase by us. Studies are being made of other commodities to determine those which should be handled by us on a consolidated purchase basis.

Within about ten days we expect to install a new system of handling issues from our Warehouse to shorten the time of handling from an average of about three days to a twenty-four hour deadline.

Our Specifications Division is actively participating with the War Production Board in the revision of specifications to eliminate strategic and critical materials, and within the past few days a new specification was issued in collaboration with WPB to provide for less new rubber and more reclaimed rubber in tires, percentages varying according to the sizes and uses.

Next week the Public Building Administration expects to resume its move from this building, and we will then be in a position to complete our move into that space, as thus far only about 35,000 square feet have been made available.

The above is for your information.

Clarkton E. Mack
Clarkton E. Mack
Director of Procurement



WAR DEPARTMENT
WASHINGTON

April 3, 1942

Dear Henry:

I have at hand your letter of March 20 which brings up the question of diversions of equipment from various sources of financing for the use of the United States Army, or in certain cases for the use of the Russian Government. This question arose mainly through the action of the United States Army Air Corps during the period subsequent to December 7 in taking delivery from British financed contracts with United States manufacturers various aircraft which were utilized by the United States Army itself, or in certain cases transferred to the U.S.S.R. under Lend-Lease. I can understand your confusion as to the method that the Army plans to use in repayment for this equipment. I believe that the following outline will clarify the matter.

The four types of diversions outlined in your letter are substantially correct. However, there remains some question as to the exact dollar value which should be placed upon the airplanes diverted by the War Department. A satisfactory conclusion must be arrived at between the War Department and the British Air Commission before any values can be quoted. Particular difficulty is being experienced in determining what amount, if any, will be included to allow for amortization of British capital invested in United States plants and what appropriate charges should be allowed for accelerated service tests performed upon the airplanes in question.

Three alternate methods present themselves for establishing appropriate credits to the British Government.

1. Reimbursement in dollars to the British for material diverted to other uses by the United States.
2. Repayment in kind to the British for equipment diverted.
3. The entering of a credit on the Lend-Lease books of account for the value of the material diverted to the United States, thereby reducing the total Lend-Lease bill by that amount.

These three methods apply, of course, only to material diverted from British dollar contracts. In the opinion of the War Department, no problem exists on diversions to the War Department from foreign government Lend-Lease allocations, as the funds which financed this procurement were never definitely committed to any foreign government and were never within the control of any foreign government.

With the establishment of the Munitions Assignments Board as a functioning agency, all production within the United States of items common to the United States and to foreign governments, regardless of the source of financing, immediately became one large "pool". The equipment in this "pool" will be distributed on the basis of strategic determinations to the Theaters of War throughout the world in which the equipment is most urgently needed. Thus, the over-all production of the United States becomes the determinant as to the availability of equipment. A transfer of equipment to any foreign government automatically becomes a Lend-Lease transfer regardless of the source of financing or the agency making the original procurement. Those items diverted by the United States to governments other than the one originally making the procurement will be taken up on the accountability records of the War Department, placed in normal stock, and immediately lose their identity. It will be the responsibility of the foreign governments from whose contracts equipment has been taken to see that appropriate documents are forwarded to the War Department upon which a credit can be made to their Lend-Lease account. The entering of this credit should complete the transaction. This will be balanced by the transfer of goods by the United States Army to foreign governments which will, in effect, be repayment in kind.

A further complication exists in that it is contemplated that in the near future shipments of equipment manufactured in the United States will be consigned to a representative of the United States Army in the theater of operations in which the equipment is to be utilized. His disposition of the material will be determined by strategic needs and will bear little or no relation to any statement of Lend-Lease requirements previously submitted to the War Department, nor will it have any reference to the source of procurement and financing of the material in question. Such procedure will considerably expedite the war effort, which is the end that we all have in mind.

It is realized, however, that you must concern yourself with the financial results of such a transaction, in order that United Kingdom dollar exchange may be maintained at an appropriate level. To assist this undertaking, the War Department is willing to reimburse the British Government for the airplanes diverted to the United States up to the date of the effectiveness of the terms of the Arnold-Portal Agreement (January 1, 1942). This proposal has the approval of the Office of Lend-Lease Administration.

Of the three alternative methods presented for handling the problem of diversion from foreign dollar financed contracts to the United States Army the most feasible from the War Department's point of view is that of entering a credit to the account of the foreign government concerned upon the Lend-Lease books.

