DIARY

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 18, 1942.

TO Secretary Morgenthau

FROM Harold Graves

You will be interested in the attached Bulletin from the National Association of Broadcasters.

National Association of Broadcasters
1626 K STREET, N. W. ★ ★ ★ ★ ★ ★ ★ WASHINGTON, D. C
July 17 WAR SERVICE BULLETIN No. 12

NAB BOARD BACKS BOND SALES

Secretary of the Treasury Morgenthau has been high in his praise of the job done by broadcasters in helping to sell War Bonds and has asked them to undertake one further step in this wartime effort beginning July 23.

What's needed is more direct selling. The Secretary, a great believer in the power of radio, says we can do this job and he's asked us to take it on.

Vincent Callahan, representing Mr. Morgenthau, met with the NAB Board, Tuesday to discuss the project.

"There is no formal Treasury plan," said Mr. Callahan. "All we want is more bond sales. The responsibility for working out plans rests with each individual broadcaster. But," continued Mr. Callahan, "this job has to be done immediately."

The Board unanimously pledged 100 percent cooperation with the Treasury.

There are several ways in which stations can cooperate. The following have been approved by the Treasury Department:

1. A station can become an issuing agent.
2. A station can become a subissuing agent.
3. A station can get together with an established issuing agent or agents or sub-agency.

Here are some alternative plans:

Plan 1. A station becomes an issuing agent and gets a supply of bonds. Its own employees handle the over-the-counter as well as mail order sales. An all-out promotion job is launched; listeners are urged to come in and buy or send in their checks. The station is in the bond selling business.

Plan 2. A station does not become an issuing agent but establishes a basis of all-out cooperation with some established issuing agency or agencies. Listeners are urged to go and buy or send in their mail orders direct to these agencies.

Plan 3. A station becomes an issuing agent and gets its bond supply.

Some volunteer organization, like Navy Relief, etc. takes on the job of handling the over-the-counter as well as the mail order sales. Again an all-out promotion campaign is launched to get buyers to come in or write in and buy.

Plan 4. A station steps-up its present war bond sales and agrees to receive mail orders and see that they are transmitted to an issuing agent.

You may have a slightly different plan of operation. The essential thing is cooperation.

Let us have your idea so we may pass it on. Speed is the essence, so wire us your plan now.

Here is another job, another opportunity for broadcasters.

Secretary Morgenthau has unbounded faith in the ability of the radio industry to do this essential job now. That faith can be translated into reality if every station will go to work with added vigor.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 18, 1942

TO THE SECRETARY

FROM TED R. GAMBLE

I thought you would want to see the attached. Mr. Callahan and his boys did a good job in getting the support necessary to insure the success of the radio stations sales campaign. They have also prepared material for all the stations to use in a special promotion of their own.

Mr. Callahan is keenly aware of the tremendous possibilities of this tie-up with the stations and has assigned several of his best people to follow through on the numerous details attendant to a thorough promotion.

National Association of Broadcasters
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CONFIDENTIAL

UNITED STATES SAVINGS BONDS - SERIES E

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

(At issue price in thousands of dollars)

Date	July daily sales	Cumulative sales by business days: July	June	May	July as Percent of June
July 1942					
1	$ 15,821	$ 15,821	$ 19,834	$ 12,679	79.8%
2	14,880	30,701	27,841	24,263	110.3
3	16,822	47,523	40,811	46,532	116.4
6	29,797	77,320	58,199	55,460	132.9
7	17,724	95,044	82,988	73,824	114.5
8	21,599	116,643	98,197	97,049	118.8
9	22,746	139,390	125,245	114,218	111.3
10	24,772	164,161	134,157	128,670	122.4
11	19,077	183,238	154,242	151,956	118.8
13	26,550	209,787	169,920	161,346	123.5
14	15,744	225,532	186,470	177,133	120.9
15	18,407	243,938	201,700	194,047	120.9
16	17,828	261,766	225,684	208,939	116.0
17	22,345	284,111	233,218	223,242	121.8

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

July 18, 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.

CONFIDENTIAL
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UNITED STATES SAVINGS BONDS - SERIES F AND G COMBINED

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

(At issue price in thousands of dollars)

Date	July daily sales	Cumulative sales by business days			
		July	June	May	July as percent of June
July 1942					
1	$ 12,597	$ 12,597	$ 9,705	$ 7,302	129.8%
2	9,389	21,986	17,601	15,168	124.9
3	10,455	32,441	26,235	25,516	123.7
6	16,734	49,175	40,009	33,145	122.9
7	13,386	62,561	49,353	48,751	126.8
8	21,852	84,413	55,888	60,817	151.0
9	17,172	101,585	67,414	67,213	150.7
10	22,983	124,568	72,366	72,794	172.1
11	17,050	141,618	82,310	80,845	172.1
13	20,614	162,232	89,852	85,410	180.6
14	14,358	176,590	95,254	94,391	185.4
15	15,400	191,991	101,464	102,106	189.2
16	13,842	205,833	108,715	108,923	189.3
17	15,314	221,147	112,279	114,129	197.0

July 18, 1942.

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

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

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

CONFIDENTIAL

UNITED STATES SAVINGS BONDS - TOTAL
Comparison of July sales to date with sales during the same number of business days in June and May 1942

(At issue price in thousands of dollars)

Date	July daily sales	Cumulative sales by business days			
		July	June	May	July as percent of June
July 1942					
1	$ 28,418	$ 28,418	$ 29,539	$ 19,981	96.2%
2	24,269	52,687	45,442	39,430	115.9
3	27,277	79,964	67,046	72,048	119.3
6	46,531	126,495	98,208	88,605	128.8
7	31,110	157,605	132,341	122,575	119.1
8	43,451	201,056	154,085	157,866	130.5
9	39,918	240,974	192,659	181,431	125.1
10	47,755	288,729	206,523	201,464	139.8
11	36,127	324,856	236,552	232,801	137.3
13	47,164	372,020	259,772	246,756	143.2
14	30,102	402,122	281,724	271,525	142.7
15	33,807	435,929	303,163	296,152	143.8
16	31,670	467,599	334,398	317,861	139.8
17	37,659	505,257	345,497	337,371	146.2

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

July 18, 1942.

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

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

CONFIDENTIAL

Sales of United States Savings Bonds
From July 1 through July 17, 1942
Compared with Sales Quota for Same Period
(At issue price in millions of dollars)

Date	Series E: Actual Sales: Daily	Series E: Actual Sales: July 1 to Date	Series E: Quota, July 1 to Date	Series E: Sales to Date as % of Quota	Series F and G: Actual Sales: Daily	Series F and G: Actual Sales: July 1 to Date	Series F and G: Quota, July 1 to Date	Series F and G: Sales to Date as % of Quota	Total: Actual Sales: Daily	Total: Actual Sales: July 1 to Date	Total: Quota, July 1 to Date	Total: Sales to Date as % of Quota
1	$ 15.8	$ 15.8	$ 23.6	66.9%	$ 12.6	$ 12.6	$ 19.4	64.9%	$ 28.4	$ 28.4	$ 43.0	66.0%
2	14.9	30.7	47.9	64.1	9.4	22.0	36.4	60.4	24.3	52.7	84.3	62.5
3	16.8	47.5	73.0	65.1	10.5	32.4	50.6	64.0	27.3	80.0	123.6	64.7
6	29.8	77.3	126.0	61.3	16.7	49.2	82.6	59.6	46.5	126.5	208.6	60.6
7	17.7	95.0	139.3	68.2	13.4	62.6	94.2	66.5	31.1	157.6	233.5	67.5
8	21.6	116.6	162.2	71.9	21.9	84.4	114.5	73.7	43.5	201.1	276.7	72.7
9	22.7	139.4	189.8	73.4	17.2	101.6	129.5	78.5	39.9	241.0	319.3	75.5
10	24.8	164.2	216.0	76.0	23.0	124.6	139.9	89.1	47.8	288.7	355.9	81.1
11	19.1	183.2	236.6	77.4	17.1	141.6	147.7	95.9	36.1	324.9	384.3	84.5
13	26.5	209.8	273.2	76.8	20.6	162.2	160.6	101.0	47.2	372.0	433.8	85.8
14	15.7	225.5	287.6	78.4	14.4	176.6	168.0	105.1	30.1	402.1	455.6	88.3
15	18.4	243.9	311.6	78.3	15.4	192.0	181.8	105.6	33.8	435.9	493.4	88.3
16	17.8	261.8	335.5	78.0	13.8	205.8	193.5	106.4	31.7	467.6	529.0	88.4
17	22.3	284.1	358.7	79.2	15.3	221.1	202.8	109.0	37.7	505.3	561.5	90.0
18			377.4				210.5				587.9	
20			411.8				223.9				635.7	
[illegible]			425.9				231.8				657.7	
22			451.1				247.0				698.1	
23			477.5				260.1				737.6	
24			503.8				270.7				774.5	
25			525.0				279.5				804.5	
27			562.7				295.1				857.8	
28			577.2				304.3				881.5	
29			601.3				322.1				923.4	
30			625.8				337.5				963.3	
31			650.0				350.0				1,000.0	

fice of the Secretary of the Treasury, Division of Research and Statistics. July 18, 1942.

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

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

UNITED STATES SAVINGS BONDS, SERIES E

TOTAL DAILY SHIPMENTS BY DENOMINATIONS FROM JULY 1 TO JULY 17, 1942

Date of Shipment	Denominations - Number of Pieces					Total Pieces
	$25	$50	$100	$500	$1,000	
July 1	441.453	79,590	78,344	2,256	2,527	604,170
2	515,964	94,404	93,481	3,068	3,510	710,427
3	464,350	80,760	79,220	8,320	3,565	636,215
6	736,205	82,647	89,767	8,475	2,235	919,329
7	678,221	163,951	160,712	24,510	13,894	1,041,288
8	558,650	106,000	115,461	15,039	3,790	798,940
9	440,389	89,212	112,623	7,807	5,816	655,847
10	672,288	117,122	107,512	5,508	5,967	908,397
11	643,310	121,615	135,412	5,062	15,649	921,048
13	654,983	118,591	98,816	6,314	8,528	887,232
14	673,000	109,750	102,000	7,775	10,000	902,525
15	548,501	156,626	152,361	12,270	14,535	884,293
16	384,250	91,600	107,800	13,010	19,955	616,615
17	555,023	138,080	124,232	8,378	10,066	835,779
Total	7,966,587	1,549,948	1,557,741	127,792	120,037	11,322,105

July 18, 1942.
MRL/kwk

MRL

MEMORANDUM

To: Secretary Morgenthau

From: Mr. Paul July 18, 1942

I thought you might be interested in the attached copy of a letter addressed by C. I. O. to all Congressmen.

R.E.P.

Philip Murray, *President*

Dalrymple, *Vice President*
Thomas, *Vice President*
Curran, *Vice President*

Frank Rosenblum, *Vice President*
Reid Robinson, *Vice President*
Emil Rieve, *Vice President*

James B. Carey, *Secretary*
Allan S. Haywood, *Director of Organization*
John Brophy, *Director of Industrial Union Councils*

Lee Pressman, *General Counsel*
Len De Caux, *Publicity Director*
J. R. Bell, *Comptroller*
Ralph Hetzel, Jr., *Director Economic Division*

CIO

Congress of Industrial Organizations

1106 Connecticut Avenue, Northwest
Washington, D. C.

Telephone District 3582

July 17, 1942

My dear Congressman:

The House Ways and Means Committee has introduced a 1942 war tax bill which falls far short of the basic requirements of a revenue act for America at war and the tax plank in the President's seven point anti-inflation program.

The Committee's bill fails to provide adequate revenue. It falls nearly $2½ billion short of the $8½ billion in additional revenues sought by the Treasury, and thus lays the foundation for a renewed drive of reactionaries for a federal sales tax.

The Committee's bill fails to follow the democratic principle of taxation according to ability to pay. By rejecting the Treasury's schedule of individual income tax rates and by lowering personal exemptions to $1200 and $500, the Committee has adopted a soak-the-poor-spare-the-rich-policy. Its bill <u>increases</u> the income tax of taxpayers with incomes up to approximately $4,000 a year, but <u>decreases</u> the taxes payable by persons in the higher brackets (in comparison with the Treasury's original proposals).

The Committee's bill fails to carry out the proposal made by President Roosevelt, in his seven point anti-inflation program, that "no American citizen ought to have a net income, after he has paid his taxes, of more than $25,000 a year." How can we pretend that we are seeking equality of sacrifice to win the war, if we ask single people earning over $10 a week or married persons earning over $31 a week to pay income taxes at the rate of 19 percent, and at the same time allow 11,000 favored individuals and couples to retain $184 million a year, <u>after taxes and after their $25,000 or $50,000 exemptions</u>?

The Committee's bill fails to adopt the Treasury's proposals for eliminating glaring loopholes and special privileges - separate returns for husband and wife, exemption of income from state and local securities and unreasonable percentage depletion deductions - which enable a small group of preferred taxpayers to escape their just share of the tax burden.

These loopholes, which cost the Treasury $921 million a year, are "bad enough in time of peace"; they are "intolerable in time of war."

The Committee's bill fails to adopt the mild increases in estate and gift tax rates suggested by the Treasury, which would yield $309 million in new revenues. This action does not square with demands on labor to stabilize wages, to buy war bonds, and to sacrifice for war-demands to which labor has responded patriotically and wholeheartedly.

The only feature of the Committee's bill which even begins to measure up to sound wartime standards of taxation is its proposal that corporate income taxes be levied at 45 percent and excess profits taxes at 87½ percent. Even at this point, the Committee whittled down its original plan to increase the excess profits rate to 94 percent, and through over-generous allowances of credits for invested capital and average earnings, some of the largest corporations in the country, profiting handsomely from war contracts, will virtually escape the excess profits tax.

We recognize the House does not adopt tax bills. Under the gag rule promulgated by the Rules Committee, a small group of Congressmen who dominate the Ways and Means Committee have usurped the House's function of deciding tax policy. Twenty-five Congressmen, divided by only one or two votes on important issues, are adopting the biggest and most far-reaching tax bill in American history, without any opportunity for the remaining 410 Congressmen to exercise their legislative duty of passing upon the basic issues involved. We shall continue to fight this vicious and undemocratic practice until it has been broken. In the meantime, within the limited debate allowed on the bill, it is incumbent upon every Congressman who desires to maintain the unity and morale of the American people and who believes in equality of war sacrifice to denounce the Committee's bill. The bill must still pass the Senate.

The CIO calls for the adoption of a program of taxation for victory, which would raise $10 billion of additional revenues for the next tax year, made up of: $3½ billion from corporate income and excess profits taxes; $4½ billion from increased income tax rates, especially in the middle and and higher brackets, and based on 1941 exemptions, with a $25,000 ceiling on incomes, after taxes; the plugging of loopholes and the abolition of special privileges; and the balance from increased estate and gift tax rates and excises on selected luxuries. The Ways and Means Committee's bill is so hopelessly inadequate to meet the needs of America at war that the enactment of its bill foreshadows a second revenue act this year.

The CIO intends to continue the fight before the Senate for an equitable tax bill, producing adequate revenues, and requiring equality of sacrifice. It intends to continue its fight for a tax program which will be an instrument of victory.

Sincerely yours,

Nathan E. Cowan

Nathan E. Cowan
Legislative Representative

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 18, 1942

TO Mr. Thompson

FROM Mr. Haas

In further response to your request of December 26, 1939, there is submitted herewith for the Division of Research and Statistics a memorandum listing, with brief descriptions, the studies or projects completed or under way, and the names of persons working on each, for the month of March 1942.

DIVISION OF RESEARCH AND STATISTICS

Report of Studies or Projects Completed or Under Way, and the Names of Persons Working on Each, for the Month of March 1942

For convenience of reference, the studies listed are grouped under general subject heads.

The names shown for persons working on each project include only those who participated fairly directly, as explained in the introductory note to the corresponding report submitted on December 28, 1939. No attempt has been made to cover also persons whose responsibility in each particular case was mainly in planning, supervising, or consulting.

Financial Analysis

I. Projects or studies completed

1. A review of current developments in the high-grade securities markets was prepared, and a memorandum was transmitted to the Secretary on March 20. A copy was given to Under Secretary Bell. - Mr. Haas, Mr. Murphy, Mr. Foy, Mr. Conrad, Mr. Barnett, Mr. Rosen, Mrs. Miller, Miss Parker.

   This review contained, in addition to analysis of the current situation, the following special study:

   Purchases of Treasury bills before and after the rise in the bill rate. - Mr. Conrad

2. A maturity calendar was prepared as of March 2, for each issue of direct and guaranteed bonds and notes of the United States. The calendar was transmitted to the Secretary. - Miss Lagos

3. Yields on public marketable securities issued by the United States Government and by Federal agencies were computed daily on the basis of over-the-counter closing quotations. A daily table and a weekly table with comparative data for earlier periods were prepared

summarizing this information. The arrangement of these tables was revised on March 21 primarily to incorporate certificates of indebtedness and original offering data in respect to Treasury bills, effective April 1. A chart for each issue was kept up to date showing daily price and yield figures together with comparative monthly data since 1935, since the date of issue, or since the date first traded. In addition, yields were computed daily on five high-grade corporate securities, three municipal securities, and two British Government issues. - Mr. Brown, Mr. Lindow, Mr. Moody, Miss McCoy, Mr. Kroll

4. In response to a request by the Secretary on January 21, 1941, that measures be taken to obtain information to assist in carrying through the defense financing program, arrangements were made to obtain the necessary detailed statistics on the holdings of each issue of the public debt and of guaranteed securities by the various classes of holders. - Mr. Haas, Mr. Tickton, Mr. D. J. Leahy, Mrs. Barnes, Miss Westerman

Supervision was given in the preparation by the Division of Loans and Currency of 100 tables, showing the information as of February 28, received from 7,000 banks and insurance companies. The tables were completed on March 31, and were transmitted according to instruction by the Secretary.

Tabulations were prepared, and were transmitted on March 14, to the Federal Reserve Banks of New York and Philadelphia, showing holdings of each issue of Government security in their respective districts, as of January 31.

A tabulation was prepared, and was transmitted on March 14, to the Board of Governors of the Federal Reserve System showing, by classes of banks and by issues, the amount of Government securities owned on January 31, by the banks covered in the survey.

A summary was prepared on March 12 of the data received as of January 31, consisting of brief explanatory text and six tables for publication in the Bulletin of the Treasury Department for March.

New letters were sent out to the banks and insurance companies on March 28, requesting comparable data as of March 31.

5. At the request of the Secretary on May 12, 1941, arrangements were made to prepare current statistical reports on the sales of United States Defense savings bonds, series E, F, and G, and Defense Postal savings stamps, on the basis of reports by the Treasurer of the United States, the Federal Reserve Banks, and the Post Office Department. The reports prepared during March were transmitted according to instructions by the Secretary. - Mr. Haas, Mr. Reagh, Mr. Brown, Mr. Tickton, Mr. Kroll, Miss Wood, Mr. D. J. Leahy, Mrs. Grossman

   (a) Daily tables were prepared, showing the dollar volume, of savings bonds sold, by series, with cumulative totals.

   (b) Daily tables were prepared, containing a comparative statement of sales of bonds, by series, in the three latest months, with cumulative totals. The dollar volume was shown, with the absolute and percentage changes in the latest month from the preceding month.

   (c) A table was prepared on March 2, showing sales of savings bonds, by series, in dollar volume, in each month from May 1941 through February, 1942.

   (d) Supervision was given in the preparation by the Division of Loans and Currency of monthly tables, completed on March 31, showing sales of savings bonds, series E, for the month of February, in dollar volume, by Federal Reserve districts, States, cities, and counties, classified by sales agent and denomination.

(e) A table was prepared on March 4, showing sales of savings bonds, series E, in dollar volume, by States, from May 1941 through January 1942.

(f) Supervision was given the Division of Loans and Currency in the preparation of a table completed on March 16, showing per capita sales of savings bonds, series E, from May 1941 through January 1942, by States.

(g) A table was prepared on March 16, showing for savings bonds, series E, the estimated number of units and percent of dollar volume sold, by denominations and by months, from May 1941 through January 1942.

(h) At the verbal request of Mr. Graves on March 25, a table was prepared on that date, showing for savings bonds, series E, the estimated sales by denomination for the period May 1941 through February 1942.

(i) Supervision was given the Division of Loans and Currency in the preparation of a table completed on March 12, showing total sales in dollar volume of savings stamps, by States, from May 1941 through February 1942.

(j) A table was prepared on March 12, showing estimated total value of savings stamps, and the number of units sold, by denomination, in each month from May 1941 through February 1942.

(k) A table was prepared on March 19, showing for savings bonds, series F, the number of units and percent of dollar volume sold, by denominations and by months, May 1941 through January 1942.

(l) A table was prepared on March 19, showing for savings bonds, series G, the number of units and percent of dollar volume sold, by denominations and by months, May 1941 through January 1942.

(m) A table was prepared on March 2, and was transmitted to Mr. Heffelfinger in response to his request of that date, showing the sales of savings bonds, by series, by months from May 1941 through February 1942.

6. In further response to the request of Mr. Graves on February 10, for the tabulation of pledges for the purchase of savings bonds, series E, and savings stamps, in Oregon, supervision is being given in the tabulation by the Division of Loans and Currency now in progress. - Mr. Reagh, Mr. Kroll

7. In further response to the request of the Secretary on December 28, daily tables were prepared showing daily changes in stock of series E savings bonds on hand with weekly tables appended on March 2, 4, 10, 17, 24, and 31 showing number of pieces of series E savings bonds sold by weeks ending January 24 through February 21, 28, March 7, 14, 21, and 28, respectively. The tables were transmitted daily to the Secretary. Copies were given to Under Secretary Bell, Mr. Graves, and Mr. Broughton. - Mr. Tickton, Mr. Kelenson

8. In further response to the request of Mr. Graves on February 26, an estimate was prepared of sales of Defense savings bonds, series E, during March, as a basis for determining the number of bonds to be printed. - Mr. Reagh, Mr. Brown

9. In further response to the request of the Secretary on December 31, weekly memoranda and tables were prepared from data wired by the Federal Reserve Banks, showing the number of agents qualified to issue series E, savings bonds, by type of agent and Federal Reserve district, for February 28, March 7, 14, 21, and 28. The reports were prepared, and were transmitted to the Secretary on March 3, 10, 18, 24, and 31. Copies were given to Under Secretary Bell and Mr. Graves. - Mr. Tickton, Mr. Kelenson

10. In further response to the request of the Secretary on December 15, for information on the progress of the payroll savings plan for defense savings bonds, series E, the following projects were completed. - Mr. Haas, Mr. Tickton, Mr. Keats, Mr. Kelenson, Miss Westerman.