Yours faithfully,

Henry L. Stimson

Secretary of War.

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

Dear Mr. Morgenthau

If you fail to understand the simple and lucid explanation above set forth, you must invite Mr. J. J. McCloy to come over and discuss it with you

HLS

April 3, 1942.

MEMORANDUM FOR THE SECRETARY'S FILES

Mr. White spoke to Secretary Morgenthau about the letter received from Mr. Berle with respect to the Stabilization Arrangement with Iceland. Mr. White explained that Iceland wished to resume negotiations for the consummation of Stabilization Arrangements with us which they had begun many months ago. Mr. White went on to explain that the Treasury had answered Mr. Berle's request to the effect that our information as to Iceland's present position seemed to reveal a substantial improvement in her dollar position since the last time and that there appeared to be no economic justification on the basis of the information which we now have for a Stabilization Arrangement with Iceland.

The State Department agreed but stated that Iceland was eager to make the arrangement for political reasons and that the State Department favored such action. Mr. White asked Mr. Berle to write the Secretary of the Treasury a letter to that effect, which he did on March 28, 1942.

Mr. White asked the Secretary whether it was all right to go ahead with the arrangements. The Secretary replied that he approved and we should go ahead with the negotiations.

Mr. White then raised the question of the Bolivian Stabilization arrangements. He said that the State Department wished to inform the Bolivian Government that the United States was willing to undertake negotiations for a stabilization arrangement. Mr. White told the Secretary that those negotiations had been initiated last October at the suggestion of the State Department and that we had handed a questionnaire to the Bolivian Minister which had thus far not been answered, but that the State Department wishes us now to renew the negotiations. Mr. White pointed out that if we told the State Department that it was all right to inform Bolivia of that fact we were virtually committed to go through with some arrangements. Inasmuch as the amount involved was not large and inasmuch as the State Department wished to go ahead on the matter, the Secretary approved the State Department's informing the Bolivians that we were prepared to continue negotiations.

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Mr. White informed Mr. Livesey of the Secretary's decision and Mr. Livesey was going to get in touch with the Minister and have him call on the Treasury.

Mr. Spiegel informed Mr. Collado of the Secretary's approval of the statement as requested.

DEPARTMENT OF STATE

Washington

March 28, 1942.

My dear Mr. Secretary:

Further reference is made to your letter of March 20, 1942 and to conferences between officers of the Treasury Department and of this Department concerning the proposed stabilization agreement with Iceland.

This Department has taken into consideration the fact that the shortage of dollar exchange available to Iceland which existed last autumn no longer prevails. The Government of Iceland, however, has indicated to this Government that it is nevertheless anxious that the stabilization agreement be concluded. In the opinion of this Department the conclusion of the agreement is highly desirable from the standpoint of international relations.

Sincerely yours,

(Sgd) Adolf A. Berle, Jr.

Assistant Secretary

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

WWM
This telegram must be
paraphrased before being
communicated to anyone
other than a Governmental
agency. (BR)

Bern

Dated April 3, 1942

Rec'd 7:22 p.m.

Secretary of State,
Washington.

1358, April 3, 8 p.m.

According decree March 25, referred further
to in FRANKFURTER ZEITUNG April 2, German Government
prohibits hoarding of domestic currency under
severe penalties and requires holders deposit funds
with savings banks.

CONFIDENTIAL. Previous reference to this
decree not seen nor is there any significant
comment on conditions occasioning it.

HARRISON

HTM

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 3, 1942

TO Secretary Morgenthau
FROM Mr. Dietrich

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£31,000
Purchased from commercial concerns	£12,000

The Federal Reserve Bank of New York purchased £9,000 in registered sterling from a non-reporting bank.

Open market sterling held at 4.03-3/4, with no reported transactions.

In New York, closing quotations for the foreign currencies listed below were as follows:

Canadian dollar	13% discount
Argentine peso (free)	.2370
Brazilian milreis (free)	.0516
Colombian peso	.5775
Mexican peso	.2064
Uruguayan peso (free)	.5295
Venezuelan bolivar	.2815
Cuban peso	3/32% premium

There were no gold transactions consummated by us today.

No new gold engagements were reported.

The spot and forward silver prices in London advanced 1/16d to 23-1/2d, the price which prevailed up to two days ago. The U. S. equivalent of 23-1/2d is 42.67¢.

The Treasury's purchase price for foreign silver was unchanged at 35¢. Handy and Harman's settlement price for foreign silver was also unchanged at 35-1/8¢.