(a) Supervision was given the Division of Loans and Currency in the preparation of a memorandum and table from reports direct from 4,712 companies participating in the payroll savings plan during January. The table summarized the companies classified by size group, by degree of employee participation, and payrolls. The tabulation was prepared, and was transmitted to the Secretary on March 2. A copy was given to Mr. Graves.- Mr. Tickton, Mr. Kelenson

(b) Supervision was given the Division of Loans and Currency in the preparation of a tabulation covering the same kind of information as that in (a) for 9,409 companies participating in the plan during February. The tabulation was transmitted to Mr. Graves on March 26. - Mr. Tickton, Mr. Kelenson

(c) Weekly tables were prepared, showing the number of organizations with payroll savings plans, Government and private, classified by size, type, and State, together with the number of employees eligible to participate. Tables were prepared as of February 28, March 7, 14, and 21, and were transmitted on March 3, 10, 20, and 27, respectively, according to instructions by the Secretary. - Mr. Tickton, Mr. Keats

(d) A memorandum and tables were prepared showing for 50 large companies the total number of employees and percent participating as of January 31. The report was transmitted to the Secretary and a copy was given to Mr. Graves on March 6. - Mr. Tickton, Mr. Kelenson

(e) A report was prepared covering the same kind of information as that in (d), showing extent of participation as of February 28. A copy was transmitted to Mr. Graves on March 26. - Mr. Tickton, Mr. Kelenson

(f) A table was prepared showing participation in the payroll savings plan by industrial plants displaying the Navy "E" flag, as of January 31. The table was transmitted on March 4 to Mr. Graves for the Secretary, and copies were supplied also to Members of the Defense Savings Staff. - Mr. Tickton, Mr. Keats

11. In further response to the request of Mr. Graves on February 12, a monthly table was prepared, showing as of February 28, corporations participating in the payroll savings plan, and having 5,000 employees or more, with the number of employees in each, classified by Federal Reserve districts and States. The table was transmitted to Mr. Graves on March 21, and to the Federal Reserve Banks on March 26. - Mr. Tickton, Mr. Keats, Miss Westerman

12. In further response to the request of Mr. Graves on February 12, a table similar to that described in item 11 was prepared, covering data for the Chicago Federal Reserve District only, as of March 7. The table was transmitted to Mr. Spencer Thompson on March 17. - Mr. Tickton, Mr. Keats

13. At the request of Mr. Graves on March 3, a memorandum and table were prepared showing for railroad companies participating in payroll savings plans as of January 31, the number of employees and the percent participating. The report was transmitted to Mr. Graves on March 5. - Mr. Tickton, Mr. Keats

14. At the request of Mr. Graves, a report was prepared covering the same kind of information as that in item 13, showing participation as of February 28. The report was transmitted to Mr. Graves on March 26.- Mr. Tickton, Mr. Kelenson

15. At the request of Mr. Graves on March 23, a conference on savings bonds held at the Federal Reserve Bank of Chicago on March 27 and 28, was attended. - Mr. Tickton

16. On March 11, Mr. Sloan referred to us a memorandum from Mr. Olney of the Defense Savings Staff, dated March 9, requesting a table for publication in "The Minute Man" showing sales of Series E bonds by States, expressed as a percentage of total sales for the period May-January, and for the month of January. A table was prepared, and was submitted to Mr. Sloan on March 19. - Mr. Reagh, Mr. Kroll

17. At the request of Mr. Graves on March 23, tables were prepared showing suggested semi-monthly allotments for the purchase of Series E bonds by Treasury employees. Two tables were prepared, and were submitted to Mr. Graves on March 30. - Mr. Reagh, Mr. Kroll, Miss Andrulonis

18. At the verbal request of Mr. Graves on March 25, a revision was made of the table showing suggested weekly savings for the purchase of Series E bonds, which was released to newspapers on February 15, to show weekly savings according to weekly rate of pay and number of dependents. These tables were submitted to Mr. Graves on March 30. - Mr. Reagh, Mr. Kroll

19. At the request of Mr. Bartelt in a memorandum of March 26, a review was made of proposed changes in Department Circular 677 regarding the Treasury pay-roll savings plan for purchase of defense savings bonds, and was transmitted in a memorandum to Mr. Bartelt on March 27. - Mr. Reagh

20. In further response to the request of the Secretary on July 28, 1941, tables were prepared, summarizing sales from August 1941 through February, of Treasury notes, Tax Series A and Tax Series B, by series, type of purchaser, and denomination. The tables were transmitted to the Secretary on March 10, and copies were given to Under Secretary Bell, Mr. Buffington, and Mr. Kilby. - Mr. Tickton, Mr. Kalenson

21. Further progress was made in the study requested by the Secretary on December 6 of the sources of funds for Government borrowing. The reports and tables prepared during March were transmitted in accordance with instructions by the Secretary. - Mr. Haas, Mr. Murphy, Mr. Daggit, Mr. Lindow, Mr. Foy, Mr. Breithut, Mr. Wagner, Mr. Weintraub, Mr. Mayo, Mr. Colclough, Mr. Saunders

(a) A further revision was made of the table showing estimated sources of funds to finance the budgetary deficit, and was completed on March 5. - Mr. Murphy, Mr. Lindow

(b) An appendix to the table listed under (a) was completed on March 5, containing a detailed analysis of personal savings, business savings, and other corporate savings and accumulations for the fiscal year 1943. - Mr. Murphy, Mr. Lindow

(c) A table was prepared, and was completed on March 7, showing estimated means of financing the deficit, with a monthly breakdown, March 1942 through June 1943. In connection with this table worksheets were completed on March 4, showing the estimated net sales of defense savings bonds and estimated national defense expenditures, by months March 1942 through June 1943. - Mr. Lindow, Mr. Foy, Mr. Murphy

(d) Memoranda and tables were prepared, and were completed on March 9, reconciling national income with income payments and national income statistics with Federal budget figures. - Mr. Breithut, Mr. Mayo

(e) A memorandum was prepared on March 14, on the loan and investment potentialities of member banks of the Federal Reserve System. - Mr. Weintraub

(f) A memorandum was prepared on March 19, containing an analysis and estimate of inventory revaluations for the fiscal year 1943. - Mr. Wagner

(g) A memorandum was prepared on March 19, on the establishment of a series from 1929 through 1941 on revenues of State and local governments, with estimates for the fiscal year 1943. - Mr. Mayo

(h) A memorandum was prepared on March 21, on the establishment of a series from 1929 through 1941 on expenditures of State and local governments, with estimates for the fiscal year 1943 - Mr. Mayo

(i) A memorandum was prepared on March 23, analyzing reasons for using gross national product rather than national income for comparison with defense expenditures. - Mr. Lindow, Mr. Breithut

(j) A memorandum was prepared on March 23, reviewing an article by J. M. Clark, on "How to Check Inflation" (Public Affairs Pamphlet No. 64) - Mr. Weintraub

(k) A memorandum was prepared on March 23, on consumer rationing in Great Britain, summarizing the British rationing program in its administrative aspects. - Mr. Weintraub

(l) A memorandum was prepared on March 26, on factors bearing on the estimate of the national income in the fiscal year 1943, especially wartime manpower requirements. - Mr. Breithut

(m) A memorandum was prepared on March 25, on estimates of savings of American families. - Mr. Weintraub

(n) Two charts and two tables were prepared on March 26-28, in a study of the correlation of gross national product and the Federal Reserve index of industrial production for the years 1929 through 1941, with a resulting estimate for fiscal 1943. - Mr. Mayo

(o) Further study was made of the curtailment in output of consumers' goods. - Mr. Weintraub

(p) Further progress has been made in the compilation of data for measuring monthly changes in consumers' cash surpluses, for use in estimating the "inflationary gap". Preliminary charts have been drafted to show the relative effect on prices of the increase in consumer incomes and the decrease in output of consumer goods, for agricultural and non-agricultural products separately - Mr. Daggit, Mr. Colclough, Mr. Saunders

(q) The analysis of increases in individual incomes to determine their disposition has been merged with projects being handled in cooperation with the Office of Price Administration and the Bureau of Labor Statistics. - Mr. Daggit

(r) A memorandum was prepared on March 30, on patterns of consumer spending and saving. - Mr. Daggit

(s) Reports on conferences and correspondence with members of the Fiscal Research Committee were prepared. - Mr. Lindow, Mr. Breithut

22. At the request of Under Secretary Bell, agenda, memoranda, and minutes are prepared in connection with the Treasury-Federal Reserve meetings held for the purpose of discussing financing policy. - Mr. Haas, Mr. Murphy, Mr. Lindow, Mr. Foy, Mrs. Miller

(a) Notes were completed with respect to the meeting with representatives of the Federal Reserve System held on December 18, and were transmitted to Under Secretary Bell on March 19. - Mr. Murphy

(b) Minutes were completed of the two meetings held on February 20, with representatives of the Board of Governors of the Federal Reserve System, and were transmitted to Under Secretary Bell March 10. Copies were given to Mr. Stewart, Mr. Warner, and Mr. Buffington.- Mr. Murphy, Mr. Lindow, Mr. Foy

(c) An estimate was completed of the monthly amount of financing necessary for the remainder of the fiscal year 1942, and for the fiscal year 1943. A table incorporating the estimate was transmitted to the Secretary on March 9. - Mr. Murphy, Mr. Lindow, Mr. Foy

(d) At the request of Under Secretary Bell on February 20, a study is being made of a special security for short-term funds. - Mr. Murphy, Mr. Lindow, Mr. Foy

(e) At the request of Under Secretary Bell on February 20, a study is being made of a special security for long-term funds. - Mr. Murphy, Mr. Lindow, Mr. Foy

(f) At the request of Under Secretary Bell on March 3, in connection with the studies listed under (d) and (e), the following tables were prepared for use at meetings held on March 9 and 10:

Table 1. Proposed new non-market securities compared with present series E and G savings bonds.
Table 2. Interest rates of proposed new non-market securities compared with present series E and G savings bonds.
Table 3. Interest rates and intermediate redemption values of proposed long-term non-market securities compared with present series G savings bonds.
- Mr. Murphy, Mr. Foy

(g) At the request of the Secretary on March 9, a memorandum was prepared on alternative bases for agreement on excess reserves, for use at the meeting in the Secretary's office on March 10. - Mr. Murphy, Mr. Lindow

(h) At the request of Under Secretary Bell on March 10, a memorandum was prepared on March 11, on a proposed basis of agreement on financing policy, for use at two meetings held on March 12. - Mr. Murphy

(i) A memorandum on a proposed basis of agreement on financing policy was prepared jointly with the Federal Reserve representatives for use at the meeting in the Secretary's office on March 12. - Mr. Murphy

(j) At the request of the Secretary on March 12, a memorandum on a proposed agreement with the Federal Reserve System was prepared, and was transmitted to the Secretary on March 16. - Mr. Murphy, Mr. Lindow

(k) At the request of Under Secretary Bell on March 11, a letter with two attached tables, was prepared, and was mailed on that date, to the Chairman of the Board of Governors of the Federal Reserve System and to the Presidents of four Federal Reserve Banks, with respect to new non-market securities. - Mr. Murphy

(l) A tabular summary is being prepared on comments from the Chairman of the Board of Governors and the Presidents of four Federal Reserve Banks on proposed new non-market securities. - Mrs. Miller

(m) At the request of the Secretary on March 16, there was prepared a proposed press statement for the Federal Open Market Committee, for use at the Federal Reserve meeting on March 17. - Mr. Murphy, Mr. Lindow

(n) A memorandum on a posted bill rate and excess reserves was prepared, and was transmitted to the Secretary on March 18, and used at the meeting in the Secretary's office on March 19. - Mr. Haas, Mr. Murphy

(o) At the request of the Secretary on March 16, a study is being made of the advisability of issuing certificates of indebtedness. - Mr. Murphy, Mr. Lindow

(p) At the request of the Secretary on March 16, there was prepared for use at the Federal Reserve meeting on March 17, a proposed press statement for the Secretary, with respect to certificates of indebtedness. - Mr. Murphy, Mr. Lindow

(q) At the request of the Secretary on March 20, two revisions were made of the proposed press statement for the Secretary with respect to certificates of indebtedness, for use at the meeting in the Secretary's office on the morning of March 20. - Mr. Murphy, Mr. Lindow

(r) At the request of Under Secretary Bell on March 23, assistance was given in the preparation of the telegram sent to the Presidents of the twelve Federal Reserve Banks on the manner of offering the certificates of indebtedness, on March 23. - Mr. Murphy

(s) At the request of Under Secretary Bell on March 27, a tabular summary chart was prepared on the comments by the Presidents of the twelve Federal Reserve Banks on the manner of offering the certificates of indebtedness, and was transmitted to the Under Secretary on March 28. - Mrs. Miller

(t) At the request of Under Secretary Bell on March 25, revisions were made of Mr. Kilby's letter "To the President of the Corporation Addressed" with respect to the public offering of certificates of indebtedness, for signature of the Secretary, and drafts were submitted to the Under Secretary on March 27. - Mr. Murphy

(u) At the request of Under Secretary Bell on March 30, a draft was prepared of a letter "To the President of the Corporation Addressed" with respect to the proposed security designed for temporary investment of idle business funds, and a draft was submitted to the Secretary on March 30. - Mr. Murphy

(v) Minutes were prepared of the meetings held on March 10, 12, and 17, with representatives of the Board of Governors of the Federal Reserve System. - Mr. Lindow

23. A proposal of the RFC that the Secretary request that corporation to purchase stock in a bank was examined. - Miss Parker, Mrs. Miller

24. In further pursuance to the request of the Secretary on July 8, 1941, tables were prepared, and were transmitted to him on March 17, showing deliveries from August through February of airplanes, flying boats, and four-engine bombers. - Mr. Tickton

25. At the request of the Secretary on November 3, arrangements have been made to obtain certain information on the progress of the programs under Lend-Lease, the Maritime Commission, and the Army Air Corps. - Mr. Haas, Mr. Lindow, Mr. Wagner

(a) A chart was prepared, showing appropriations, allocations, obligations, and disbursements, for Lend-Lease purchases, through February 28. The chart was transmitted to the Secretary on March 24.

(b) Two charts were completed, showing appropriations, contracts awarded, and disbursements of the Maritime Commission through January 31, and through February 28, respectively. The first was transmitted to the Secretary on March 24, the second on March 31.

(c) Two charts were prepared, showing appropriations, contracts awarded, and disbursements, under the Army Air Corps, through January 31, and through February 28, respectively. The first was transmitted to the Secretary on March 2, the second on March 28.

26. A conference with representatives of the American Bankers Association held to discuss banking reactions to various financial proposals was attended on March 13. Minutes of the meeting were prepared, and were transmitted to the Secretary on March 16. - Mr. Lindow

27. Eleven conferences in the Secretary's and the Under Secretary's offices were attended on March 7, 9 (two meetings), 10, 12, 16 (two meetings), 19, 20, 23, and 28, for the purpose of discussing financing problems. - Mr. Lindow

28. Computations were made, and were completed on March 19, of yields on a 5-year security. - Mr. Brown, Mr. Kroll

29. A memorandum was prepared recommending legislation terminating miscellaneous types of tax exemption analagous to the exemption of interest on Federal securities, but unaffected by the Public Debt Act of 1941. The recommendations were discussed with Under Secretary Bell on March 9, in connection with the proposed Public Debt Act of 1942, which has now become law. This Act eliminates these exemptions with respect to future issues. - Mr. Murphy, Mr. Foy

30. At the request of the Division of Tax Research on March 4, a memorandum was prepared transmitting a table entitled "Maturity Schedule of Negotiable Tax-Exempt Securities of the United States Government Outstanding on December 31, 1941". The memorandum was transmitted to Mr. Blough on March 7. - Mr. Conrad

31. At the request of Under Secretary Bell on March 27, a memorandum was prepared on the cause of changes in excess reserves during the past week, and was transmitted to the Under Secretary on March 27. - Mr. Murphy, Mr. Foy

32. Two conferences were attended in Mr. White's office on March 27 and 31 on the problem of general expenditure rationing and forced saving. - Mr. Lindow

33. On March 3, Mr. Upham referred to us a memorandum on the borrowing cost of a loan under the "Income Tax Payment Plan" as set forth in advertisements of the Morris Plan Bank. A memorandum was prepared, and was transmitted to Mr. Upham on March 4, giving the effective annual borrowing charge on loans of varying amounts under the plan. - Mr. Reagh, Mr. Brown, Mrs. Grossman

34. At the request of Under Secretary Bell on March 16, a revision was prepared of Mr. Heffelfinger's letter to Mr. Milton Gurvis with respect to payments on home mortgages as against purchases of Defense bonds. A revision was transmitted to the Under Secretary on March 18. - Mr. Murphy

35. At the request of Under Secretary Bell on March 23, a letter was prepared to Mr. K. Winslow, Jr., discussing the desirability of expanding savings deposits as against the sale of Defense bonds. The letter was transmitted to Mr. C. S. Bell on March 26. - Mr. Rosen

36. At the request of Under Secretary Bell on March 3, an alternative letter was prepared to Mr. Kades' letter to Mr. H. B. McLaren, with respect to local housing authority bonds, for signature of Assistant Secretary Sullivan. A memorandum with the alternative letter was transmitted to the Under Secretary on March 7. - Mr. Murphy

37. At the request of Under Secretary Bell on March 10, a letter was prepared for signature of the Secretary to Mr. Leon Henderson, Price Administrator, in reply to his letter of March 2, with respect to fiscal measures to prevent inflation. The letter was transmitted to the Under Secretary on March 18. - Mr. Murphy

38. At the request of Under Secretary Bell on March 18, a letter was prepared for signature of the President, addressed to the Secretary of Agriculture, in response to his letter of March 14, with respect to measures to combat inflation. The letter was transmitted to the Under Secretary on March 20. - Mr. Murphy, Mr. Rosen

39. At the request of Under Secretary Bell on March 14, a review was made of a draft of an article for his signature for distribution to Latin American newspapers. The article was discussed with the Under Secretary on March 18. - Mr. Haas, Mr. Murphy

40. At the request of Under Secretary Bell on February 12, a study was made of the proposed Public Debt Act of 1942. - Mr. Murphy, Mr. Lindow, Mr. Tickton, Mr. Foy

41. At the request of Mr. Kuhn on March 3, comment on a chart and a table was prepared for use in the statement by the Secretary on March 6, before the Committee on Ways and Means of the House of Representatives, with respect to the proposed Public Debt Act of 1942. A memorandum was transmitted to Mr. Kuhn on March 5. - Mr. Haas, Mr. Murphy

42. At the request of Mr. Tietjens on March 4, an analysis was made of S. 2315, a bill for the relief of dealers in certain articles or commodities rationed under authority of the United States. A memorandum was prepared, and was transmitted to Mr. Tietjens, and a report was prepared to Senator Wagner, Chairman of the Committee on Banking and Currency, for signature of the Secretary. Both were transmitted to Mr. Tietjens on March 18. - Mr. Rosen

43. At the request of Mr. Heffelfinger on March 4, a revision was made of a proposed report on S. 2270, a bill to amend the Social Security Act so as to provide Federal grants to States for war-displacement assistance, for special war-time assistance, and for other general public assistance. The report, addressed to Senator George, Chairman of the Committee on Finance, was transmitted to Mr. Heffelfinger on March 21. - Mr. Murphy

44. At the request of Mr. Spingarn on March 6, an analysis was made of S. 2156, a bill to assist in the control of inflation and to promote the national defense through the sale of Defense stamps, savings certificates, and bonds, and for other purposes. A report was prepared addressed to Senator Wagner, Chairman of the Committee on Banking and Currency, for signature of the Secretary, and a letter was prepared to the Bureau of the Budget for signature of the Administrative Assistant to the Secretary. Both were transmitted to Mr. Spingarn on March 19. - Mr. Murphy

45. At the request of Mr. Spingarn on March 6, an analysis was made of H. R. 6587, a bill authorizing and directing the Secretary of the Treasury to conduct prize drawings as a means of raising additional revenue for defraying war expenditures and of financing increased Federal grants for old-age assistance after termination of the present unlimited national emergency. A report was prepared addressed to Representative Doughton, Chairman of the Committee on Ways and Means of the House of Representatives, for signature of the Secretary, and a letter was prepared to the Bureau of the Budget for signature of the Administrative Assistant to the Secretary. Both were transmitted to Mr. Spingarn on March 19. - Mr. Murphy

46. At the request of Mr. Tietjens on March 3, a review was made of S.2290, a bill to further reduce for two additional years the interest rate on certain Federal Land Bank loans and on Land Bank Commissioner's loans. The review was transmitted to Mr. Tietjens on March 5. - Mr. Murphy

II. Projects or studies under way

1. A study is being made of the relative interest costs of short- and long-term borrowing. - Mr. Foy, Mr. Barnett Mr. Rosen

2. A study is being made of the effect of the maturity, call period, coupon, premium, and size of issue on the prices and yields of United States securities. - Mr. Conrad

3. A memorandum is being prepared on a negotiable security for continuous sale. - Mr. Murphy

4. A study is being made of developments in the reserve position of the banks. - Mr. Rosen, Mrs. Miller

5. Historical tables are being prepared which will present various data on new Treasury notes and bonds and on guaranteed new issues. Three tables have been completed. Others are in process. - Mr. Conrad, Mr. Rosen

6. At the request of Mr. Broughton on March 6, a review is being made of the proposed circular for short-term nonmarket securities. - Mr. Murphy