We made no purchases of silver today.

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The report of March 25 received from the Federal Reserve Bank of New York, giving foreign exchange positions of banks and bankers in its district, revealed that the total position of all countries was short the equivalent of \$2,671,000, a decrease of \$245,000 in the short position since March 18. Net changes were as follows:

<u>Country</u>	<u>Short Position March 18</u>	<u>Short Position March 25</u>	<u>Change in Short Position*</u>
England	\$ 702,000 (Long)	\$ 780,000 (Long)	- \$ 78,000
Europe	2,396,000	2,467,000	+ 71,000
Canada	1,002,000 (Long)	1,405,000 (Long)	- 403,000
Latin America	144,000 (Long)	103,000 (Long)	+ 41,000
Japan	160,000	160,000	-
Other Asia	2,260,000	2,303,000	+ 43,000
All Others	<u>52,000 (Long)</u>	<u>29,000</u>	<u>+ 81,000</u>
Total	\$2,916,000	\$2,671,000	- \$245,000

* Plus sign (+) indicates increase in short position, or decrease in long position.
 Minus sign (-) indicates decrease in short position, or increase in long position.

CONFIDENTIAL



BRITISH MOST SECRET

(U.S. SECRET)

OPTEL No. 109

Information received up to 7 A.M., 3rd April, 1942.

1. NAVAL

From further information of the ships which left GOTHENBURG, one 10,300 ton tanker arrived at a British port undamaged but another smaller tanker was torpedoed by aircraft and sunk 180 miles off ABERDEEN, escorting Beaufighters destroyed three enemy aircraft.

2. MILITARY

BURMA. Up to midnight 31st, situation substantially unchanged. It is estimated that 4,000 Burmese are supporting the Japanese on the PRONE Front, and reconnaissance on the west bank of the IRRAWADDY indicates that there are 1,000 Burmese opposite PRONE. Our Forces destroyed a Japanese patrol near SHIMIZWE. The Chinese report that the enemy has been reinforced north of TOUNGCOO. Japanese landed unopposed on CHRISTMAS ISLAND on the night 30th/31st.

RUSSIA. German counter-attacks have made some progress west of RZHEV, fighting continues in the area north-east of OREL.

3. AIR OPERATIONS

WESTERN FRONT. 1st/2nd. 61 tons of bombs were dropped on HAVRE in good visibility, and 55 tons on the Matford factory where several hits were obtained. The attacks on railway communications in the FRANKFURT area were successful, the centres at KANAU and ASCHAFFENBURG were hit, and the railway bridge over the river at MAINZ is claimed as destroyed. 21 R.C.A.F., 15 R.A.A.F. and ten New Zealand aircraft took part, one Canadian aircraft was among those missing. 2nd/3rd. 106 aircraft were despatched - Matford factory 50, HAVRE 26, sea-mining 30. Three are missing. There was some enemy activity over coastal districts, our night fighters destroyed one Heinkel.

MALTA. 1st. A further 66 aircraft attacked GRAND HARBOUR causing serious damage to the submarine workshop. 1st/2nd. 35 enemy aircraft attacked, at LIQA, two of our aircraft were burnt and some M/T Vehicles destroyed. Our fighters destroyed four enemy aircraft, probably destroyed seven and damaged eight, whilst anti-aircraft destroyed eight.

4. HOME SECURITY

2nd/3rd. Bombs were dropped on the coasts of DORSETSHIRE and KENT. At WEYMOUTH, 20 people were killed and at DOVER 12.

April 4, 1942
11:02 a.m.

Daniel
Bell:

Hello.

HMJr:

Hello. Bell?

B:

Yes, sir. You're right on the dot.

HMJr:

Good.

B:

We've got the gang here.

HMJr:

Yeah.

B:

And New York says November 1 or November 2, either one. It doesn't make any difference to them.

HMJr:

November 1 or what?

B:

Or two. Eccles says November 1. He doesn't think it makes much difference whether it's October 15 or November 1, but he's in favor of November 1.

Piser wouldn't argue a lot about it, but he favors October 15 because of a little difficulty in telling what price it will sell at. Our gang here all feel November 1 is the date, so that's what we recommend. That will sell for, as near as we can tell, around two thirty-seconds premium.

HMJr:

How are the telegrams coming in?

B:

You mean from the letter we sent out?

HMJr:

Yeah.