7. A revision is being made as of June 30, 1941, of the estimates of the ultimate increase in interest costs which would result from removal of the tax-exemption privilege from all public securities. - Mr. Lindow, Mr. Conrad

8. A study is being made of war-financing measures of belligerent nations in the present war. - Mr. Sandelin

9. A study is being made of the market action of the various maturity classes of Government securities in relation to the type of holder. - Mr. Conrad

10. At the request of Mr. Surrey on January 1, a study is being made of the amortization of bond premium and discount. - Mr. Murphy

11. A memorandum is being prepared on Mr. Viner's proposal for a new system of allotting Treasury bills. - Mr. Murphy Mr. Tickton

12. A memorandum is being prepared on the desirability of conducting the war finance as it was in the last World War, by war loan drives. - Mr. Foy

13. At the request of Assistant Secretary Gaston on January 20, a review is being made of "A Memorandum on Financing the War", by Mr. Robert L. Owen. - Mr. Foy

14. A study is being made of the sources of funds available for borrowing by the British Government comparable to the study in progress for this country, as described in Financial Analysis, I, item 21 preceding. - Mr. Weintraub

15. A study is being made of the post-war effects of a large volume of demand debt. - Mr. Murphy, Mr. Lindow, Mr. Foy

16. At the request of Under Secretary Bell on March 30, a study is being made of replies to the circular letter of March 20 from the Secretary to 7,500 owners of Series F and G savings bonds. - Mr. Murphy

17. At the request of Under Secretary Bell on March 21 and 30, an analysis is being made of a memorandum by Dr. Burgess entitled "Treasury War Borrowing and the Banks", together with a reply to Dr. Burgess commenting on the memorandum. - Mr. Murphy

18. At the request of Mr. Upham on March 30, a memorandum is being prepared on the dollar amount of outstanding interest-bearing United States securities subject to surtax and the dollar amount of such securities held by banks. - Mr. Conrad

19. At the request of the Division of Tax Research on March 30, cooperation is being given in preparation of a report on tax-exempt securities. - Mr. Murphy, Mr. Lindow

20. At the request of Mr. George F. Milton, Consultant, Defense Savings Staff, on March 23, a complete file of tables is being prepared giving the history of sales of Defense savings bonds. - Mr. Reagh

21. At the request of Mr. Broughton on March 19, a letter is being prepared to Mr. C. Raymond Allen, concerning Treasury policy on withdrawal of savings deposits for investment in Defense savings bonds. - Mr. Murphy, Mr. Rosen

22. At the request of Mr. Morris on December 16, an analysis is being made of a proposed industrial loan corporation bill of 1942. - Mr. Foy

23. At the request of Under Secretary Bell on May 31, 1940, replies are being prepared to certain questions asked by the Wagner Committee preparatory to its investigation of banking and monetary conditions pursuant to Senate Resolution 125, 76th Congress, 3rd Session. - Mr. Haas, Mr. Murphy, Mr. Foy

24. At the request of Under Secretary Bell on June 16, 1941, cooperation was given in preparing replies to the list of questions accompanying a letter from Senator Tydings of May 5. The information is for use by the Senate Committee created to find ways and means of automatically balancing the Federal Budget in times of peace. A proposed reply was sent to the Under Secretary on June 18, 1941. - Mr. Murphy, Mr. Foy

25. At the request of Mr. Tietjens on March 26, a report is being prepared on S. 2146, a bill to amend the Home Owners Loan Act of 1933, as amended, and on S. 2147, a bill to amend Title IV of the National Housing Act, as amended, and S. 2148, a bill to amend the Federal Home Loan Bank Act, as amended. - Mr. Murphy, Mr. Sandelin

Revenue Estimates

I. Projects or studies completed

1. The regular monthly statement was prepared, showing the latest revised estimates of receipts, by months and by principal sources of revenue, for the period March-June 1942. The statement was transmitted to the Bureau of Accounts. - Mr. Delcher

2. The regular monthly summary comparison was prepared, showing estimated receipts and actual receipts in February 1942 on the daily Treasury statement basis. - Mr. Delcher

3. The regular monthly detailed comparison was prepared, showing estimated and actual receipts in February 1942, based on the collections classification. - Mr. Delcher

4. An analysis has been completed of each component of the January Budget estimates of miscellaneous internal revenue, excluding capital stock, estate, and gift taxes, for the fiscal years 1942 and 1943. - Mr. Daggit, Miss Spiegel, Mr. Colclough, Miss Smith

5. A comparison was prepared, and was completed on March 10, of the February revision of estimates of receipts for fiscal 1943 with the January Budget estimates. - Mr. O'Donnell, Mr. Leahey, Mr. Kelly, Mr. Smith, Mr. Dambrun, Mr. Jorgensen, Mr. Lusk

6. In connection with the proposed revision of the revenue laws in 1942, a number of revenue estimates, listed below, were prepared for use of the Division of Tax Research. - Mr. O'Donnell, Mr. Leahey, Mr. Kelly, Mr. Smith, Mr. Dambrun, Mr. Jorgensen, Mr. Lusk

(a) Estimates were prepared, and were transmitted in a memorandum to Mr. Blough on March 2, of the revenue yield from a general sales tax at several rates for three distribution levels, assuming various combinations of exemptions for food, clothing, medicine, and fuel.

(b) A revision was made, and was transmitted in a memorandum to Mr. Blough on March 10, of the revenue estimates for the years 1926-1940 of capital gain and loss provisions applicable to individuals and fiduciaries. Corresponding estimates were made for the years 1941 and 1942.

(c) An estimate was prepared on March 31, and was transmitted in a memorandum to Mr. Blough, of the revenue of a proposed tax on radio broadcasting companies.

(d) Estimates were prepared, and were transmitted in a memorandum to Mr. Blough on March 31, of the revenue gain if the deduction for State income taxes paid were disallowed in computing Federal individual income tax liability; and the loss in revenue to the States if they all permitted the Federal individual income tax as a deduction in computing State individual income tax liability.

(e) Estimates were prepared, and were transmitted in a memorandum to Mr. Blough on March 31, of the division of the tax yield between short-term and long-term capital transactions yearly beginning 1938.

(f) Estimates were prepared, and were transmitted in a memorandum to Mr. Blough on March 2, of the revenue increase from proposed changes in the tax base of life insurance companies and insurance companies other than life.

(g) Estimates were prepared, and were transmitted in a memorandum to Mr. Groves on March 5, of the loss of revenue to the Federal Government if it abandoned to taxation by the States all individual incomes below four specified levels.

(h) Certain basic corporation and individual income and tax data, actual for 1940 and estimated for 1941 and 1942, were prepared, and were transmitted on March 14 to Mr. Paul with a letter to Mr. Stam for his signature. A copy was given to Mr. Blough.

(i) Estimates were prepared, and were transmitted in a memorandum to Mr. Blough on March 2, of the revenue effects of the adoption of specified changes in the surtax schedule; of joint returns on three assumptions, by net income classes; and of a ten percent withholding tax.

(j) An estimate was prepared, and was transmitted in a memorandum to Mr. Blough on March 2, of the revenue effect of a revision of a portion of the corporation tax plan proposed on February 24, to reduce the surtax applicable to corporations subject to a flat tax, together with repeal of the capital stock and declared value excess-profits taxes.

(k) A revised estimate was prepared, and was transmitted in a memorandum to Mr. Blough on March 2, of the revenue yield from a specified excise tax on bottled soft drinks and carbonic acid gas, together with a revision of the estimated total revenue from the excise tax plan.

(l) An estimate was prepared, and was transmitted in a memorandum to Mr. Blough on March 3, of the amount of compulsory saving by corporations in accordance with a proposed formula.

(m) An estimate was prepared, and was transmitted in a memorandum to Mr. Blough on March 6, of the increase in surtax rates on corporations classified by two net income classes, which would be required to yield the same amount of revenue as the Treasury proposal, on two different assumptions.

(n) An estimate was prepared, and was transmitted in a memorandum to Mr. Blough on March 9, of the surtax rate required to yield the same revenue as the Treasury proposal if excess-profits rates should be increased an additional 15 percentage points.

(o) An explanation was prepared, and was transmitted in a memorandum to Mr. Blough on March 12, of the basic assumptions in connection with the estimates of revenue yield of a Federal retailers', wholesalers', and manufacturers' tax.

(p) An estimate was prepared, and was transmitted in a memorandum to Mr. Blough on March 28, of the revenue effect for corporations and individuals of the present capital gains provisions compared with estimates under the Treasury proposal, and with estimates of comparable yields under the suggested treatment of capital gains and losses under H. R. 6358.

(q) Estimates were prepared, and were transmitted to Mr. Blough in a memorandum on March 30, of taxes on capital gains and losses, and on all other income, in each year from 1926 through 1940.

(r) A review was prepared on March 31, and was transmitted to Mr. Blough in a memorandum of the estimates of revenue loss contained in the draft of the statement, "The Proposal to Tax Interest from State and Local Securities under the Federal Income Tax".

II. Projects or studies under way

1. An analysis is in preparation of each component of the September revised estimates of miscellaneous internal revenue, excluding capital stock, estate, and gift taxes, for the fiscal years 1942 and 1943. - Mr. Daggit, Miss Spiegel

2. New studies were begun for revising and improving methods of estimating revenues from taxes on the following: - (a) transportation of persons; and (b) small cigarettes. - Mr. Daggit, Miss Spiegel, Miss Smith

3. Studies are in process for estimating revenues from proposed taxes on soft drinks, candy, and chewing gum. - Mr. Daggit, Miss Spiegel, Miss Smith

4. In connection with the proposed revision of the revenue laws in 1942, a number of revenue estimates, listed below, are being prepared for use of the Division of Tax Research. - Mr. O'Donnell, Mr. Leahey, Mr. Smith, Mr. Dambrun, Mr. Jorgensen, Mr. Lusk

(a) An estimate is being made of the additional revenue if mutual non-life insurance companies taxable under Section 207 of the Internal Revenue Code were made taxable as stock non-life insurance companies taxable under Section 204, and the exemption under Section 101(11) were restricted to local mutual companies of the assessment type.

(b) A detailed estimate is being made of the revenue yield of a net value-added tax, assuming six different taxpayers' bases, on two tax credit assumptions.

(c) An estimate is being made of the revenue which would result if the Canadian corporate tax system were substituted for the present system in this country.

(d) An estimate is being made of the total revenue and increase over the existing law which would result from the adoption of the British individual and corporate income and excess-profits tax structure.

(e) With reference to the excess-profits estimate completed on January 17, a breakdown is being made of the income and tax figures before and after the proposed change in the excess-profits tax credit, by detailed industrial and size classifications of corporations.

(f) An estimate is being made of the revenue which would result from modification of treatment of capital gains and losses by providing that the decedent's basis for the computation be made the basis in the hands of the persons receiving the property.

(g) Estimates are being made of yield from estate and gift taxes on the basis of four changes, and their combined effect.

(h) An estimate is being made of percentage depletion.

(i) A table is being prepared showing for each tax the present expected revenue and the expected increase under the proposed rates.

(j) An estimate is being prepared of the increase in revenue under the present and the proposed rates from adoption of (1) the Wood Plan and (2) mandatory joint returns as recently proposed.

(k) An estimate is being prepared of the increase in revenue from a 100 percent tax on net incomes in excess of $5,000.

(l) An estimate is being prepared of the effect of the latest estimate of revenue from mandatory joint returns on the community property States.

(m) Estimates are being prepared of the additional revenue resulting from reduction of personal exemptions and credit for dependents under the present and proposed laws, with analysis of six aspects of its effects.

(n) An estimate is being prepared of the number of taxpayers under the manufacturers', wholesale, and retail forms of sales taxes comparable with Treasury estimates of sales tax revenue yields.

(o) Estimates are being prepared of compulsory savings on the basis of two assumptions.

(p) Estimates are being prepared on the bases of the present law and under proposed rates, for mandatory joint returns, on five separate assumptions.

(q) An exhibit is being prepared giving the tax base used for estimates of individual and corporate income and excess-profits taxes.

(r) In connection with the Boland Bill (H. R. 6358) and the Treasury proposals for taxing capital gains and losses, estimates are being prepared of the yield, on six different assumptions.

(s) Estimates are being prepared of yield from the tax on capital gains and losses assuming modification on three bases, under a number of variations which might be incorporated.

Economic Conditions Related to Fiscal and Revenue Matters

I. Projects or studies completed

1. Memoranda on the business situation were prepared, and were transmitted to the Secretary on March 2, 9, 17, 25, and 30. - Mr. Haas, Mr. Daggit, Mr. Chevraux, Miss Ziegler

These memoranda contained in addition to analysis of the current situation the following special studies:

(a) Percentage increase in non-agricultural employment from January 1941 to January 1942, by States. (Table in memorandum of March 9.) - Mr. Daggit, Mr. Colclough

(b) Percentage changes in major groups of BLS all-commodity wholesale price index. (Chart in memorandum of March 9.) - Mr. Daggit, Miss Spiegel

(c) Consumer expenditures compared with salaries and wages from January 1938 to date. (Chart in memorandum of March 16.) - Mr. Daggit, Mr. Colclough, Mr. Saunders, Miss Spiegel

(d) A comparison of wholesale prices in the United States and Canada, from August 1939 to date. (Chart in memorandum of March 23.) - Mr. Daggit, Miss Spiegel

2. Monthly or weekly reports are received from 25 individual companies, in response to the Secretary's requests giving confidential data on new orders and sales. The data in these reports are tabulated and charted currently for the Secretary's information, and are also combined into an index of new orders, which accompanies the memorandum on the business situation. - Mr. Colclough, Miss Spiegel

3. Memoranda on employment under the Work Projects Administration were prepared on March 2, 9, 16, 23, and 30. - Miss McLachlan

4. Compilations were made of daily quotations on selected commodities, and daily and weekly figures on selected business indexes, foreign and domestic security transactions, security prices, and exchange rates, as well as other data for the Secretary's chart book. - Mr. Chevraux

5. In further response to the request of Mr. Leon Henderson on July 19, 1942, copies of charts on commodity prices were transmitted to him, as indicated below. - Mr. Daggit

   The movements of the BLS index of 28 basic commodities compared with the BLS wholesale price index of 889 commodities were shown from 1936 to date. Five charts, as of February 28 and March 7, 14, 21, and 28, were transmitted on March 3, 10, 17, 24, and 31, respectively.

   Two charts showed the movements of the indexes of 12 foodstuffs and 16 industrial raw materials, and percentage changes for each commodity from August 1939 to current dates. These charts, as of February 27, March 6, 13, 20, and 27, were transmitted March 3, 10, 17, 24, and 31, respectively.

6. In further response to the request of the Secretary on January 28, memoranda and charts were prepared on export freight movements and lighterage freight in storage and on hand for unloading in New York Harbor, as of February 27, March 6, 13, and 20, and were transmitted to him on March 5, 11, 19, and 25, respectively. Copies were given to Mr. Kamarck in further response to his request of December 4. - Mr. Daggit

7. At the request of Mr. Buffington on March 11, a memorandum was prepared, and was transmitted to him on March 12, on cost-of-living increases, from January 1941 to January 1942. - Mr. Daggit, Miss Spiegel

8. At the request of the Secretary on March 20, a memorandum, statement, and chart, together with a letter for his signature to six Government and banking officials, were prepared on the effect of price ceilings on Canadian prices. They were transmitted to him, and the letters were mailed on the same date. - Mr. Haas, Mr. Daggit, Miss Spiegel, Mr. Saunders

9. A memorandum and six tables were prepared, from confidential data on sales of two mail order chains, by types of goods and regions, and were transmitted to the Secretary on March 5. - Mr. Haas, Mr. Daggit, Mr. Colclough, Mr. Saunders, Miss Spiegel

10. At the request of Mr. Louis Bean on March 24, a review was made of a table entitled, "Corporate Income, United States 1935-42." - Mr. Haas

11. For use in revenue estimating, revised forecasts were made of nine basic business indexes for the calendar year 1942. - Mr. Daggit, Miss Spiegel, Mr. Colclough, Mr. Saunders

12. The Dow-Jones composite stock averages as of the end of each month, were brought up to date on March 21. - Mr. Daggit, Miss Spiegel

13. For use in revenue estimating, new studies were completed to improve our method of forecasting two basic business indexes. - Mr. Daggit, Miss Spiegel, Mr. Colclough, Mr. Saunders

14. The final meeting of the Central Housing Committee on Economics and Statistics was attended on March 11. A letter to the Secretary of the Committee stating approval of the final report of the Committee was prepared, and was mailed on March 19. - Mr. Lindow, Mr. Wagner

Actuarial Problems

I. Projects or studies completed

1. At the request of Mr. Leon Frechtel, Assistant Director, Attorney General's Committee on Bankruptcy Administration, on February 19, estimates were prepared, and were transmitted to Mr. Frechtel in a letter on March 5, of the cost to the Government of a retirement system for referees in bankruptcy courts to be set up under Section 6 of H. R. 4394, a bill to amend the act establishing the uniform bankruptcy system. - Mr. Reagh, Mr. Brown, Mr. Kroll

II. Projects or studies under way

1. The Board of Actuaries of the Civil Service Retirement and Disability Fund is laying out detailed plans for tabulating and processing data for use in preparing the regular five-year valuation of the Civil Service Retirement Fund for the purpose of determining the liabilities of the Government under the Civil Service Retirement law. Under the law, such a valuation must be prepared as of July 1, 1940. The valuation is well under way. - Mr. Reagh, Mr. Brown

2. At the request of Mr. Fisher, Chief, Retirement Division, Civil Service Commission, on January 28, the Board of Actuaries is preparing sets of factors to determine the immediate annuities of those eligible for retirement under section 1(d) and section 5(a) of the Civil Service Retirement Act, as amended on January 24. A reply to the request is being prepared by Mr. Buck, Chairman of the Board, and several revisions of drafts have been suggested. - Mr. Reagh, Mr. Brown, Mr. Kroll

3. At the request of Dr. Falk of the Social Security Board on January 7, a review was made of a preliminary draft of the Second Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance Trust Fund. A final draft received from the Board on February 16 for Treasury approval, was returned to the Social Security Board on March 23 for signatures. Two signed copies were received for final check on March 27. - Mr. Brown

4. Several years ago a committee was organized for the purpose of studying ways and means to extend retirement benefits to all Government employees regardless of Civil Service status. The working committee, the Sub-committee on Retirement, has again become active. A report has been prepared but has not yet been submitted to the main committee. - Mr. Reagh, Mr. Brown

5. At the request of Mr. A. R. Pilkerton, Auditor of the District of Columbia, an actuarial quinquennial valuation is being made of the Policemen's and Firemen's Pension Fund of the District of Columbia. This valuation is being made by the Treasury Department in accordance with the 1942 District of Columbia Appropriation Act, approved July 1, 1941. Substantial progress has been made in the basic work for the valuation. - Mr. Reagh, Mr. Brown, Mrs. Grossman, Mrs. Reagh,

6. At the request of Under Secretary Bell on March 19, comments are being prepared on a draft regarding taxation of pension trusts. - Mr. Reagh

7. At the request of the Division of Tax Research, several conferences have been attended with members of the Division of Tax Research, the Legal Staff of the Bureau of Internal Revenue and the Legislative Counsel regarding proposed changes in the tax laws relating to pension trusts and the taxation of insurance companies. At the request of Mr. Mintz, of the Bureau of Internal Revenue, on March 20, a memorandum was submitted to Mr. Surrey, Assistant Legislative Counsel,on the proposals. - Mr. Reagh

Others Projects or Studies

1. Publications

   (a) For the March issue of the Treasury Bulletin data were prepared on average yields of long-term Treasury bonds and high-grade corporate bonds. - Mr. Barnett

   All the material submitted for the March issue was reviewed and edited. - Mr. Lindow, Mr. Lynch

   The following tables were revised for the March issue as follows:

      1. The maturity schedule of securities guaranteed by the United States consolidated with that of securities issued by the United States. - Mr. Lindow, Mr. Lynch

2. The annual summary tables on capital movements showing data for 1940 and 1941, with the net change between the years. - Mr. Lindow, Mr. Lynch

(b) For the publication Prices and Yields of Public Marketable Securities Issued by the United States Government and by Federal Agencies, computations were made and copy was prepared for the issue covering the month of February. - Mr. Brown, Mr. Kroll

2. At the request of Senator Tydings, in a letter dated March 4, received March 11, answers were prepared to the questionnaire under Senate Resolution 223, authorizing an investigation of the number of employees in Executive departments and agencies that can be released from normal activities and transferred to or used by Defense agencies. A letter was prepared transmitting the answers, and was mailed on April 2. - Miss Michener, Mr. Murphy, Mr. Wier

3. On behalf of Mr. Haas, a meeting was attended on March 25, of the Committee on the Publication of Statistics. - Mr. Lindow

4. Correspondence

Replies were prepared to letters received on subjects relating to the work of the Division, and letters drafted elsewhere and submitted to the Division for that purpose were reviewed. - Miss Michener, Mr. Lindow, Mr. Foy, Miss Ziegler, and other members of the staff in appropriate fields of work.

During March 535 letters were received in the Division and 497 were handled as required.

5. Charts

Charts are prepared and continuously brought up to date for use in memoranda and in chart books on special subjects, and corresponding photographic, photostatic, and multilith work is carried on. This is done in the Graphic Section under the supervision of Mr. Banyas. A statistical report on the work of the Graphic Section for the month of March is attached.

Work completed in the Graphic Section, Division of Research and Statistics, during March 1942.

Type of work	For Division of R & S	For Others	Total
raphic:			
New charts:			
Total charts completed	38	29	67
Bond book charts completed	-	-	-
Charts brought up to date:			
3 bond chart books brought up to date	26 times	-	26(t)
All other charts brought up to date	717	31	748
Miscellaneous:			
Total jobs	16	8	24
hotographic:			
hotographs:			
Total jobs	66	72	138
Number of-			
Negatives	170	203	373
Contact prints	306	439	745
Enlargements	82	372	454
Photostats:			
Total jobs	206	73	279
Number of-			
Lettersize copies	5,445	3,128	8,573
All other copies	4,729	198	4,927
Multilith:			
Total jobs	24	7	31
Number of-			
Zinc and paper plates	184	147	331
Miscellaneous:			
Total jobs	9	10	19

Graphic Section, Division of Res[illegible]ch and Statistics, by months.
Beginning January 1942

Type of work	Jan.	Feb.	Mar.	April	May	June	Total
A. Graphic:							
New charts completed	81	73	67				
Charts brought up to date	764	719	748				
Bond book charts completed	2	1	-				
3 bond books brought up to date	26 (t)	24(t)	26(t)				
Miscellaneous	19	30	24				
B. Photographic:							
Photographs:							
Total jobs	116	121	138				
Number of-							
Negatives	409	512	373				
Contact prints	837	758	745				
Enlargements	376	434	454				
Photostats:							
Total jobs	297	312	279				
Number of-							
Lettersize copies	9,074	11,623	8,573				
All other copies	3,400	3,298	4,927				
Multilith:							
Total jobs	17	16	31				
Number of-							
Zinc plates	144	163	331				
Miscellaneous:							
Total jobs	31	18	19				

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BRITISH MOST SECRET
U.S. SECRET
COPY NO. 13

OPTEL NO. 245.

Information received up to 7 a.m. 18th July, 1942.

1. NAVAL.

Photographic reconnaissance 17th showed TIRPITZ, SHEER and HIPPER at Narvik and LUTZOW and KOLN at Trondheim. The final report on the Russian Convoy states that 21 ships are known to be sunk and one is unaccounted for. A small British tanker escorted by 2 motor launches was attacked yesterday off South Devon by four F.W. 190's. The tanker destroyed 1 aircraft but a motor launch was severely damaged by direct hit.

2. MILITARY.

EGYPT. 16th. Having reoccupied the whole of the Tel El Eisa feature we were again forced to withdraw from the Southern Knoll which was rendered untenable in daylight by heavy bombing attacks and shell fire. In the evening elements of 9th Australian Division struck southwards from Tel El Eisa and secured the low ridge Tel El Makh-Khad and then pushed on and captured San Yet El Miteiriya. They took about 500 prisoners during these operations. In the Central Sector United Kingdom Armoured Forces engaged 45/50 enemy tanks during the morning near the western end of the El Ruweisat Ridge and claimed several tanks destroyed. The enemy returned to the attack in the evening with a similar number of tanks and lorried infantry. They were once more heavily engaged by our armour and artillery and at last light was seen to be retiring westwards. Ten enemy tanks were claimed in this engagement making 25 for the day. In the south our mobile forces engaged small groups of enemy vehicles and in the afternoon reported that their patrols were pushing out of the west.

RUSSIA. In the Voronezh area the Russians have regained the initiative but the Germans claim to be holding the Russian counter attacks in the Ukraine. The Germans have made further progress in their drive south-eastwards along the River Donets.

3. AIR OPERATIONS.

WESTERN FRONT. 17th. 2 Wellingtons bombed Essen and another Emden - Spitfires attacked gun positions in the Dieppe area. Our fighters shot down one JU 88 over this country.

EGYPT. 15th/16th. A total of 67 bombers attacked shipping and laid mines in Tobruk Harbour. 11 naval aircraft bombed mechanical transport in the battle area. Two aircraft are missing.

16th. Light bombers and fighter bombers continuously attacked enemy forces in the battle area. Many vehicles were destroyed or damaged. Fighters on offensive patrols destroyed 5 enemy aircraft and damaged 12. 6 of our fighters were lost.

MALTA. Between 2000 15th and 1600 17th a total of 34 aircraft mainly fighters attacked. Our fighters destroyed 4 and damaged 3.

4. RUSSIA.

Railway communications between Kizlyar and Astrakhan including a bridge over the Volga are now said to be complete. This railway provides an entirely new route from the Caucasus oil fields to the North and is independent of the existing alternative via Stalingrad to the main line from Rostov to Moscow. At Astrakhan the new railway connects with a line running northwards and east of the Volga which links up with the existing system between Moscow and the Urals.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 18,1942

TO Secretary Morgenthau

FROM Mr. Hoflich

Subject: German Warfare in the Libyan Desert.

1. The following comments on the German armored forces in Libya were made by an American observer:

a. The German armored unit is well-balanced and largely self-contained. It has a high proportion of anti-tank and anti-aircraft artillery. During an offensive, the artillery is maintained well forward and is advanced as the tanks move forward. Withdrawal from action is covered by artillery, which is withdrawn following the tanks. It is said that British armored units have often suffered heavily when they have been drawn into the range of Axis artillery during an Axis withdrawal.

b. A high-ranking British officer was asked why the R.A.F. had not attacked concentrations of German supply vehicles more frequently. He replied that the Germans place a high proportion of anti-aircraft artillery to protect supply concentrations and that this makes low elevation air attacks too costly. He said, furthermore, that the difficulty of clearly identifying supply concentrations makes high elevation air attacks too dangerous to the British ground forces.

2. The following appeared in a report of a British officer who had been a prisoner of the Germans on the Libyan front in January, 1942:

"The German morale appeared to be very high, in spite of the fact that the Germans had been retreating steadily since Salum. They had no doubt that they would finish off the war in Africa very quickly, and the whole war quite soon. Their propaganda has been very successful, and they said that we had lost 400 tanks at Tobruk. The food was very good and much more varied than we got...The Germans regard the Italians as rather a joke and are very contemptuous about their fighting qualities."

(Military Intelligence Service Information Bulletin, No.20, "German Methods of Warfare in the Libyan Desert", Washington, July 9, 1942)

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 18, 1942

TO Secretary Morgenthau

FROM Mr. Hoflich

Subject: Colonel Yeaton's analysis of the Russian military situation.

On July 14, 1942, I talked with Colonel Yeaton, head of the Eastern European Section of the Military Intelligence Division. The following are the more significant statements made by him regarding the Russian military position.

1. The Russians are inferior to the Germans, not only in equipment but also in leadership. Up to a certain point, the Russians have good officers, but above the regiment, the Russian officers are uneducated and illiterate, with no knowledge of military strategy. Marshal Timoshenko is a lovable character and a great leader of men, but he too is ignorant of military strategy.

2. Americans as a whole are woefully misinformed with respect to the Russo-German military situation, because this country has been flooded with Russian propaganda which has recently been taken up by the British. Outright lies have been magnified time and time again in the newspapers and elsewhere. As a result, most Americans have a highly distorted picture of the Russian military position.

3. Stalingrad will fall within about two weeks. Then the Germans will roll down the Volga and cut off the entire Caucasus region in a short time.

4. The actual conquest of the Caucasus may require some time, owing to the terrain, but in the meantime, the Russians will be cut off from the oil fields there.

5. Russian resistance has broken down completely. It was always a weak "shoe string" of defense propped up by one thing only, namely, Lend Lease. This means that we cannot count on the Russians to hold the Germans.

6. We cannot count on the Russians to stage a successful offensive. The Russian Army is incapable of offensive action. In fact, it has never staged a real offensive. The so-called Russian offensive of last winter consisted simply of small guerrilla forces pushing through soft spots in the Nazi lines. The Nazis left relatively small forces to guard the more important points, and these points they held throughout the winter. Thus, the Germans were able to rest and re-equip the bulk of their forces. Had the Russians been wise, they would have followed the same tactics. Timoshenko's attempted offensive drive in the Kharkov sector this spring was a stupid blunder. It accomplished nothing and resulted in tremendous Russian losses. The Germans are powerful enough to hold the Russians with one-third of the German forces now on the Eastern front.

7. In order to keep correctly informed on the Russo-German front, it is advisable to follow the official German communiques. The Soviet communiques are completely unreliable.

8. The situation on the Russo-German front will not influence in any way the popularly expected Japanese attack on Siberia. There is no connection between the Russo-German and the Russo-Japanese theaters of action. The Japanese are in no hurry to invade because the Soviets constitute no threat to them, but the Japanese do not want the Russian airfields to be used by the United States. When the Japanese get ready, they will take over Siberia, but this is not to be expected in the immediate future.

HOPEWELL JUNCTION
DUTCHESS COUNTY, NEW YORK
TELEPHONE BEACON 211

Diary

July 19, 1942.

Sunday!
Called Chief Wilson about
3.45 and asked him
who was responsible
for ~~parachutists~~. He
said Army + F. B. I.

at 4 00 oclock called
J. E. Hoover asked him if
he was in on Rhinebeck show.
Said he had heard nothing
since last night. ~~a~~ Said
Army Intelligence had
pushed him aside. (over)

said as a result of my
call he would get in at
once. Told him State Police
had new lead.

COPY NO. 13

BRITISH MOST SECRET
U.S. SECRET

OPTEL No. 246

Information received up to 7 A.M., 19th July, 1942.

1. NAVAL

H.M.S. WELSHMAN arrived at MALTA with an important cargo on the 16th.

In the MEDITERRANEAN, a Dutch ship was torpedoed but reached HAIFA, and two British ships were damaged by explosions, probably caused by mines, at GIBRALTAR. A Russian ship, reported overdue, has arrived.

2. MILITARY

EGYPT. 17th. In the Northern sector, after counter-attacks by enemy infantry and tanks, our forces withdrew from SANYET EL MITEIRIYA and consolidated their positions at TEL EL MAKHAYKHAZ. In the Central sector, enemy infantry attacked the RUWEISAT RIDGE during the morning and again in the early afternoon, both attacks were repulsed. In the Southern sector, our forces advanced westwards and were in contact with the enemy on a line from DEIR EL QATTARA to the EL TAQA Plateau, eight miles west of QUARET EL HEMEIMAT.

RUSSIA. Russian attacks near VORONEZH continue but apparently without success. German forces between the DON and DONETS are driving rapidly southwards, thus constituting a serious threat to the Russians west of the LOWER DONETS.

3. AIR OPERATIONS

WESTERN FRONT. 18th. Three Lancasters bombed ESSEN. Hurricane bombers and Spitfires set fire to a small merchant vessel and damaged two anti-aircraft ships off CHERBOURG. One Hurricane bomber is missing. A Focke Wulf 190 was destroyed off LE TOUQUET and a bomber off SUFFOLK.

MALTA. Between 7 P.M. 17th and noon 18th about 12 enemy bombers and 20 fighters operated. One Junkers 88 was destroyed, another probably destroyed and a Messerschmidt 109 damaged. One Spitfire was lost but pilot is safe.

EGYPT. 16th/17th. A total of 45 bombers attacked shipping and harbour installations at TOBRUK and laid mines in the harbour. One ship was set on fire.

17th. Our air activity was slightly curtailed owing to reduced ground activity. Bombers operating in the battle area found targets more dispersed than on the previous day. About 10 enemy vehicles were either destroyed or damaged. Five enemy aircraft were destroyed, one probably destroyed and four damaged by our fighters, seven of which are missing. Eight Liberators attacked shipping at TOBRUK and BOMBA. A tanker was set on fire and a 10,000 ton ship and a small vessel were hit.

July 20, 1942.
11:57 a.m.

HMJr:	Hello.
Operator:	Speaker Rayburn.
HMJr:	Hello.
Speaker Rayburn:	Yes, Henry.
HMJr:	How are you?
R:	Fine.
HMJr:	Sam, I'm going to tell you what's on my mind, and then you can tell me whether you want to do anything about it or not, see?
R:	Uh huh.
HMJr:	I understand in the Committee they have just voted two amendments on this tax bill....
R:	That's right.
HMJr:	....and the one that I'm most interested in - they decided on the normal and surtax to reduce it from forty-five to forty....
R:	Uh huh.
HMJr:	....and we here in the Treasury think that's terrible.
R:	Uh huh.
HMJr:	And I thought I'd tell it to you for....
R:	Jere made the statement.
HMJr:	Who?
R:	Jere Cooper made a statement to that effect on Saturday.
HMJr:	To what effect?

R: Well, to the effect that he thought it was a bad - be bad for - to recommit this bill. They were talking about a motion to recommit then on these same two things.

HMJr: Yeah.

R: But the Committee adopted it, and by what vote I don't know.

HMJr: Well, I mean they're going to have to vote on it on the Floor.

R: That's right.

HMJr: And....

R: But I'm thinking that it will be adopted, Henry.

HMJr: Well, I....

R: As I said, I - Joe Martin said the other day there wouldn't be fifteen Republicans vote against it....

HMJr: Well....

R: ....a motion to recommit with those two provisions reducing the forty-five to forty and with eighty - and eighty-seven and a half to ninety.

HMJr: Yeah.

R: Also Bob, now he's freed, he said he wouldn't vote for a motion of recommitment, but he's very much in favor of this thing.

HMJr: Yes. Well, as I said, for whatever it's worth I thought I'd let you know where we stand.

R: All right, fine. I'm sure....

HMJr: But I'm not....

R: I'm sure that Jere - Jere had the word on that.

HMJr: What's that?

R:	I was sure that Jere Cooper had the word on that.
HMJr:	You will.
R:	I say I'm sure he had the word on it when he spoke last week to F.D.R.
HMJr:	As to the way we felt.
R:	Yeah.
HMJr:	The eighty-seven and a half to ninety - they both are bad because we here are in favor of - of a rebate, you see?
R:	Uh huh.
HMJr:	And they're both too high....
R:	Yeah.
HMJr:	....without a rebate.
R:	Yeah, all right, Henry.
HMJr:	Thank you.
R:	Goodbye.

July 20, 1942.
2:56 p.m.

HMJr: Milo?

Milo Perkins: Hello, Mr. Secretary. How are you?

HMJr: Fine. Milo, for your protection and mine, have we got anything from the President in regard to that Shanghai currency matter?

P: You mean in writing?

HMJr: Yeah. I could have sworn that I had a memo from him but I can't find one.

P: Well, I haven't got anything from him in writing, but - I'm willing to take full responsibility....

HMJr: Yeah.

P: ....with the Vice President, and....

HMJr: Now - well, I've had this letter here to sign, in fact, I've signed it on the paper, you see?

P: Yeah.

HMJr: And....

P: But that - that isn't tied presumably to this thing. That is, you do that as I understand it - you do the same thing on paper for South American currency.

HMJr: True, but I - the - two things - one, I mean it would be nice if I did have a memo, but I can't remember how the thing - it seems as though Soong brought it to me direct.

P: He did bring it to you direct after a verbal talk with the President....

HMJr: I see.

P: ....and we mentioned it to the Boss....

HMJr: Did you?

P: ....and then H. A. and I spent an evening with Soong, and our people worked on it and talked to Harry White a lot about it, and the way I feel is that....

HMJr: Excuse me. Well, what did the President say when you saw him?

P: He was - well, he was enthusiastic about the possibility.

HMJr: Oh, he was.

P: Yeah, and then Soong reported he was very excited about it. I'd sort of thought it was one of those things you don't quite like to ask the President to put in writing....

HMJr: Yeah.

P: ....and so I was leaning on - as a matter of fact, even with the V. P. I'd - I'd figured I'd just - (laughs) - I'd just go on and do it....

HMJr: Yeah.

P: ....and....

HMJr: Well, I don't - I don't even - I have nothing - I have nothing between your office and mine, have I?

P: No, because we haven't wanted to put it in writing.

HMJr: Yeah, I see.

P: See, we haven't asked you to do - the way things now stand....

HMJr: Yeah.

P: ....you haven't done a single thing in connection with it, including this, that you - that wouldn't be in the normal course of Treasury business.

HMJr:	Ah - if I didn't know what it was being used for. (Laughs)
P:	If you didn't know what it was being used for.
HMJr:	(Laughs) Yeah.
P:	Now I gave this outfit a letter, and told them that our staff had explored it....
HMJr:	Yeah.
P:	....and as a matter of Economic Warfare, it had our approval....
HMJr:	Yeah.
P:	....which I had to do after the Bureau of Engraving and Printing felt it couldn't do it.
HMJr:	Well....
P:	But I decided that was just one of those risks I could easily take, because that's the kind of stuff I'm supposed to do.
HMJr:	Well, you see the Crane Paper Company wouldn't give up the paper unless I personally signed the letter. Did you know that?
P:	Yeah, I can understand that. (Laughs)
HMJr:	Well, I've signed the letter, at last.
P:	Good for you. (Laughs)
HMJr:	I signed it, but then - then I was just trying to see what I had around here. I - I haven't got anything. Well, they can....
P:	Well, it's - we've got another operation like this in the Far East on something entirely different where I've got $10 million dollars for some funny business there.

HMJr: Yeah, well, that I know about.

P: Yeah, but we don't have anything in writing except....

HMJr: Oh, well - well, that's - that's quite different. That was a matter of gold coin.

P: Yeah, yeah.

HMJr: Well, I know about that.

P: Yeah, I think we're in the clear on this. I think....

HMJr: All right.

P: ....we'd hesitate to ask the Boss to put it in writing.

HMJr: Well, okay.

P: Grand....

HMJr: All right.

P: ....look, Mr. Secretary, I'm....

HMJr: Yes.

P: ....I've particularly felt badly about not getting to the last couple of meetings you had. It's things came up - I couldn't go.

HMJr: Yeah.

P: Frank Coe and I wanted to come in the morning, and then I have a call from the Truman Committee. Would you excuse me and let Coe come in my place?

HMJr: Surely, come when you can.

P: Grand. Thank you so much, sir.

HMJr: All right, thank you.

P: Goodbye.

July 20, 1942
3:05 p.m.

WAR BONDS VERSUS WITHHOLDING TAX

Present: Mr. Graves
Mr. Kuhn
Mr. Sullivan
Mr. Gamble
Mr. Odegard
Mr. Tickton

H.M.JR: How do you get in on War Bonds?

MR. SULLIVAN: Special invitation.

H.M.JR: The floor is yours, Mr. Graves.

MR. GRAVES: Do you know why Dan isn't here?

H.M.JR: No. I gave him a rush job for me to do for Mr. Stimson. I mean, I haven't said anything to him but he is doing something that has to be done by four o'clock.

MR. GRAVES: That explains it.

Well, these are the charts that you asked for last week.

H.M.JR: On pay--

MR. GRAVES: War Bonds. You asked for a graphic presentation of this War Bond story so that if you thought it advisable to do it you could show them to the Finance Committee.

H.M.JR: Oh--

MR. GRAVES: And this, I think, very well tells the story.

H.M.JR: Do you want to do that now? I thought you were going - do you want to do that now?

MR. GRAVES: Well, it all bears on the question of the withholding tax.

H.M.JR: All right, do it your way. Go ahead.

MR. GRAVES: I can get to that point right quickly.

Our feeling is that if this withholding tax is imposed as now provided in the bill that there will be a very great reduction in the amount of bonds sold on pay-roll allotment.

H.M.JR: Well, give me - you want to make your sales talk based on this, is that it?

MR. GRAVES: I think so. To begin with, the amount that they estimate is going to be collected on this withholding tax is a billion and a quarter the first year, calendar year '43. That is at the five percent rate.

H.M.JR: Calendar year '43.

MR. GRAVES: And it is two billion and a half each calendar year after that beginning with calendar '44, and a billion and a quarter is about a hundred million dollars a month. That is what would be taken, and, of course, that is not a collection of additional tax; it is just the anticipation of taxes that would be collected, in any event, the next year.

Now, here is our - Mr. Tickton's estimate of our present take-off of payroll, a hundred - almost a hundred and sixty million in June. (Indicating chart entitled, "Estimated Deductions from Payrolls for Purchase of War Savings Bonds, Monthly, December '41 to June '42.")

Mr. Tickton estimates that that will be in July about two hundred million. We think that that figure of two hundred million a month can easily reach three hundred million and perhaps much more than three hundred million by the end of this year. Off payrolls is what I am talking about.

H.M.JR: "hat was the date you gave me that?

MR. GAMBLE: I didn't give you any date.

H.M.JR: Oh, go on. (Laughter)

MR. GRAVES: The case then is this. The major purpose, as we see it, of the withholding tax is not to raise revenue, because it doesn't raise revenue, but to counteract these inflationary tendencies; and we think that you are in danger of losing this (indicating) which, as I say, may be as high as three or four hundred million.

H.M.JR: Now I see why Sullivan is here, being purely disinterested and open-minded. (Laughter)

MR. GRAVES: You told me to invite all friends of the War Bond program in this department, and John certainly is a friend of the War Bond program. It is a matter of the risk of losing a substantial part of the amount that we will otherwise collect on the pay-roll allotment plan, in other words, to get a substantially smaller amount in anticipated tax collection.

Now, it is in the bill - I mean, the withholding thing is in the bill, and if we are to oppose it, it would be necessary to take a position against it because it will undoubtedly, or there is - I suppose it is apt to remain unless we say we have reconsidered this thing and want it taken out or postponed.

H.M.JR: So far you have said nothing new. Could you give me the rest of these statistics?

MR. GRAVES: Yes. You said Senator George was interested, for instance--

H.M.JR: Do you mind letting Tickton do it?

MR. GRAVES: No, not at all. He is a much better man than I am to do it.

H.M.JR: What is the order in which you would do it?

MR. TICKTON: We will start with these two over here. The purpose of these five charts is to give the Committee a bird's eye view of the progress of the Savings Bond program and the progress of the pay-roll savings portion of it.

This first chart (Indicating chart entitled "Sales of U.S. Savings Bonds Monthly, May '41 to June '42.") on sales shows sales from May last year until June this year, and shows the increase in series E in recent months; F and G are shown in red. That was just to give them a broad outline of what, practically, it looked like, a little higher than might otherwise be - than the committee might otherwise be aware of. That was the first chart.

The second chart (Indicating chart entitled "Number of Series E Bonds of Each Denomination Sold Monthly, May to June.") was proposed to show the wide extent of ownership of these bonds as indicated by the great increase in the sale of twenty-five dollar pieces. There were in the month of June approximately seven million twenty-five dollar pieces sold. Now, that doesn't mean seven million individual persons, but it means awfully close to it - maybe five million, certainly. That, incidentally, on the basis of the first fifteen days of July, which I just got before I came in here - that seven million will be somewhere in excess of eight million. There were five million twenty-five dollar pieces sold in the first fifteen days of July, so this was drawn to indicate the widespread standard of the ownership of Savings Bonds.