B:

Just a moment. George Buffington says - we haven't seen any this morning - but there were a lot of them yesterday. I think we had something between fifteen hundred and two thousand.

HMJr:

I see.

B:

Generally favorable.

- 2 -

HMJr: Many cities or states?

B: Yes, quite a few states and cities.

HMJr: Are they interested?

B: How's that?

HMJr: Are they interested?

B: Yes, they're interested. In many cases, the cities ask whether or not they could legally subscribe. Of course, we couldn't tell them that; but we did get a number of Governors to say that they would subscribe.

HMJr: The Governors?

B: Governors. And LaGuardia, I think, telegraphed that he would subscribe. Just a moment.

(Talks aside) Who was that?

McCormick of the Tribune subscribed for twenty-five thousand.

HMJr: McCormick of the Tribune.

B: Tribune, yeah. (Laughs)

HMJr: Cut him down a hundred per cent.

B: Cut him down, huh? (Laughs) I take it you're not in favor of allotment in full.

HMJr: (Laughs) Well, who's going to take the twenty-five thousand?

B: How's that?

HMJr: He's going to take it personally, or what?

B: That's the way the telegram came in, I think. It had his name signed to it.

HMJr: What?

B: His name was signed to the telegram that came in, yes.

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HMJr: Well, I tell you what I'd like to do, if you don't mind. I'd like to talk with Sproul a minute in New York.

B: All right.

HMJr: And I think it's easier to call him direct, then I'll call you right back. How's that?

B: All right. There's two things I'd like to recommend that we do today.....

HMJr: Go ahead.

B:in view of the fact that all of the other terms of the issue are out. I'd like to announce pretty soon giving the date and stating that we'll allow war loan account.

HMJr: Going to give the what?

B: Give the date of maturity and the fact that payment could be made through the war loan account - give that to the press right away.

HMJr: Right away?

B: Yeah. They've got all the rest of the terms, and there are a great many dealers in New York that are going to advertise this in Western papers over the week-end.

HMJr: I see.

B: And if they get the full terms, you see, they can put the whole business in their ad.

HMJr: All right.

B: And everything's out anyhow, so I think you might as well give these other two things.

HMJr: Some of the New York dealers are going to advertise?

B: Devine, and First of Boston, and two or three others have called up, Bob Rouse said.

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HMJr: I see no objection.

B: I think it would be a good thing to do.

HMJr: Well, then, if you're going to do it, you've got to give the release to the press for immediate release.

B: That's - well, I'd just give out the - just say that the maturity date will be November 1 and payment can be made through war loan account. Then the circular can go out in the regular manner.

HMJr: That would go to everybody - just not to the New York dealers.

B: No, it would go to - we'd release it here informally to the press and put it on the ticker.

HMJr: They'd put it on the Dow-Jones ticker.

B: That's right.

HMJr: What?

B: Yes, that's right.

HMJr: That's all right.

B: Yeah. All right.

HMJr: I'll be calling you back in three or four minutes again.

B: Swell. All right.

HMJr: What?

B: Yes, that's all right. We'll be right here.

HMJr: You stay there, please.

B: Yeah.

April 4, 1942
11:17 a.m.

Daniel
Bell: All right.

Operator: Go ahead.

B: Hello.

HMJr: Dan.

B: Yes.

HMJr: Sproul feels all right - November 1.

B: November 1.

HMJr: He says he doesn't care, first or second, whichever you prefer.

B: First or second.

HMJr: Yeah.

B: I see. All right.

HMJr: Which are you going to make it?

B: Well, I thought we'd make it November 1.

HMJr: Okay.

B: That's the date you would ordinarily make it. Now, how about - it's all right to give it out?

HMJr: Yeah.

B: All right.

HMJr: I didn't ask him that.

B: Yeah. Well, I discussed that with him. They would like to have it given out.

HMJr: He said the dealers certainly took the bit in their teeth.

B: Yeah. Yeah.

- 2 -

HMJr: To town.

B: So they went to town on it.

HMJr: Yeah.

B: All right.

HMJr: I have nothing else. Have you?

B: No.

HMJr: Anybody got anything?

B: Wait a minute. Just a moment. George says we've gotten fifteen hundred and thirty-eight answers to our telegram.

HMJr: Is Haas there?

B: Yes. Want to talk to him?

HMJr: Yeah, about something else.

B: All right.

HMJr: All right, we'll let her go.

B: All right.

HMJr: Let me talk to Haas a minute.

George
Haas: Hello.