Those cover the Savings Bond program.

H.M.JR: I think that that is impressive, particularly as this seems to go up and the big ones go down.

MR. TICKTON: The big ones go down, greatly influenced by the limit buying in the months of January and February.

H.M.JR: That is something new. I wasn't conscious of that.

MR. SULLIVAN: That is particularly helpful on Senator George's point.

H.M.JR: Is it?

MR. SULLIVAN: Yes, sir.

MR. KUHN: He isn't aware of this, is he?

H.M.JR: I don't see why he should be. I wasn't.

MR. TICKTON: Generally not aware of it because the increase in the denominations, in twenty-five dollar denominations, particularly, is lost in the sales. That is, the amount of money that comes out of the twenty-five dollar denominations would not show up in this unless you were aware of the breakdown.

The charts on that easel were prepared to show the progress of the pay-roll savings plan. There are at the moment a hundred and ten thousand firms that have the pay-roll savings plan, and this third chart (indicating chart entitled "Progress of Pay-roll Savings Plans for War Savings Bonds") breaks down those firms by classes of firms to show that practically all of the large firms are in, the very large firms. Most of the medium large firms are in; that is, out of six thousand firms that have between five hundred and five thousand workers, forty-eight hundred have the plan. Between a hundred and four hundred and ninety-nine workers, twenty thousand out of twenty-seven thousand have the plan. Under a hundred workers, there are eighty thousand firms that have the plan. There is an indeterminate number of firms with under a hundred workers.

The very same information is shown in terms of employees, to show again - and we have gotten the larger firms in - that the firms that don't have the plan are primarily the smaller firms under a hundred and from one hundred to four hundred and ninety-nine, so that--

H.M.JR: I don't understand those two bottom ones on either side. Why aren't they the same?

MR. TICKTON: This is the number of firms and this is the number of workers in those firms (indicating).

H.M.JR: Oh, I see.

MR. TICKTON: In other words, there are eighty thousand firms under a hundred workers and they employ about two million persons, an average of about thirty apiece. The sum total of this chart is shown on this chart. There are one hundred and ten thousand firms that have the plan, and those firms employ altogether approximately twenty-one million persons. There are about two and a half million persons in Federal, State and local Government agencies that are under the plan.

Now, not all of these people are participating. The participation is shown in this chart. (Indicating chart entitled "Extent of Participation in Pay-Roll Savings Plan.") These people work in firms that have the plan, and participation is approximately sixteen million at the present time. That also indicates widespread ownership of bonds, but all these sixteen million persons haven't gotten their bonds yet. Some of them are taking as little as a dollar a month. It takes quite a while before they come in as bond owners, but they are under the plan.

This last chart (indicating chart entitled "Estimated Deductions from Pay-Rolls for Purchase of War Savings Bonds") was to show the amounts of money being obtained under the pay-roll deduction plan. There has been a very steady increase since December, and it is a hundred and fifty-five millions for the month of June.

This increase in the amount is due to two things: One, the increase in the percent being taken from the various pay rolls. It started out at four point one in December, is up to about five point eight now, and it is also due to the increase in the number of persons that are participating.

H.M.JR: You don't think the charts showing the number that have ten percent or over would be impressive?

MR. TICKTON: We have very bad information on the number that have ten percent or over. That is, we are getting reports on them but the reports are in the nature, to some extent, hearsay, or in other cases similar to the Treasury plan, where the campaign has produced ten percent but actually you aren't getting ten percent in money for this month. You get ten percent of money, say, in September when everybody who has signed up to have ten percent taken from his pay actually has that taken out of his pay during that month.

H.M.JR: Well, Harold, the trouble is this - let's be frank with each other and the rest of the people in this room. For me to go up there at this time and question this deduction at the source, based on the argument of the War Bonds, I think puts me in a very weak position. I mean, all the people in the town here or in the Treasury - but let's say in the town, will say "Morgenthau is throwing this deduction at the source overboard just to keep his War Bond program going. He doesn't care about inflation." You see?

It gives people like Eccles or Henderson or Harold Smith or any of these people who feel very strongly on this subject, or the Vice President or Madam Perkins, who think I am wrong, and most likely - I don't know but you will find they most likely think deduction at the source is fine and they would run to the President on this thing, and say "He wants to kick out deduction at the source to save the War Bond program," and with the newspapers all saying they don't like it - I mean it. Read the New York Times; that has as good a column as any. Read the editorials - they don't like it, but I suppose it is the thing to do - the editorial, I don't know whether you read it or not - I mean, I would have to have a fight in the office here or let the people come in who are for this thing and--

MR. GRAVES: Surely, that is right.

H.M.JR: Now, I think the argument, as I say - they will say, "What is more important?" Well, other people think that there are other things more important, and particularly this, that just now the inflationary thing is going badly and what has happened recently, and they would classify us with the farmer who wants a hundred and ten percent parity, and Little Steel that wants a dollar an hour, and all the others. I mean, it would put me in a very unfavorable light.

Now, let me ask - that doesn't say if I was convinced I wouldn't do it, but from the standpoint of public relations I am right, am I not, Ferdie?

MR. KUHN: I would like to get in on this for a minute, if I may.

H.M.JR: Well, just wait a minute. The best argument that you have, if you have one, is the question of the mechanics of the thing. I mean, if you had a good argument, for instance, to convince a fellow like Roy Blough, who I think is very fair-minded - I think Roy is a very intelligent fellow, and if there was a question - I mean if you could say to me, that, "Yes, the businesses" - let's say the businesses are willing to do it, but Nelson isn't willing to supply the necessary office machinery to carry it out, and therefore we have got to postpone this thing. Well, then it gets away from that and the unpleasant - there is no argument, and then the blame is on Nelson's organization. I mean, I am being very frank here; you have got to be.

MR. SULLIVAN: That is the only out.

H.M.JR: Do you agree with me, John?

MR. SULLIVAN: Yes, I do.

H.M.JR: As a public debater?

MR. SULLIVAN: Yes, I do. Now, I think Harold put his finger on the important thing when he says that what you will lose from War Bonds will be much greater than what you will get back from withholding tax, but as a matter of public relations I think that the only out for you is if there is insufficient business machinery so that the industries can't handle this kind of a tax.

H.M.JR: I haven't yet expressed my view, but you agree with me from the public relations standpoint?

MR. SULLIVAN: Completely, sir.

H.M.JR: Well now, what is the situation? Are those teams back?

MR. SULLIVAN: Those teams are all expected back tomorrow night. We have gotten reports on about three hundred different ones. The reports vary. Norman Cann feels that the best we can hope for is that fifteen percent of the business concerns will have to have additional equipment.

H.M.JR: Fifteen percent?

MR. SULLIVAN: That is right.

H.M.JR: Who feels that way?

MR. SULLIVAN: Norman Cann. I told him to accelerate the reports, and the minute he has them, pending your approval, I would want to go to Nelson's crowd with these reports and say, "Now this is what we find they will have to have. Can they have it?"

H.M.JR: Fifteen percent is very low, isn't it?

MR. SULLIVAN: It is much lower than we expected to find, sir, but that is on the basis of a very hasty survey.

H.M.JR: Ferdie, do you want to say something?

MR. KUHN: I just wanted to say I agree on the public relations impact of this proposed change, that it would leave you in a very weak position unless you could show that you were getting at the inflationary problem by other means.

Now, this withholding tax as it is in the bill is a monstrosity of mechanics. I mean, the Wall Street Journal needed a column even to summarize and needed four and a half columns to print the text and when I say summarize, they tried to summarize what it would mean for a businessman and for a taxpayer to pay under this system. But in view of what has happened--

H.M.JR: I would like to read that. Did they?

MR. KUHN: That was in Wednesday's Wall Street Journal.

H.M.JR: Could you get it for me?

MR. KUHN: Yes, and it is very revealing.

H.M.JR: Give it to Mrs. Klotz yourself and tell her I want to take it home with me.

MR. KUHN: Yes.

H.M.JR: But, Ferdie, I still - I mean, I have been around this town long enough and I know how Paul - Paul is almost fanatical on the thing, see? If this thing isn't ready - this is what was going through my mind over the week end - what I might say to them is this, "Gentlemen, thank you for the chance of making my statement. Now what I would like to do - our War Bonds are going very much better in July, and I would like to have an opportunity to come back when the July figures are in. That is around the fifth of August. I would like you to give me an hour to bring you up to date on what is happening around the fifth of August at that time. I would also like to have an opportunity to tell you about the study which we have been making about pay-roll deduction at the source. We have been going into this thing, the mechanics of this thing, plus the requirements that a business would need, and whether those requirements in the way of business machinery are or aren't available. Now, it has been a very difficult study and I don't know what they are, but I just want to say that the study is being made and at the time when I come up, the middle of next week, I would like to have a chance to tell you the results of that study."

Then when I go up at that time I get on the War Bond thing, but then if we have - certainly by the fifth of August you would know.

MR. SULLIVAN: Yes, sir.

H.M.JR: But you won't know by Thursday.

MR. GRAVES: You will know the next day as far as War Bonds is concerned.

H.M.JR: I won't be able to assimilate it. The people around here - I mean, if you have it the next day - I go up Thursday, and you have the thing Wednesday, and if, for instance, let's say that from the standpoint of the machinery end the story looks bad - I mean, they need a lot of the machinery and Nelson says, "I can't get it," then you need time to invite a half a dozen proponents of this thing in and say, "Now, never mind how you feel about this. It is a matter of guns and butter, there are just so many guns and so much butter, and Mr. Nelson says we can't have it."

Now, maybe after the first of January the situation will likely be reexamined. I am going on the theory that maybe that will be the case, but if I just go up there - Harold, I know this crowd - and spring this thing without their having been told - take Lowell Mellett's son-in-law - what is his name?

MR. KUHN: Keezer.

H.M.JR: Yes, take a man like that, in Henderson's office, and different people in OFF - I mean, if you had a chance to have an evening and go into the whole thing and explain the thing, going on the assumption that you had a good story, they would say, "Well, after all, there is nothing we could do about it;" but if I just go up and spring it on them, I won't be through my statement before they will all be blasting me in the paper.

MR. SULLIVAN: Mr. Secretary, there is another advantage to the procedure you outlined that I think is terribly important. We started a week ago this morning on this. We covered a few people. Such a statement as you just referred to, the fact that we are making a study, is going to provoke a great deal of comment and recommendation to us on business as a whole, and be very helpful to us in getting a better picture of business requirements than we will ever get by sending out men to just take samples.

H.M.JR: Well, I mean, supposing you got it in tomorrow and you rush it, then you rush over and see those four people - Nelson is opposed to this - I mean, he wants the compulsory savings. You don't get a chance to see him, and you hurry him on the thing, and so forth, and so on. If, on the other hand, you give him time and you say, "Now, look, Nelson, I want a letter from you, I want a letter from you on this thing."

MR. KUHN: Mr. Secretary, supposing that you were to advocate either now or later scrapping this cumbersome withholding procedure and substituting for it a flat two percent tax on incomes above a certain level, you would be really doing something on the inflation side, and you would be in an unassailable position on public relations.

H.M.JR: Again, we took three months last fall to go all through this thing with - what is the name of the man from New Jersey Telephone?

MR. KUHN: Barnard.

H.M.JR: And at least we were at the thing three months, and thirty different people sat in on those meetings. (Discussion off the record.) Peter, you are a psychologist. Do you think--

MR. ODEGARD: I am glad you always smile when you say that.

H.M.JR: Why, is it an insult? Do you think - I mean I--

MR. ODEGARD: I think the Treasury is in a ticklish position because of the fact that they have put this thing in the bill, and to renege now will look like running away from something that we sponsored and it may indicate that we are not clear in our own minds as to just what the devil we do want. But on the sheer force of the argument you could show here that you are actually getting more revenue from current pay rolls through the pay-roll savings plan and the War Savings Bonds than you will get from the withholding tax even in a year of full operation after 1944 when the rate is ten percent.

H.M.JR: But you see, you leave me getting into a stupid argument with these people. "Well, that isn't right; look at Canada. I am telling you that Canada has just put one on, and look how much better Canada is doing." Mr. Eccles sent me this extract from the speech of the Canadian Minister of Finance, and look how he is financing his war, seventy-five percent from revenue, some high figure, and they haven't had to go to the banks in a single instance to raise their money. "Now, if they can do it through War Bonds and through pay-roll deduction, why can't you do it?" It immediately gets me in a position I don't want to be in unless it is as a last resort.

MR. ODEGARD: Of course the tragedy of that, Mr. Secretary, is that the Canadians had almost no experience with pay-roll savings. We talked with them, you remember. The man came down and they were tremendously interested in the pay-roll savings plan, wanted to know how you installed it, how you used it.

H.M.JR: I know, but to the fellow on the other side of the fence the pasture always looks greener. You know that, and they think up there that ten million people - that you can do this and that and the other thing, and then Harry White gave me some things in the manner of England the other day in which the complaint is that this is not the democratic way, the volunteer, because look at all the people escaping.

MR. KUHN: That is the consul in Birmingham.

H.M.JR: I mean, I listen to everybody. Another reason why it would be good to do it - those red and blue Pennsylvania University figures over there aren't very impressive on account of your May and June being practically the same; but if I could go up there with July and show around nine hundred million total, it would be much more impressive. That is the reason for postponing this thing for another week.

MR. SULLIVAN: I think the real intellectual stumbling block in discussing this between the two sides is that I don't think that Roy or Randolph or any of the fellows you mention would agree that you can't have both things, and I think that Harold and the boys who were working on War Bonds are convinced that the withholding tax will really devastate the program.

H.M.JR: I give them all the sincerity in the world, and I think, while I am not entirely sold, I lean that way, see?

But in leaning that way, I, as the boss, have to be extra careful for fear that this child of mine, the War Bonds - that I don't favor it against some of my other children and be accused of it, and they go to the President, a half a dozen people. Now, they haven't got anything to pin it on except actual dollar sales, but I do this thing and they run to him, you see. Now, with the President again on the thing, and there is somebody - are these figures which Roy has taking the two or three thousand dollar family, two children, showing what they have to do - have you got that?

MR. GRAVES: I haven't got that here.

H.M.JR: The next time we discuss that we should have it because I figured it out. It figured out - if you included ten percent for War Bonds it was somewhere between twenty to twenty-five percent of the income that would go to Federal taxes, or Federal taxes including War Bonds.

MR. ODEGARD: For savings.

H.M.JR: For war savings. Now, I know what has happened over at the White House. I mean, I talked to Steve Early - something about ten percent. He says, "I can't give ten percent; I wouldn't think of it. I have got my house; I have got my debts;" and so forth and so on. If I went to a man like Steve Early, who is for our War Bonds, and said, "Now, look, Steve, have you realized what this means to you if you get this other thing put on, on the size of your check, plus your five percent retirement fund" - isn't it that?

MR. ODEGARD: Five percent.

H.M.JR: You ought to include this two ways, one for Government employees and one for non-Government employees, and I would put the ten percent War Bonds last, which it should be if it is volunteer, because that would show these other things are compulsory - each of these for Government employees. Then the ten percent comes last. What are they going to do to that ten percent? They are going to kick it off, that is all there is to it. Put on all of these things, the income tax - that is the way to do it, and the deduction at the source, and the five percent retirement fund, and I think if you show that to a couple of Congressmen and Senators on their ten thousand dollar salary you might start the thing from the Hill.

MR. ODEGARD: Do you think it would be persuasive at all, Mr. Secretary--

H.M.JR: Harold?

MR. GRAVES: Yes.

MR. ODEGARD: Do you think it would be persuasive at all with Mr. Paul - I have talked to Randolph some about it, but not in great detail - if you could demonstrate that actually the installation of this five percent advance withholding of income tax - it isn't a five percent withholding tax - if you could demonstrate that that was actually inflationary at this stage of the game, that it would have any --

H.M.JR: If you could demonstrate - I don't know how you are going to demonstrate. He is in a very good humor this afternoon - I was a better prophet than the Speaker. He called me up yesterday morning, woke me up in the middle of the morning on this, trying to get me to do something with some of the members of the Committee on the forty to forty-five percent, you know.

MR. SULLIVAN: You know what happened, don't you?

H.M.JR: I know. So I told him to let it go to the floor. I said, "My bet is that Congress will rule it out." He said, "I am surprised to hear you say that. I don't think they will." So this morning I talked to the Speaker. He says, "Henry, you haven't got a chance, they will just support the Committee report." This was after the Committee report was it should be forty instead of forty-five percent. So the hundred and eighty to a hundred and sixty voting it down after they made the deal on the floor was a matter of personal prestige of Doughton.

MR. SULLIVAN: Well, that is half the story. The way he was going to get around that was increasing the other, and he split the vote, and they increased the excess profits from eighty-seven and a half to ninety and increased - left the other at forty-five.

H.M.JR: But after talking with the Speaker, and everything else, it shows - the Speaker sized the situation up, and my guess happened to be right.

MR. KUHN: Did you see the comments that were made in the debate? McLean of New Jersey - Doughton said, "Don't you know we have gone the limit on corporations already?" McLean of New Jersey said, "We haven't gone the limit on corporations until Adolph Hitler lays down his arms."

H.M.JR: McLean is what?

MR. SULLIVAN: Republican from New Jersey.

H.M.JR: Well, my guess is I wouldn't - you take on Paul if you want to. I think you have got to do it quietly like this, and I would leave it alone until John can get this stuff and get the picture, get to Nelson, see if Nelson's boys turn it down, and then say, "I would like a letter from Nelson," and let the thing slide for this week, letting me say when I get through, "Think it over again" - simply say, "I would like to come up a week from today with my story on my July figures on the War Bonds, and at that time I would also like to tell you about the study we have been making on the repercussions on business if we had a pay-roll deduction at the source."

MR. SULLIVAN: I think it is very important that you mention that that study is being made, Mr. Secretary, and I am sure we will have a lot better information.

H.M.JR: I will say, "We have got an inquiry out, and we will be very glad to hear from anybody, but we will come up there and this study is being made." Then we will come back up there in a week from now, because that thing there - I don't want to talk War Bonds, I don't want to use the major figures. They don't look good enough now. Are you satisfied on that?

MR. GRAVES: Yes.

H.M.JR: Ted?

MR. GAMBLE: Yes, sir, I subscribe to that.

MR. SULLIVAN: I have here the--

H.M.JR: All right?

MR. ODEGARD: Yes, I think so.

H.M.JR: Tickton?

MR. TICKTON: It is all right.

MR. KUHN: Sure.

MR. SULLIVAN: I have here reports on one hundred and two companies, those that are willing and those who aren't, but I don't think there is any point in your wasting any time--

H.M.JR: When you say willing - do they say what they need in the way of requirements?

MR. SULLIVAN: Yes. For instance, here is one company, Miller and Rhoads of Richmond, who employ twenty-two hundred and fifty people and are sympathetic with pay-roll deduction for income taxes. Interviewer agrees with proprietor's estimate of new additional equipment, present equipment being used twelve hours a day. He says he would have to revise his entire system, including new pay-roll forms, additional tabulators for pay-roll machines, new Addressographs, and new pay-roll machinery. This fellow is willing, but he would have to have that extra machinery, and we get that throughout the list.

H.M.JR: Well, all right, I think we will stop right here. You haven't got your retail stores finished?

MR. GRAVES: This is still only partial. There is a report on sixty some towns, and those figures add up to about ten million dollars. That is about ten percent, they tell me, of the total number of cities.

H.M.JR: If they ran that way, that would mean--

MR. GRAVES: ... a hundred million.

H.M.JR: Against an estimate of fifty.

MR. GRAVES: Against conservative estimate of fifty.

H.M.JR: Now, you are going to admit the hundred; you wouldn't admit to fifty million. (Laughter)

MR. GAMBLE: I admitted a hundred million to Mr. Graves, but I only admitted fifty to you.

H.M.JR: But if it runs at this basis, would that mean a hundred million? If those sales are Friday, they ought to deposit that money by Saturday in the banks.

MR. GRAVES: Oh, no - well, it might be in the banks, but it won't be reported here until about Wednesday or Thursday - it will be then before we begin to see it.

MR. GAMBLE: It will come in over a period of a week. The Cleveland District advised me by phone that the Cleveland Federal Reserve Bank had the highest unit day since the start of the program.

H.M.JR: When?

MR. GAMBLE: Friday.

H.M.JR: Shall we stop now?

July 20, 1942.
4:27 a.m.

HMJr: Hello.

Operator: Mr. Welles.

Sumner Welles: Hello.

HMJr: Hello.

W: Hello, Henry.

HMJr: Sumner, how are you?

W: I'm all right. I hope you are.

HMJr: I'm all right.

W: Benefiting from at least a few days rest.

HMJr: Good. Sumner, I got your letter in regard to this matter for the J. D. C.

W: Oh, yes.

HMJr: And I appreciate what you said. Last week I called up Judge Lehman and told him, on thinking the matter over very carefully, I decided I would follow the usual procedure which I have since we've had Foreign Funds, and not personally pass on anything which is as close to me as J. D. C.

W: Yes.

HMJr: And I've asked them, therefore--J. D. C.--to send representation - representatives down here....

W: Yes.

HMJr: ....and which they're going to do, and I told them that when they came I'd arrange to ask you to see them and also either Foley or Pehle, see?

W: I'll be delighted to see them, Henry.

HMJr: And also I've asked Bell to act on this thing and, in other words, up to now I've kept out of those things which....

W: Yes.

HMJr: ....are close to me and which I....

W: Yes.

HMJr: ....and - so when they come if you would see them, I'd appreciate it.

W: Why, of course, I'll see them. I'll give all the time that they want to it.

HMJr: Fine.

W: But it seems to me probably primarily a technical job.

HMJr: It's - it's something - I don't personally see why the Red - International Red Cross couldn't act for them.

W: Well, I'm inclined to feel that way myself....

HMJr: Yeah.

W: But it was only on account of the insistence, I think, of - of your own technical staff. That policy shouldn't be modified.

HMJr: Yes.

W: And I thought I'd better write you as I did.

HMJr: Well, I'm glad you did, and after all we've gone into this - in over two years, similar things have come up and I've never handled them myself before....

W: Yeah.

HMJr: ....and....

W: In one or two cases, Henry, we have made exceptions to the general rule. We made exceptions - I mean not - not an identical case, in a similar case.

HMJr: You did.

W: We made exceptions with regard to feeding Yugoslav children in Yugoslavia.

HMJr: I see.

W: And we made one exception with regard to Greece.

HMJr: I see.

W: And I can't help but feel that if Dan Bell and I can sit down and talk about it, that some way around this could be found. I think it's got to be found.

HMJr: Well, I'm so glad to hear you say that. And I'll - I'll pass that....

W: As soon as they're here, you let me know or have them let me know, and I'll be happy to see them.

HMJr: And I'll - and I'll pass the word along to Dan Bell.

W: All right, Henry.

HMJr: Thank you.

W: Many thanks. Goodbye.

HMJr: Goodbye.

July 20, 1942.
5:11 p.m.

Operator: Go ahead.

J. Edgar Hoover: Hello. Hoover talking, Mr. Secretary.

HMJr: Yes, sir.

H: I want to give you a report on that thing. After talking with you yesterday, I then moved into that situation....

HMJr: Yes.

H: ....and I think we're getting it pretty well nailed down.

HMJr: You are.

H: We've talked to Swenson and the wife of Swenson, who are the caretakers on the estate that first saw this plane - these things happen, and we've also talked to this Helena ? Cawberry....

HMJr: Yes.

H: ....who is the other woman that you mentioned yesterday.

HMJr: Yes.

H: Now they told about seeing these planes come - come over and something drop out of it.

HMJr: Yes.

H: We have just discovered, and this is the thing that's rather annoying, the Army had indicated, I think, a couple of days ago that there were no planes in flight in that area.

HMJr: Yes.

H: That was report - came out of - of the New York headquarters of the Army.

HMJr: Yes.

H: We have just ascertained there were six amphibian planes out of West Point flying.

HMJr: Well, I'll be darned.

H: Now I'm checking at West Point right now to find out from the pilots there whether any of them dropped anything. They may have been practicing some of that glider work, you know.

HMJr: Yes.

H: Or, they may have dropped some packages or something of that kind, and I'll have some word on that this evening.

HMJr: Well, that's the darndest thing that I ever heard.

H: So - I mean it's the darndest thing that the Army can't keep tab on their own activities.

HMJr: Well, there should be a record in this Information Center in New York. You - I'm sure you're familiar with it.

H: Yes, yes.

HMJr: I mean, when there are any planes in the air, they should keep a record of them.

H: Yes, they certainly ought to. But you know the same thing has happened on the West Coast several times, where they even have brought on blackouts because of the presence of an unidentified plane, and then later they'd find out it's a friendly plane. I don't know what kind of system they use, but I - I do know that they didn't know that there were any planes in the air, but we found out today when we got into this thing there were six planes out of West Point flying right in that area.

HMJr: Well, that's....

H: So it may be them, it may not be them, of course. But we'll find that out.

HMJr: Just as a man on the street, not as a Government official, I - I think this whole parachute business and all of that - I - somebody ought to be

HMJr: (cont.)	able to say, "Well, that's my job and I'll take care of it."
H:	Right.
HMJr:	What?
H:	Ah - I - it really was a matter that the Army should have handled, and they have a number of military - of military intelligence people up there handling it.
HMJr:	Yeah.
H:	Suppose the - but of course parachutists coming in are supposed to be in the category of - of soldiers....
HMJr:	Yes.
H:	....and they finally made the investigation, and then, as I say, I think it was along about Friday or Saturday, they dusted it off with the statement that it was grossly exaggerated, something like that, and that there were no planes in flight in that area. Well, now the fact of the matter is there were these six planes in flight. Now whether they dropped anything or not, we don't know. Maybe these three people are seeing things. But - after talking with you yesterday, I ordered our men into that area and they were up there last night and working there today running down any odds and ends they can find.
HMJr:	Let me just ask you this question - I mean, if there are parachutists reported in any part of the United States, it's the army that's supposed to handle them?
H:	They are the ones who have done it. After this experience, I'm going to go in myself on it.
HMJr:	I see.
H:	For this reason - we had the same situation in connection with these - with these saboteurs that came in from the submarines.
HMJr:	Yes.

H: They landed there at Amagansett, as you know, and the Coast Guard folks out there got hold of the - some of the evidence, and the admiral of the district told them to turn it over to us.

HMJr: Yes.

H: They turned part of it over, but didn't turn it all over to us.

HMJr: I see.

H: And they held out a vest that had a laundry mark on it....

HMJr: Yeah.

H: ....and we didn't get hold of that until three days after we got on the case. So I've had an understanding with the - with the Navy that hereafter they turn it all over to us immediately.

HMJr: Yeah, well, they should.

H: Yes, because the thing about it is we don't want the work if - but if somebody's got to do it, it's our - really our place to do it.

HMJr: And after a bridge is blown up or - or a factory, then it's too late to argue whose job....

H: Exactly!

HMJr: ....it's going to be.

H: There - there's no question in the minds of the Army and the Navy that after the overt act is committed, it's my responsibility to come in and solve it. I've been contending all along that our job should be as much preventive as it is the solution.

HMJr: Yeah.

H: Because it doesn't make sense any other way, you see. But I'll - I'm going to move in on parachutists from now on....

HMJr: Well....

H: ....because from what you told me yesterday in this thing up there in New York, it just is a comedy of so-called errors if it wasn't so tragic.

HMJr: That's it. Well, if - if and when you get anything more, give me a ring.

H: I certainly will.

HMJr: I thank you.

H: Yes, I certainly will.

HMJr: Thank you.

H: Goodbye.

a Reading Copy.

Recording was made 27th

DRAFT OF SECRETARY MORGENTHAU'S
RADIO TALK ON JULY 20, 1942

For over a year now the radio stations of this country have been bringing home to us the full meaning of the War Bond and Stamp campaign as a vital part of our war activity ~~the war effort.~~ Their support of the War Bond effort ~~Savings program~~ has been given willingly and patriotically. And when I say "given", I really mean just that. ~~Every War Bond program and announcement which you have heard in the past year has been an outright contribution of valuable time given by the station or by the sponsor of a program. We at the Treasury owe the local radio stations a vote of thanks.~~ They have done a truly remarkable job.

D-A

Last week we invited all stations throughout the country to take on an even greater responsibility. We invited them to do a job that will make it easier for you to buy War Bonds with ~~many of us to participate in War Savings with~~ ten percent or more of what ~~we~~ you earn. Until now most of you have been able to buy War ~~Savings~~ Bonds ~~only~~ at banks, post offices, and savings and loan associations. We have found, however, that if we increase the number of places where bonds can be sold, we can also increase the sale of bonds to reach our national quota of twelve billion dollars a year.

Accordingly, I am delighted to know that hundreds of radio stations have agreed to sell Bonds and Stamps

-A

as direct agents of the Treasury Department. This will mean that in many cases, when banks and post offices have closed for the day ~~are closed~~, you will be able to buy Bonds and Stamps directly through ~~from~~ your local broadcasting station ~~broadcaster.~~ Needless to say, I am confident that the radio stations of America will handle this responsibility in a way that does them credit.

Just how the system will work in your own locality has been determined by the management of this station. A representative of the management is waiting now to give you this news, and I hope that you will all listen carefully to what he has to say.

D-A

2nd draft July 20. 1942 HMJr.

STATEMENT OF SECRETARY MORGENTHAU
BEFORE THE
SENATE FINANCE COMMITTEE
JULY 23, 1942

Less than a month ago the Treasury closed its books on the costliest fiscal year in the history of the Republic. In the twelve months that ended June 30th, we spent over $32 billion, of which almost $26 billion were for the war effort.

These were incomparably the greatest expenditures in our national experience. The total amount was almost twice what we spent in the peak year that followed the last World War, and in the final weeks of the fiscal year we were spending at the rate of $130 million a day, or a dollar a day for every man, woman and child in the country.

Today even these expenditures have been overshadowed by those we are incurring and shall incur in the new fiscal year. In the past three weeks our rate of expenditure has jumped to $150 million a day, or almost $5 billion a month. In the fiscal year that is beginning we are committed to spend the almost inconceivable sum of $77 billion to win this war for human freedom.

I mention these figures not to complain of them, for they are our own choice, the product of our firm resolve to win the war regardless of cost. (I mention them not to alarm you with them, for, as I have said before, the size of our expenditures should frighten no one but our enemies). I do, however, believe that they bear directly upon the problem that faces this Committee today in considering the first revenue bill of this war. It is only against the background of these figures that we can tell whether this revenue bill fulfills its purpose.

You will recall that in his Budget Message of January 5, 1942, President Roosevelt asked for additional taxes for the fiscal year 1943, exclusive of Social Security taxes, of $7 billion. On March 3rd, I appeared before the Committee on Ways and Means of the House and presented recommendations for a tax program to produce $7,600 million in additional revenue from taxes. On May 6th I wrote a letter to the Chairman of the Committee on Ways and Means recommending a reduction in personal income tax exemptions to produce approximately $1,100 million more revenue. These two recommendations together involved a tax program of $8,700 million of additional revenue. These amounts represented what I believed, and still believe, was the very least that the American people could afford to provide.

There can be no compromise with the war expenditures which I have outlined to you. We cannot reduce them if we would. Our whole effort must be to spend as fast and as effectively as possible in the production and use of our war materials. If our expenditures this year are to reach $77 billion, our receipts in revenue from the people and in the sale of War Bonds to the people must bear some reasonable relationship to that colossal figure. If we were to leave present taxes on the statute books, the deficit for the new fiscal year would be $56 billion. That deficit has to be cut by the most drastic kind of self-denial on the part of every American. To the extent that we cut it by enlisting our current income, we shall be protecting the future economic soundness of our country and our free institutions. To the extent that we fail, we shall be endangering the survival of all that we are fighting to preserve.

It is interesting to compare the fiscal situation here with the situation in Great Britain and Canada. In the fiscal year 1943 it is estimated that the United States will devote 50 percent of its national income to the war effort. Great Britain in its fiscal year 1943 is expected to devote 50 percent to the war effort and Canada 43 percent. Great Britain expects to provide through taxes 52 percent of its expenditures and Canada 57 percent of its expenditures. In the United States, including Federal, State and local governments, 32 percent of total fiscal 1943 government expenditures would be financed through taxes (including social security taxes) under present tax laws, and 43 percent if the full $7 billion additional regular taxes and $2 billion additional social security taxes called for by the President's Budget are collected. Of course Canada and Great Britain have been in the war longer than we have. In their first full year of war, namely, the fiscal year 1941, Great Britain devoted 48 percent of its national income to the war effort while Canada devoted 18 percent. Great Britain financed 44 percent of its fiscal 1941 expenditures by taxation and Canada 61 percent. In the nature of the case all of these percentages are approximations.

It is scarcely necessary to comment on these figures. It is clear that after two years of defense preparations and war production we are devoting to the war effort a proportion of our national income comparable to the proportions similarly devoted by Great Britain and Canada. It is likewise clear, however, that we are substantially behind these countries in the proportion of our expenditures which we are raising through taxes.

Taxation and the Cost of Living

Taxation does more than supply money to finance the war. It does more than apportion the war burden now, once and for all, instead of leaving it for further distribution through taxes after the war. Wartime taxation also plays an important part in preventing rapid and continued increases in the cost of living. The President has announced a seven-point program for holding down the cost of living. Ceilings have been placed on prices. This fact may have caused many people to be unduly optimistic about the future of the cost of living. It cannot be too strongly emphasized that if the price ceilings

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To reach the greatest possible volume of consumer purchasing power, the bill now before you includes such a broad reduction of personal exemptions that it will affect almost seven million individuals who have never paid direct taxes before. If this section of the bill is passed as it stands some thirty million income tax returns will be filed in the new fiscal year as against only 7,600,000 in 1940. Moreover, these thirty million individuals control the bulk of consumer demand today. The income tax has, in fact, become a people's tax for the first time in our history.

Taxes cannot, by themselves, win the battle against inflation. The battle must be fought with determined and coordinated effort on many fronts. Effort on one front can be checkmated by timidity or half-heartedness on another. Nevertheless taxation is an essential weapon in the fight against inflation, and what may happen on other fronts is no excuse for not using this weapon to the utmost. Inflation has been well described as "the ruthless process whereby sacrifice is imposed inequitably upon a people who have lacked the unity, the courage and intelligence to impose that sacrifice equitably upon themselves." It is for us to show that we have the unity, the courage, and the intelligence to check inflation now.

Treasury Program a Minimum Program

The Administration's revenue program calling for $8.7 billion additional tax revenue was presented as a minimum. It is even more emphatically the very minimum today. The revenues from the bill before you would fall below that minimum by approximately $2.5 billion.

In presenting its revenue program to the Committee on Ways and Means, the Treasury outlined methods of taxation which it considered most desirable and appropriate to raise the required amounts. I still believe that these proposals are sound and present the most desirable sources for a revenue program of this size. The various provisions of the Administration program are well known and it is not necessary to repeat them here. I should like, however, to emphasize certain points which I hope will be especially considered by the Committee.

1. Special privileges.

The revenue bill as it stands violates the basic principle of equity which is so important to an all-out war finance program. It does this by leaving certain highly privileged groups free from tax on large portions of their income.

The first of these especially favored groups are the recipients of tax-free interest from State and municipal securities. Exemption of interest on State and local securities is a serious breach in our system of taxing according to ability to pay. For example, in one case, out of a total reported income of approximately $975,000, over $668,000 came from State and local securities. The tax liability under the rates proposed by the Treasury would be $254,000 if the tax exemption privilege were retained, but $856,000 if it were removed. The existence of this exemption costs the Government and the people of the United States, under present tax rates, about $275 million a year.

How can we expect to obtain an all-out war effort from all our people if we go on permitting a group of individuals and corporations owning $14 billion of State and local securities to go tax free on the income from these securities? How can we ask our young men to pledge their lives in our defense if behind the lines wealthy individuals are able to shelter their money in securities free from tax? At a time when we are straining our energies to the utmost to defeat a powerful and ruthless foe, ~~common sense and~~ common decency require that we abolish these tax hideaways, and do it now.

Another highly privileged group having large amounts of income exempt from income tax are the owners of oil wells and mines. I refer to percentage depletion. Percentage depletion is a serious breach in our system of taxation according to ability to pay. For example, a leading oil company owned ~~10~~ oil properties ~~in the East Texas field~~ which ~~had~~ cost it $3 million. At the time the case was examined percentage depletion of $3.6 million had already been allowed and the properties still had three-fourths of the oil left.

I cannot believe that the taxpayers of America would knowingly tolerate a provision of the law which allows owners of oil and gas wells to deduct from their income 27½ percent of their gross receipts from such wells--not for one year, two years, or the period necessary to return investment, but for an unlimited period. Certainly we cannot justify this exemption on the ground that it encourages exploration and drilling for oil. There is grave doubt that it has a substantial effect on oil discovery. It would have been cheaper for the Federal Government to have paid all the cost of every wild-cat well that was drilled in 1941 than to have allowed percentage depletion and the associated intangible drilling expenses. (Check for accuracy).

A small ~~but~~ important minority of married couples living in the eight so-called community property States receive tax advantages which are in no way commensurate to any special relationship that may exist between husbands and wives in those States. The result is a breach in our system of income taxation according to the principle of ability to pay. For example, take a family in which the husband has a salary of $10,000 after deductions.

If the family has its residence in, say, California the family tax would be $2,138, while if he lives in, say, Iowa the tax would be $2,549 or $411 more. A family in which the husband earned an income amounting to $50,000 a year after deductions would pay under the proposed Treasury rates and exemptions an income tax of $21,018 in the eight community property States, but $27,373 or 30 percent more in the other forty States. In this national emergency how can we sit in complacency and see citizens of these eight States occupy a more favorable taxable status than those of the rest of the country?

A similarly favorable position is granted under the law to the married couples of the other forty States when income is received by both husband and wife. The tax of such a family is lower than the tax of a family where the husband earns the whole income although the family units enjoy the same income.

These and other examples of special privileges are intolerable at a time like this, when we are seeking to limit wages and farm prices and are imposing heavy taxes on persons with small incomes. The country is in greater danger today than ever before in its history. The war is now in its most critical phase, and only by pulling together as a united people can we make the effort that will turn the tide toward victory. At such a time any special privilege for any small group not only deprives the Treasury of revenue that is badly needed for the war effort, but it hinders the war effort by undermining the morale without which the war cannot be won. I never would have recommended lowering the personal exemptions if I had thought that these loopholes were to remain in the law as a symbol of special privilege in this time of national peril.

2. Excess Profits Tax

Another similar hindrance to the prosecution of this "people's war" is the existence of excessive profits in war time. There is no easier way to stir the righteous anger of the American people than to let them hear constantly of excessive war-time profits that are not being recovered by adequate taxation. I have said repeatedly that we are determined to take the profit out of war, and the Treasury's recommendations have been framed with this determination in mind.

An effective excess profits tax does much more than produce badly needed revenue in time of war. It also reassures the masses of our farmers and workers that industry is not being rewarded unduly for its part in the winning of the war.

Experience has shown, however, that when excess profits taxes are too high they may result in extravagance and waste in the conduct of business. It is vitally important that we enable business to produce for war purposes as economically and efficiently as possible. A businessman must plan for the future, and for that reason we have recommended a 90 percent excess profits tax coupled with a 10 percent credit for return to the corporation after the war. A post-war credit to industry will not only encourage economy and efficiency but at the same time will help toward the rebuilding of our economic life. It should, of course, be restricted in such a manner that it would be used for the direct employment of labor, the conversion of plant to peacetime business or for other uses promoting economic adjustment and growth.

You will notice that I have not used the word "incentive" in this connection. I have not used it because I do not believe that any businessman or any patriotic American needs a selfish "incentive" at this time. Millions of our people are willing to pay new and genuinely burdensome taxes, to buy War Bonds without stint, and to face rising living costs with frozen wages and salaries. Their only "incentive" is their grim resolve to win this war and build a better future.

3. Tax on freight and express.

One tax that would be imposed by the bill before you directly threatens the stability of prices. This is the tax on freight and express which would add to the cost of producing and supplying practically every commodity and service. In great numbers of cases the added cost would make it impossible for businesses to continue to operate under the price ceilings which have been imposed and the breaches in the price ceilings which would thereby be caused would threaten the whole price structure.

Conclusion

I shall not attempt today to discuss the more technical aspects of the long and complex bill before you, nor to enlarge further upon the subjects I have mentioned already. The Treasury staff stands ready, as always, to assist you in every way possible in carrying out your difficult and responsible task. I should like, however, to make just one more appeal. Every day consumed in your Committee's work will cost several million dollars in revenues lost under the excise tax portions of the bill. Every day that can be saved in enacting this will will enable it to produce just so much more in needed revenue. Every day saved will give our citizens additional time to adjust themselves to the impact of the most severe tax bill in all our history.

I make this appeal on broader gound than that of revenue alone. It is my conviction that the people of this country want a courageous tax bill, and want it with the least possible delay. They are ready for greater sacrifices than some of us imagine. The overwhelming majority of them, I am convinced, want us in Washington to show a determination that is worthy of their own. They will be critical of us only if we seem to palter or haggle, or if we pay too much attention to the demands of selfish groups, or if we seem half-hearted in asking sacrifices of the people as a whole.

Our acceptance of sacrifice on the home front is a yardstick of our determination to win the war. For this reason it is unthinkable to me that we should be straining every effort on the production line and on the fighting fronts abroad and at the same time be anything less than all-out in the financing of the war effort. This war, above all others, can be won only by hard fighting and heavy losses, by the acceptance of risks and deprivations, and by the united effort of civilians and fighting men alike. In this kind of war a tax bill can be a decisive battle. It could be lost by narrow vision and faulty leadership, just as if it were on the plains of Russia or the sands of Libya. It can be won by boldness and courage. I am confident that this Committee will live up to its high responsibilities and keep faith with a united people.

Action of the Ways and Means Committee

on the

Revenue Bill of 1942

June 26, 1942

(Revised July 20, 1942 in accordance
with H.R. 7378 as passed by the
House of Representatives.)

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Estimated increase (+) or decrease (-) in revenue yield due to Revenue Bill of 1942 (H.R. 7378) as passed by the House of Representatives, July 20, 1942

(In millions of dollars)

	Increase (+), decrease (-) over yield of present law	
Income and excess-profits taxes:		
Corporation:		
Income	+	383.4
Excess profits	+	2,315.8
Declared value excess-profits tax	-	58.5
Total corporation income and excess profits taxes	+	2,640.7
Individual income tax	+	2,872.3
Total income and excess profits taxes	+	5,513.0
Miscellaneous internal revenue:		
Capital stock tax	-	51.5
Estate tax	-	14.8
Gift tax	+	7.7
Total	-	58.6
Liquor taxes:		
Distilled spirits 1/	+	266.1
Fermented malt liquors 1/	+	61.8
Wines 1/	+	11.6
Total liquor taxes	+	339.5
Tobacco taxes:		
Cigarettes 1/	+	51.4
Tobacco, smoking 1/	+	11.8
Cigars (large) 1/	+	15.8
Cigarette papers and tubes	+	7.8
Total tobacco taxes	+	86.8
Manufacturers' excise taxes:		
Lubricating oil	+	13.9
Photographic apparatus	+	7.6
Rubber articles	-	8.9
Electric signs	-	.1
Washing machines	-	.1
Optical equipment	-	.3
Total manufacturers' excise taxes	+	12.1
Miscellaneous taxes:		
Telephone, telegraph, radio and cable facilities, leased wires, etc.	+	26.8
Telephone bill	+	36.8
Transportation of persons	+	33.9
Coin-operated amusement and gaming devices	+	4.4
Transportation of property	+	252.9
Pari-mutuel wagering	+	23.6
Total miscellaneous taxes	+	378.4
Total miscellaneous internal revenue	+	758.2
Total internal revenue	+	6,271.2

Treasury Department, Division of Research & Statistics. July 20, 1942.

See next page for footnotes.

1/ Excluding nonrecurring floor stocks taxes which are estimated to yield: Distilled spirits, $90.0 millions; fermented malt liquors, $2.0 millions; wines, $2.3 millions; cigarettes, $5.8 millions; smoking tobacco, $1.4 millions; cigars (large), $1.6 millions.

Note: All estimates show full year effect assuming all proposed changes were fully reflected in revenue for an entire year. Estimates of income and excess profits taxes and the gift tax are at levels of income estimated for calendar year 1942. All other estimates are at levels of income estimated for fiscal year 1943.

Present law, Treasury proposal, and Committee action on Revenue Bill of 1942

(The Committee action and H.R. 7378 are the same except for corporate rates)

	Present law	Treasury proposal	Committee action
A. Corporation taxes			
1. Normal tax			
Corporations with net income of not more than $25,000:			
Not in excess of $5,000	15%	15%	15%
Next $15,000	17	17	17
Next $5,000	19	19	19
Corporations with a net income over $25,000:	24	24	24
Notch provision: Alternative tax	$4,250 plus 37% of excess over $25,000	$4,250 plus 31% of excess over $25,000	$4,250 plus 31% of excess over $25,000
Top income to which applicable	$38,461.54	$50,000	$50,000
2. Surtax *			
Corporations with net income of not more than $25,000	6	16	10
Corporations with net income over $25,000:			
First $25,000	6	31	21
Over $25,000	7	31	21
Notch provision: Alternative tax	None (bracket rates)	$4,000 plus 46% of excess over $25,000	$2,500 plus 32% of excess over $25,000
Top income to which applicable	-	$50,000	$50,000

Note: Under the Committee action the normal and surtax rates do not apply to the balance of adjusted excess profits net income remaining after excess profits tax.

* In final Committee action the surtax rate for corporations with net income over $25,000 was reduced from 21% to 16% and the excess profits tax rate was increased from 87½% to 90%. The bill, H.R. 7378, as passed by the House, retained the surtax rate of 21% and adopted the 90% excess profits rate.

	Present law	Treasury proposal	Committee action
3. Relief for corporations with decreased earnings	None	*	None

* Corporations with current year surtax net income less than the average surtax net income for the base period years 1936-1939 should be allowed a tax credit of 10 percent of the difference but not to exceed the smaller of (a) 20 percent of surtax net income or (b) the excess of the surtax computed without benefit of this provision over $4,000. This provision should apply only to corporations with net income over $25,000 that do not use the alternative rate under the notch provision. In the light of the Committee's tentative action in adopting a combined normal and surtax rate of 40 percent, the Treasury withdrew its recommendation. Later the Committee raised the combined rate of 40 percent to 45 percent.

4. Excess profits tax

a. Excess profits credit

(1) Invested capital method:

	Present law	Treasury proposal	Committee action
First $5 million of invested capital	8%	8%	8%
Next $5 million	7	7	7
Next $190 million	7	7	6
Balance	7	7	5

(2) Income method:

	Present law	Treasury proposal	Committee action
Portion of average earnings in base period 1936-1939	95	95	95
b. Specific exemption	$5,000	$5,000	$10,000

Note: The Treasury agreed in advance to the modifications in the excess profits credit and specific exemption indicated above under Committee action.

c. Excess profits tax rates **

Adjusted excess profits net income	Present law	Treasury proposal	Committee action
First $20,000	35%	50%	90.0%
$ 20,000 to $ 50,000	40	55	90.0
50,000 to 100,000	45	60	90.0
100,000 to 250,000	50	65	90.0
250,000 to 500,000	55	70	90.0
Over 500,000	60	75	90.0

** See note on page 1.

	Present law	Treasury proposal	Committee action

c. Excess profits tax rates
continued

Note: (1) Under the Committee action the normal and surtax rates do not apply to the balance of adjusted excess profits net income remaining after excess profits tax.

(2) Under the procedure in the present law corporations with taxable years beginning after December 31, 1941, would be subject to the new and higher income and excess profits tax rates. This would permit corporations with fiscal years to escape the full import of the new rates on part of the incomes attributable to the calendar year 1942. The Committee voted to follow the 1932 Act or some similar procedure to obviate this result, thus making the new rates applicable to all corporate incomes after January 1, 1942.

d. General relief: (A separate statement is available outlining the Treasury's proposals which were accepted by the Committee.)

5. Post-war credit

* (a) Statement of Secretary, March 3, 1942: "However, it is recognized that very high top, or so-called 'marginal rates,' may leave little incentive for the maintenance of efficiency in business operation. Furthermore, after the war there may well be need for a large volume of expenditure in readjusting industry and maintaining employment. For these reasons it is believed desirable that in the case of any dollar of corporate profits the receipt of which results in an increase in tax beyond perhaps eighty cents, the additional tax on such dollar shall be held by the Government to the account of the corporation and be returnable within a limited period after the war, in those cases where it is spent for new and additional capital equipment or otherwise is spent in the additional employment of labor."

(b) Proposal made jointly by Mr. Paul, Tax Adviser to the Secretary of the Treasury, and Mr. Stam, of the staff of the Joint Committee on Internal Revenue Taxation, on June 18, 1942:

"1. The amount to be returned shall be 14 percent of the taxpayer's adjusted excess-profits net income.

"2. The amounts returned shall not be included in corporate income subject to tax.

"3. The amounts shall be set aside in a special fund to be held by the Treasury to the credit of the taxpayer who shall be given a non-negotiable, non-interest-bearing certificate as evidence of his claim.

"4. The amounts returned to the taxpayers are intended for use in the conversion of their businesses to peacetime activity or in the maintenance of employment in business activity. To this end the amounts returned shall not be available for the following purposes:

(1) The payment of cash or stock dividends.
(2) Bonuses or salary increases to executives.
(3) The increase of cash reserves unless employed in the business.
(4) The purchase of securities.

"5. The amounts returned to the taxpayer shall be returned in the following manner: First-year collections shall be paid within the third year after the cessation of hostilities; second-year collections within the fourth year; third-year collections within the fifth year; balance within the sixth year after the cessation of hostilities."

This specific proposal was rejected by the Committee.

** The Committee tentatively adopted and then rejected the following formula:

1. The amount returned be 14 percent of the adjusted excess-profits net income--the base upon which the excess-profits tax is computed. (Giving effect to the proposed refund, therefore, the net excess-profits tax rate will be 80 percent.)

2. The refund be effected by the redemption of bonds issued to the taxpayer.

3. The bonds be issued within 3 months after the payment of the related tax, or the final quarterly installment thereof, for any taxable year.

4. The bonds mature, subject to prior call, as follows: One-third at the end of the second calendar year following the cessation of hostilities; one-third at the end of the third such year; and one-third at the end of the fourth such year.

5. The bonds shall be callable, upon 3 months' notice, at any time prior to maturity date.

6. The maturity date of all the bonds be advertised within 30 days after the cessation of hostilities, and in such a way that the maturity date of any bond shall be readily ascertainable.

7. The bonds be issued under the provisions of the Second Liberty Bond Act, thus payable without the necessity of a special appropriation.

8. The bonds be nonnegotiable and non-interest-bearing.

9. The bonds be assignable after the end of the war.

10. The amount of bonds issuable to any taxpayer in consideration of the tax paid for any taxable year be adjusted for any overage or shortage in the aggregate amount issued to such taxpayer for the prior year or years, any overage finally remaining to be adjusted by cancellation or, at the election of the taxpayer, by purchase at face value.

11. No amount be included in gross income for any year by reason of the receipt of bonds or of amounts paid for their redemption.

12. No amount be available, by reason of the issue of bonds or their redemption, for any of the following purposes:

(1) The payment of dividends in cash or stock.
(2) The payment of bonuses or salary increases to executives.
(3) The increase of cash reserves unless employed in the business.
(4) The purchase of securities.

13. The amounts refunded to be subject to a "capital gains" tax of 15 percent.

	Present law	Treasury proposal	Committee action
6. Consolidated returns	Not allowed for normal tax and surtax (except for railroads, etc., and certain corporations in foreign trade.) Allowed for excess profits tax.	Allow for both income and excess profits tax	Allow for both income and excess profits tax imposing, however, a differential tax of 2% of surtax net income for the privilege
7. Nonresident foreign corporations			
Tax rate	27½%	Not specified-to be aligned	37%
Withholding of tax at source (Sec. 144)	27½%	Not specified-to be aligned	37%

	Present law	Treasury proposal	Committee action
8. Personal holding companies			
Not in excess of $2,000	71½%	Not specified	75%
In excess of $2,000	81½%	Not specified	85%

Note: The Committee action on points 7 and 8 was taken at the suggestion of the Treasury.

	Present law	Treasury proposal	Committee action
9. Capital stock tax and declared value excess profits tax			
Capital stock tax	$1.25 for each $1,000 of adjusted declared value	Repeal	Taxes retained but provision was made for the annual redeclaration of capital stock value
Declared value excess profits tax net income:			
In excess of 10% and not in excess of 15% of adjusted declared value	6.6%	Repeal	6.6%
In excess of 15% of adjusted declared value	13.2%	Repeal	13.2%

B. Individual income tax

1. Rates

	Present law	Treasury proposal	Committee action
a. Normal tax	4%	4%	6%
b. Surtax	(See attached Table 1)		

Notes. The Treasury recommended that the first $2,000 bracket be subdivided into four $500 brackets. Under the Committee action the first $2,000 bracket is retained.

c. Optional tax on individuals with gross income from certain sources of $3,000 or less	(See attached Table 2)		

Note: Under present law taxpayers having a married status on the last day of the taxable year are entitled to a married person's exemption for the entire year. Under the Committee action those having a married status on July 1 of the taxable year receive a married person's exemption.

	Present law	Treasury proposal	Committee action
d. Non-resident alien individuals not engaged in trade or business within the United States and not having a place of business therein			
Tax rate	27½%	Not specified - to be aligned	37%

Note: The 27½% rate under present law does not apply to receipts of more than $23,000; the 37% rate under Committee action does not apply to non-resident alien individuals with aggregate receipts of more than $22,900.

	Present law	Treasury proposal	Committee action
Withholding of tax at source (Section 143)	27½%	Not specified - to be aligned	37%
2. Exemptions			
a. Single person	$ 750	$ 600	$ 500 *
Married person	1,500	1,200	1,200 *
Dependent	400	300	400

* In addition, members of the armed forces are allowed an exclusion from gross income of $250 for a single person and $300 for a married person. Thus in effect the present exemptions are retained for the armed forces on active duty.

Note: The original Treasury proposal of March 3, 1942, recommended exemptions of $750, $1,500 and $400. In a letter to the Chairman May 6, 1942, the Secretary recommended the lowering of exemptions to $600, $1,200 and $300.

	Present law	Treasury proposal	Committee action
b. Children 18-21 attending school	Not included as dependents	Include as dependents	Not included as dependents
3. Earned income credit			
For normal tax only	10% of earned net income but not in excess of the entire net income	Repeal	Retain without change
4. Collection at source	None	Rate 10%*	The plan was adopted with the revision indicated in the note on the following page.

* Collect the income tax at source with respect to salaries and wages, dividends and bond interest. For salaries and wages, allow personal exemptions, credit for dependents, and deductions equal to 10 percent of exemptions and credit for dependents.

Originally the Treasury recommended that the Secretary have discretion to collect at source at a rate up to 10 percent, since it was not known how soon and to what extent it might be necessary to speed up tax collections to check inflation. Subsequently, the Treasury asked outright for a 10 percent rate. On June 19, 1942, the Treasury submitted a plan to ease the transition to collection at source by spreading the impact of the 10 percent tax over two transition years 1943 and 1944. Under this plan one-half the amount collected at source during 1943 would be credited against the instalment payments on 1942 liabilities and the balance would be credited against the quarterly payment on 1943 liabilities due in March, 1944. It was suggested further that for the purpose of equalizing the impact of collection at source on persons with sources of income subject to withholding and persons not subject to withholding, all taxpayers be required to pay 5 percent of net income plus one-fourth the balance of the liabilities for 1943 in March, 1944.

In the course of the discussion in the Committee, it was suggested by a member of the Committee that a simpler method of transition would be to withhold at a rate of only 5 percent in 1943 and have all of the withhold tax apply as part payment of 1943 tax liabilities. The 10 percent rate would be imposed first in 1944, applicable as part payment of 1944 tax liabilities. It was informally the sense of the Committee that the Treasury and Joint Committee staffs should study this suggestion and report back. In its final action the Committee adopted this suggested revision.

	Present law	Treasury proposal	Committee action
5. Joint returns	Optional	Mandatory	Optional *

* The Committee had tentatively adopted mandatory joint returns, but subsequently reversed its action.

5a. Working wife allowance	None	**	None

** On March 30, 1942, the Treasury more specifically recommended an allowance as follows: "Where the wife works outside the home, additional household expenses usually are incurred which are not present where the wife is able to devote her full time to the maintenance of the home. For this reason, it is suggested that an additional credit be provided as follows:

"There should be allowed as a credit against the tax upon the family an amount equal to 10 percent of the wife's earnings. Such credit, however, should not exceed $100.

"A similar credit should be allowed where a person occupying the status of head of the family, such as a widow, works."

	Present law	Treasury proposal	Committee action
6. Medical expenses	No allowance	*	No action

* Allow a deduction for extraordinary medical expenses in excess of a specified percentage of the family's net income. The amount allowed should, however, be limited to some specified maximum amount. (March 30, 1942.)

	Present law	Treasury proposal	Committee action
C. Estate and gift taxes			
1. Rates		See attached Table 2	No increase
2. Exemptions			
a. Estate tax			
Specific exemption	$40,000	Substitute one $60,000 specific exemption for the present specific exemption and insurance exclusion	One $60,000 specific exemption for the present specific exemption and insurance exclusion
Insurance exclusion	$40,000		
Nonresidents' estates	None		$2,000
b. Gift tax			
Specific exemption	$40,000	$30,000	$30,000
Annual exclusion	$4,000 for each donee	Allow each donor $5,000 for all donees	$3,000 for each donee
D. Excise taxes			
1. Recommended increases			
a. Liquor			
Distilled spirits, per gallon	$4	$6	$6
Beer (fermented malt liquors), per barrel	$6	$8	$7
Still wines, per wine gallon			
Not over 14%	8¢	15¢	10¢
Over 14 not over 21%	30¢	50¢	40¢
Over 21 not over 24%	65¢	$1	$1

D. Excise taxes Continued

1. Recommended increases Continued

	Present law	Treasury proposal	Committee action
Other wines, per 1/2 pint			
Sparkling	7¢	10¢	10¢
Artificially carbonated	3½¢	5¢	5¢
Liqueurs, cordials, etc.	3½¢	5¢	5¢
Imported bitters, per gallon	No excise tax	*	*

* The Committee tentatively adopted a tax of $6 and subsequently eliminated it from the Bill.

b. Tobacco

	Present law	Treasury proposal	Committee action
Cigarettes, per thousand			
Small			
10¢ brands	$ 3.25	$ 3.50	$ 3.50
15¢ brands	3.25	4.00	3.50
Large			
Not over 6½" long	7.80	9.60	8.40
Over 6½" long	3.25	4.00	3.50
Smoking tobacco, per pound	18¢	36¢	24¢
Cigars, per thousand, retailing at:			
A - Not over 2.5 cents	$ 2.00	$ 2.50	$ 2.50
B - 2.6 to 4.0 "	2.00	3.50	3.50
C -(4.1 " 5.0 ")	2.00)	5.00	5.00
(5.1 " 6.0 ")	3.00)		
D - 6.1 " 8.0 "	3.00	7.00	7.00
E - 8.1 " 11.0 "	5.00	10.00	10.00
F -11.1 " 15.0 "	5.00	13.50	13.50
G -15.1 " 20.0 "	10.50	18.00	18.00
H -20.1 " 30.0 "	13.50	25.00	25.00
I -30.1 and over	13.50	35.00	35.00

Note: Originally, on March 3, 1942, the Treasury proposed rates as follows:

	Present law	Treasury proposal	Committee action

D. Excise taxes Continued

1. Recommended increases Continued

b. Tobacco Continued

Not over 2.5 cents, $2.50; 2.6 to 5 cents, $5.00; 5.1 to 8 cents, $7.50; 8.1 to 10 cents, $10.00; 10.1 to 15 cents, $15.00; 15.1 to 20 cents, $20.00; 20.1 to 30 cents, $25.00; 30.1 and over, $40.00. This schedule was revised upon representations made by manufacturers and workers in the industry.

	Present law	Treasury proposal	Committee action
Cigarette paper and tubes	Papers: (per pkg.) Not over 25 sheets - exempt, 26-50 sheets - 1/2¢ each additional 50 sheets or fraction thereof - 1/2¢ Tubes: 1¢ per pkg. of 50 or fraction thereof	1/2¢ per 25 papers or tubes or fraction thereof	1/2¢ per 25 papers or tubes or fraction thereof
c. Gasoline, per gallon	1 1/2¢	3¢	1 1/2¢
d. Lubricating oil, per gallon	4 1/2¢	10¢	6¢
e. Photographic apparatus			
Unexposed film and sensitized paper and photographic plates	10% of manufacturers' sales price	25%	15%
Other photographic apparatus	10% of manufacturers' sales price	25%	25%, exempting cameras weighing more than 4 lbs.

	Present law	Treasury proposal	Committee action
f. Carbonated soft drinks			
Bottle not over 33 fluid ounces retailing at			
Not over 10¢	No tax	1¢ per bottle	No tax
Over 10¢ not over 20¢	" "	2¢ " "	" "
Over 20¢	" "	3¢ " "	" "
Bottle over 33 fluid ounces	" "	36% of bottlers' selling price	" "
Carbonic acid gas used in unbottled soft drinks	" "	80¢ per pound	" "
g. Candy and chewing gum	" "	15% of manufacturers' sales price	" "
h. Communications Service 1/			
Telephone and radio-telephone toll service charge of more than 24¢	5¢ tax on charge of 25 to 50¢; additional 5¢ tax on each 50¢	20% of total charge*	20% of total charge

* Originally the Treasury proposed a 5¢ tax on charges of 25 to 39 cents; 10-cent tax on charges of 40-64 cents; 15¢ tax on charges of 65 to 99 cents; additional 5¢ tax on each 25 cents or fraction thereof. This proposal was revised at the suggestion of the industry to simplify the computation of the tax.

	Present law	Treasury proposal	Committee action
Telegraph, cable and radio dispatch or message	10% of charge	15% of charge	15% of charge
Leased wire services	10% of charge	15% of charge	15% of charge
Local telephone service	6% of bill	10% of charge	10% of charge
Public station coin-operated telephone service charges under 25¢	Exempt	Exempt*	Exempt

1/ Revised Treasury proposal.

	Present law	Treasury proposal	Committee action
h. Communications Service Continued			

* Originally the Treasury recommended a tax of 10 percent of service charge. This recommendation was changed on representations of the industry to the effect that the tax could not be shifted to consumers.

	Present law	Treasury proposal	Committee action
i. Transportation of persons			
Transportation charges	5% of amount paid	15%	10%
Seats and berths	5% of amount paid	20%	10%
j. Transportation of oil by pipe line	4½% of amount paid	10% *	4½%

* The Treasury withdrew its proposed increase before the action of the Committee.

	Present law	Treasury proposal	Committee action
2. Recommended for repeal			
a. Commercial washing machines	10% of mfrs.' sales price	Repeal	Repealed
b. Optical equipment	10% of mfrs.' sales price	Repeal	Repealed
c. Electric signs and advertising devices	10% of mfrs.' sales price	Repeal	Repealed
d. Rubber articles	10% of mfrs.' sales price	Repeal	Repealed
3. Submitted by request but not included in Treasury recommendations			
a. Freight and express	No tax		5% of amount paid by either contract or common carriers, except in the case of coal the tax is 5¢ per long ton.

	Present law	Treasury proposal	Committee action
b. Pari-mutuel wagers	No tax		5% of pool
c. Coin-operated amusement and gaming devices			
1¢ gaming devices paying prizes of not more than 5¢	$50		$10
Other gaming devices	$50		$50
Amusement devices:			
Pinball machines	$10		$10
Other amusement devices	Exempt		$10
d. Barber and beauty shop services	No tax		Suggested tax of 10% of charge was rejected
e. Electrical energy			
Rate	3-1/3%		Suggested increase to 5% was rejected
Sales by publicly owned plants	Exempt		Suggested elimination of exemption rejected
f. Manufactured and natural gas	No tax		Suggested tax of 5% of amount paid rejected
g. Sugar	1/2 cent per pound		Suggested increase to 1 cent rejected
h. Coffee	No tax		Suggested tax of 5 cents per pound rejected

	Present law	Treasury proposal	Committee action
i. Tea	No tax		Suggested tax of 10 cents per pound rejected
j. Cocoa	No tax		Suggested tax of 5 cents per pound rejected
k. Radio broadcasting	No tax		Suggested tax based on (a) transmission power or (b) net time sales rejected*

* Suggestion was that tax be higher of (a) or (b):

(a) Transmission power tax at following rates: 100 watts, $100; 250 watts, $250; 500 watts, $250; 1,000 watts, $350; 5,000 watts, $500; 7,500 watts, $750; 10,000 watts, $800; 25,000 watts, $900; 50,000 watts, $1,000.

(b) Net time sales tax at following rates: First $50,000 net time sales in excess of $100,000 exemption, 6 percent; next $350,000, 8 percent; balance, 10 percent.

	Present law	Treasury proposal	Committee action
l. Bank checks	No tax		Suggested tax of 2 cents per check rejected
m. Withdrawals from bank accounts	No tax		Suggested tax of 1/100 of 1% rejected

Note: The Committee exempted from the tax on business machines cash registers used in over-the-counter sales of merchandise; and from the tax on musical instruments, organs sold under a bond fide contract entered into before October 1, 1941.

	Present law	Treasury proposal	Committee action
E. State and local tax-exempt securities	Interest exempt from both normal tax and surtax	Repeal present exemption for both future and outstanding securities	Present exemption retained
F. Percentage depletion and intangible development expenses			
1. Percentage depletion			
a. Oil and gas wells	27½ percent of gross income	Eliminate	27½ percent of gross income
b. Sulphur mines and deposits	23 percent of gross income	Eliminate	23 percent of gross income
c. Metal mines	15 percent of gross income	Eliminate	15 percent of gross income
d. Coal mines	5 percent of gross income	Eliminate	5 percent of gross income
e. Fluorspar	No percentage depletion		15 percent of gross income

Note: Under present law and Committee action percentage depletion is limited to an amount not in excess of 50 percent of net income computed without allowance for depletion.

	Present law	Treasury proposal	Committee action
2. Intangible development expense	Option to charge to expense or capitalize*	Capitalize	Option to charge to expense or capitalize*

* The Regulations now give taxpayers the option of expensing intangible development costs of oil and gas properties. They also permit the expensing of the development costs of mines except the excess of costs over receipts for mines that have not yet reached the state of production. This excess must be charged to capital account to be recovered through depletion.

	Present law	Treasury proposal	Committee action
G. Capital gains and losses			
1. Individuals			
a. Classes of gains and losses			
(1) Short-term	Assets held 18 months or less	Assets held 18 months or less	Assets held 15 months or less
(2) Long-term	Two classes: Over 18, not over 24 mos.; over 24 mos.	One class: Over 18 months	One class: Over 15 months
b. Percentage of gain or loss taken into account			
(1) Short-term	100%	100%	100%
(2) Long-term Not over 24 months	66-2/3	50	50
Over 24 months	50	50	50
c. Maximum rate on statutory net long-term gains	30	60	50
d. Treatment of losses			
(1) Short-term losses	Allowed solely against short gains of the succeeding year	To be allowed against short or long gains and, together with long losses, also against a maximum of $1,000 of other income	To be allowed against short or long gains and, together with long losses, also against a maximum of $1,000 of other income

	Present law	Treasury proposal	Committee action
d. Treatment of losses Continued			
(2) Long-term losses	Allowed against ordinary income in full	To be allowed against short and long capital gains and, together with short losses, also against a maximum of $1,000 of other income	To be allowed against short and long capital gains and together with short losses, also against a maximum of $1,000 of other income.
e. Loss carry-over			
(1) Short-term	One year against short-term capital gains	Permit 5-year carry-over	Permit 5-year carry-over
(2) Long-term	No carry-over required because allowed against other income	Permit 5-year carry-over	Permit 5-year carry-over
2. Corporations			
a. Classes of gains and losses			
(1) Short-term	Assets held 18 months or less	No distinction to be made	Assets held 15 months or less
(2) Long-term	Assets held over 18 months	No distinction to be made	Assets held over 15 months
b. Maximum rate on net long-term gains	Corporate rate	Corporate rate	25% in lieu of corporate rate

	Present law	Treasury proposal	Committee action
c. Offsetting of losses			
(1) Short-term	Allowed solely against short-term gains	Allow against short or long-term gains	Allow against short or long-term gains
(2) Long-term	Allowed against other income in full	Allow against short or long-term gains	Allow against short or long-term gains
d. Carry-over of losses			
(1) Short-term	Carried forward for one year against short-term gains	Permit 5-year loss carry-over	Permit 5-year loss carry-over
(2) Long-term	No carry-forward required since offset against other income	Permit 5-year loss carry-over	Permit 5-year loss carry-over

Note: The modifications in the Treasury recommendations were agreed to by the Treasury in advance.

H. Insurance companies

1. Life insurance tax base (Only major changes are indicated)

a. Life insurance business

Deductions from taxable investment income (underwriting income excluded)

	Present law	Treasury proposal	Committee action
Expenses	Investment expenses, limited to 1/4 of 1% of assets, if any expenses allocated	Investment expenses limited to 1/4 of 1% of assets plus 1/4 of excess of rate of interest actually earned over 3-3/4%, if any expenses are allocated	Investment expenses limited to 1/4 of 1% of assets plus 1/4 of excess of rate of interest actually earned over 3-3/4%, if any expenses are allocated

	Present law	Treasury proposal	Committee action
H. Insurance companies Continued			
Reserve earnings deduction	3-3/4 percent of mean of legal reserves, or actual assumption rate, if higher, but not to exceed 4 percent; no adjustment for reserve earnings derived from tax-exempt income	Percent of mean of legal reserves equal to weighted average of 3-1/4 percent and actual assumption rate, 3-1/4 percent to be weighted 65 percent and actual assumption rate, 35 percent, preliminary term reserves to be increased by 7 percent for this purpose; adjustment of deduction to eliminate double-deduction of reserve earnings derived from tax-exempt interest	Flat percentage of investment income after investment expenses and tax exempt interest, percentage to be determined by Secretary of the Treasury so as to yield same aggregate deduction for industry as under Treasury formula*

* This proposal was made by the industry and the Treasury made no objections to its acceptance.

b. Cancellable accicent and health business	Same as life business where company qualifies as a life company	Add 3-1/4 percent of reserves on cancellable accident and health business; unearned premium reserve to be not less than 25 percent of annual premiums written	Add 3-1/4 percent of reserves on cancellable accident and health business; unearned premium reserve to be not less than 25 percent of annual premiums written

Note: (1) The Treasury originally proposed that cancellable health and accident business be segregated and treated like insurance other than life. The modified proposal was suggested by the industry and accepted by the Treasury.

H. Insurance companies Continued

(2) Treasury recommended that non-cancellable health and accident reserves be included with life reserves in determining whether a company was a life insurance company. This recommendation was adopted.

(3) Treasury recommended that reserves of life insurance companies be treated as borrowed capital for excess profits tax purposes, and that the reserve earnings deduction be treated like interest paid on the borrowed capital. This recommendation was adopted.

2. Mutual insurance companies other than life

	Present law	Treasury proposal	Committee action
a. Exemptions	Section 101 (11) has the effect of exempting practically all mutual insurance companies other than life	Exempt companies with less than $100,000 admitted assets or less than $50,000 net income	Exempt companies with less than $100,000 admitted assets or less than $50,000 net income
b. Tax base	The deduction under section 207(c)(3) has the effect of eliminating all premiums from the tax base	Eliminate deduction under 207(c)(3); permit deduction for dividends paid to policyholders in excess of investment income available for the payment of dividends; permit deduction for amounts added to surplus apportioned to policyholders	Eliminate deduction under 207(c)(3); permit deduction for dividends paid to policyholders in excess of investment income available for the payment of dividends; permit deduction for amounts added to surplus apportioned to policyholders

Note: Treasury recommended that unearned premium reserves of both mutual and stock insurance companies other than life be included as borrowed capital for excess profits tax purposes. No adjustment is to be made on income because there is no corresponding explicit interest payment. This recommendation was adopted.

	Present law	Treasury proposal	Committee action
3. **Foreign insurance**			
a. Policies not signed or countersigned in United States by an officer or agent of the insurer			
(1) Life insurance	No tax	Stamp tax at rate of 1 percent	Stamp tax at rate of 1 percent of premium
(2) Surety and fidelity bonds, and certain other types of casualty income	No tax	Stamp tax at rate of 4 percent	Stamp tax at rate of 4 percent of premium
(3) Reinsurance	No tax	Stamp tax at rate of 1 percent	Stamp tax at rate of 1 percent of premium
(4) Other insurance	Stamp tax at rate of 4 percent	Stamp tax at rate of 4 percent	Stamp tax at rate of 4 percent of premium
b. Policies signed or countersigned (companies doing business in the United States)			
(1) Life insurance	Taxed on share of net income from all sources which reserves on United States policies bear to total reserve	Tax on basis of United States business	Tax on basis of United States business
(2) Insurance other than life	Taxed on United States business	Tax on United States business	Tax on United States business

I. Inventory reserves

The Treasury proposed that taxpayers be permitted to set up reserves against future inventory losses through price declines, these reserves to be deductible in computing income and excess profits tax. The Committee accepted the inventory reserve proposal in principle, the provision to be included in the draft if the technical drafting details can be worked out within the time available. It was not possible to complete the draft of the inventory provision in time for the House bill. The drafting will be continued with a view to having the provision ready for the Senate Finance Committee. (A separate mimeograph outlining the proposal is available.)

J. Check list of technical and administrative amendments

Not approved

Income tax amendments

Treatment of pre-March 1, 1913, earnings and profits.
Basis of assets acquired from a decedent for capital gain and loss purposes.

Estate and gift tax amendments

Limitation on deductibility of charitable bequests.

Deferred until later legislation

Income tax amendments

Charitable organization engaged in trade or business

Approved

Income tax amendments

Taxation of mutual investment companies.
Pension trusts and other retirement plans.
Deductibility of investment expenses (Higgins case).
Treatment of income accruing at date of decedent's death (Enright case).
Alimony.
Annuity trusts.
Amortization of bond premium.
Treatment of nonbusiness bad debts.
Elimination of charge-off requirements for bad-debt deduction.
Longer statute of limitations for bad debts and worthless stock losses.
Treatment of recoveries of bad debts and previously paid taxes.
Elimination of interim report requirement under last-in first-out inventory section.
Treatment of improvements by lessee.
Treatment of interest on money borrowed to carry paid-up life insurance.
Extension of 5-year amortization provision to individuals and partnerships, and to facilities constructed after January 1, 1940, and before June 10, 1940.
Personal holding company tax relief to deficit corporations, and allied problems.
Undistributed profits tax relief to deficit corporations.
Eliminating loan and investment companies from taxation under the personal holding company tax.
Supplement R

Approved - Continued

Income tax amendments - Continued

Treatment of involuntary conversion problems.
Revisions in method of taxing income from sources without the United States.
Revision of section 107 dealing with compensation for services rendered over several years — 36 months and 80 percent.
General procedural relief provision for taxpayers in combat zone or in enemy territories.
Modifications in the statute of limitations on refunds.
Reciprocal exemption to employees of the Philippine Government residing in the United States.
Treatment of income placed upon an annual basis.
Modification in treatment of nonresident aliens as respects requirement of office or place of business and definition of commodities.
Treatment of suits against Collectors of Internal Revenue.

Estate and gift tax matters

Treatment of renounced legacies.
Clarification of credit for property previously taxed.
Deduction for charitable pledges.
Disallowance of claims in excess of the gross estate.
Life insurance for the purposes of the estate tax.
Powers of appointment.
Community property for Federal estate tax purposes.
Reversal of gift tax and State death tax credits.

Excess-profits tax

Revision of Supplement A.
Revision of section 751.
Revision of treatment of liquidations under invested capital credit.
Revision of treatment of earnings and profits on certain reorganizations.
Clarification of computation of basis of property paid in for stock.

Note: In addition to the above amendments, suggested by the Treasury, the Committee voted to extend the applicability of section 22 (a) (9), relating to discharge of indebtedness, for 3 years, to 1945, and to change the name of the "Board of Tax Appeals" to the "United States Tax Court".

Table 1

Comparison of individual surtax rate schedule under present law, Treasury proposal, and Ways and Means Committee action

Surtax net income (000)	Bracket rate			Total surtax cumulative		
	Present law	Treasury proposal	Ways and Means	Present law	Treasury proposal	Ways and Means
$ - .5	6%	12%	13%	$ 30	$ 60	$ 65
.5 - 1	6	15	13	60	135	130
1 - 1.5	6	18	13	90	225	195
1.5 - 2	6	20	13	120	325	260
2 - 3	9	22	16	210	545	420
3 - 4	9	24	16	300	785	580
4 - 6	13	27	20	560	1,325	980
6 - 8	17	30	24	900	1,925	1,460
8 - 10	21	34	28	1,320	2,605	2,020
10 - 12	25	38	32	1,820	3,365	2,660
12 - 14	29	42	36	2,400	4,205	3,380
14 - 16	32	45	40	3,040	5,105	4,180
16 - 18	35	48	43	3,740	6,065	5,040
18 - 20	38	51	46	4,500	7,085	5,960
20 - 22	41	54	49	5,320	8,165	6,940
22 - 26	44	57	52	7,080	10,445	9,020
26 - 32	47	60	55	9,900	14,045	12,320
32 - 38	50	64	58	12,900	17,885	15,800
38 - 44	53	68	61	16,080	21,965	19,460
44 - 50	55	72	63	19,380	26,285	23,240
50 - 60	57	76	66	25,080	33,885	29,840
60 - 70	59	78	69	30,980	41,685	36,740
70 - 80	61	80	72	37,080	49,685	43,940
80 - 90	63	82	75	43,380	57,885	51,440
90 - 100	64	84	77	49,780	66,285	59,140
100 - 150	65	86	79	82,280	109,285	98,640
150 - 200	66	86	81	115,280	152,285	139,140
200 - 250	67	86	82	148,780	195,285	180,140
250 - 300	69	86	82	183,280	238,285	221,140
300 - 400	71	86	82	254,280	324,285	303,140
400 - 500	72	86	82	326,280	410,285	385,140
500 - 750	73	86	82	508,780	625,285	590,140
750 - 1,000	74	86	82	693,780	840,285	795,140
1,000 - 2,000	75	86	82	1,443,780	1,700,285	1,615,140
2,000 - 5,000	76	86	82	3,723,780	4,280,285	4,075,140
5,000 and over	77	86	82	-	-	-

Table 1a. Amount of individual income tax and effective rates under present law, Treasury proposal, and Committee action

Single person - No dependents

Personal exemption: Present law - $750
Treasury proposal - 600
Committee action - 500

Net income before personal exemption 1/	Amount of tax: Present law	Amount of tax: Treasury proposal	Amount of tax: Committee action	Effective rates: Present law	Effective rates: Treasury proposal	Effective rates: Committee action
				Percent	Percent	Percent
$ 500	-	-	-	-	-	-
600	-	-	$ 15	-	-	2.5
700	-	$ 16	34	-	2.3	4.9
800	$ 3	32	52	.4	4.0	6.5
900	11	48	71	1.2	5.3	7.8
1,000	21	64	89	2.1	6.4	8.9
1,200	40	99	126	3.3	8.3	10.5
1,500	69	156	181	4.6	10.4	12.1
2,000	117	263	273	5.9	13.2	13.7
2,500	165	381	365	6.6	15.2	14.6
3,000	221	509	472	7.4	17.0	15.7
4,000	347	777	686	8.7	19.4	17.2
5,000	483	1,069	920	9.7	21.4	18.4
6,000	649	1,379	1,174	10.8	23.0	19.6
8,000	1,031	2,041	1,742	12.9	25.5	21.8
10,000	1,493	2,777	2,390	14.9	27.8	23.9
15,000	2,994	4,961	4,366	20.0	33.1	29.1
20,000	4,929	7,555	6,816	24.6	37.8	34.1
25,000	7,224	10,509	9,626	28.9	42.0	38.5
50,000	20,882	27,829	25,811	41.8	55.7	51.6
100,000	53,214	69,757	64,641	53.2	69.8	64.6
500,000	345,654	429,745	414,616	69.1	85.9	82.9
1,000,000	733,139	879,745	854,616	73.3	88.0	85.5
5,000,000	3,923,124	4,479,745	4,374,616	78.5	89.6	87.5
Normal tax rate (percent)	4	4	6	4	4	6

1/ Maximum earned income assumed for purposes of the earned income credit under the present law and the Committee action.

Table 1b

Amount of individual income tax and effective rates under present law, Treasury proposal, and Committee action

Married person - No dependents

Personal exemption: Present law - $1,500
Treasury proposal - 1,200
Committee action - 1,200

Net income before personal exemption 1/	Amount of tax: Present law	Amount of tax: Treasury proposal	Amount of tax: Committee action	Effective rate: Present law	Effective rate: Treasury proposal	Effective rate: Committee action
				Percent	Percent	Percent
$ 1,200	-	-	-	-	-	-
1,300	-	$ 16	$ 13	-	1.2	1.0
1,400	-	32	30	-	2.3	2.1
1,500	-	48	48	-	3.2	3.2
1,600	$ 6	64	66	0.4	4.0	4.1
1,800	23	99	103	1.3	5.5	5.7
2,000	42	137	140	2.1	6.9	7.0
2,500	90	241	232	3.6	9.6	9.3
3,000	138	357	324	4.6	11.9	10.8
4,000	249	613	532	6.2	15.3	13.3
5,000	375	889	746	7.5	17.8	14.9
6,000	521	1,193	992	8.7	19.9	16.5
8,000	873	1,837	1,532	10.9	23.0	19.2
10,000	1,305	2,549	2,152	13.1	25.5	21.5
15,000	2,739	4,673	4,052	18.3	31.2	27.0
20,000	4,614	7,225	6,452	23.1	36.1	32.3
25,000	6,864	10,143	9,220	27.5	40.6	36.9
50,000	20,439	27,373	25,328	40.9	54.7	50.7
100,000	52,704	69,229	64,060	52.7	69.2	64.1
500,000	345,084	429,205	414,000	69.0	85.8	82.8
1,000,000	732,554	879,205	854,000	73.3	87.9	85.4
5,000,000	3,922,524	4,479,205	4,374,000	78.5	89.6	87.5
Normal tax rate (percent)	4	4	6	4	4	6

1/ Maximum earned income assumed for purposes of the earned income credit under the present law and the Committee action.

Table 1c. Amount of individual income tax and effective rates under present law, Treasury proposal, and Committee action

Married person - two dependents

Personal exemption:	Present law	- $1,500
	Treasury proposal	- 1,200
	Committee action	- 1,200
Dependent credit:	Present law	- $ 400
	Treasury proposal	- 300
	Committee action	- 400

Net income before personal exemption 1/	Amount of tax			Effective rate		
	Present law	Treasury proposal	Committee action	Present law	Treasury proposal	Committee action
				Percent	Percent	Percent
$ 1,800	-	-	-	-	-	-
1,900	-	$ 16	-	-	0.8	-
2,000	-	32	-	-	1.6	-
2,100	-	48	$ 13	-	2.3	0.6
2,200	-	64	26	-	2.9	1.2
2,300	-	80	43	-	3.5	1.9
2,400	$ 6	99	62	0.3	4.1	2.6
2,500	12	118	80	0.5	4.7	3.2
3,000	58	219	172	1.9	7.3	5.7
4,000	154	457	356	3.9	11.4	8.9
5,000	271	721	570	5.4	14.4	11.4
6,000	397	1,007	784	6.6	16.8	13.1
8,000	717	1,633	1,292	9.0	20.4	16.2
10,000	1,117	2,321	1,880	11.2	23.2	18.8
15,000	2,475	4,397	3,716	16.5	29.3	24.8
20,000	4,287	6,895	6,036	21.4	34.5	30.2
25,000	6,480	9,777	8,756	25.9	39.1	35.0
50,000	19,967	26,917	24,776	39.9	53.8	49.6
100,000	52,160	68,701	63,396	52.2	68.7	63.4
500,000	344,476	428,665	413,296	68.9	85.7	82.7
1,000,000	731,930	878,665	853,296	73.2	87.9	85.3
5,000,000	3,921,884	4,478,665	4,373,296	78.4	89.6	87.5
Normal tax rate (percent)	4	4	6	4	4	6

1/ Maximum earned income assumed for purposes of the earned income credit under the present law and Committee action.

Table 2

Optional tax schedule for individuals with gross income of $3,000 or less derived solely from salary, wages, compensation for personal services, dividends, interest, rent, annuities, or royalties.

If the gross income is over-	But not over -	The tax shall be: Single person (not head of a family)*	(1) Married person whose spouse does not file separate return or (2) married person filing joint return or (3) head of family*	Married person filing separate return*
$ 0	$ 525	$ 0	$ 0	$ 0
525	550	1	0	0
550	575	4	0	0
575	600	7	0	0
600	625	11	0	0
625	650	15	0	0
650	675	20	0	3
675	700	24	0	6
700	725	28	0	9
725	750	33	0	14
750	775	37	0	18
775	800	41	0	22
800	825	46	0	27
825	850	50	0	31
850	875	54	0	35
875	900	59	0	40
900	925	63	0	44
925	950	67	0	48
950	975	71	0	52
975	1,000	76	0	57
1,000	1,025	80	0	61
1,025	1,050	84	0	65
1,050	1,075	89	0	70
1,075	1,100	93	0	74
1,100	1,125	97	0	78
1,125	1,150	102	0	83
1,150	1,175	106	0	87
1,175	1,200	110	0	91
1,200	1,225	115	0	96
1,225	1,250	119	0	100
1,250	1,275	123	0	104
1,275	1,300	128	0	109
1,300	1,325	132	1	113
1,325	1,350	136	4	117
			7	

Table 2 - Continued

- 2 -

If the gross income is over-	But not over -	The tax shall be: Single person (not head of a family)*	(1) Married person whose spouse does not file separate return or (2) married person filing joint return or (3) head of family*	Married person filing separate return
$ 1,350	$ 1,375	$ 141	$ 10	$ 122
1,375	1,400	145	14	126
1,400	1,425	149	17	130
1,425	1,450	154	21	135
1,450	1,475	158	25	139
1,475	1,500	162	29	143
1,500	1,525	167	34	148
1,525	1,550	171	38	152
1,550	1,575	175	42	156
1,575	1,600	180	47	161
1,600	1,625	184	51	165
1,625	1,650	188	56	169
1,650	1,675	193	60	174
1,675	1,700	197	64	178
1,700	1,725	201	68	182
1,725	1,750	206	73	187
1,750	1,775	210	77	191
1,775	1,800	214	81	195
1,800	1,825	218	85	199
1,825	1,850	223	90	204
1,850	1,875	227	94	208
1,875	1,900	231	98	212
1,900	1,925	236	103	217
1,925	1,950	240	107	221
1,950	1,975	244	111	225
1,975	2,000	249	116	230
2,000	2,025	253	120	234
2,025	2,050	257	124	238
2,050	2,075	262	129	243
2,075	2,100	266	133	247
2,100	2,125	270	137	251
2,125	2,150	275	142	256
2,150	2,175	279	146	260
2,175	2,200	283	150	264
2,200	2,225	288	155	269
2,225	2,250	292	159	273
2,250	2,275	296	163	277

Table 2 - Concluded

- 3 -

If the gross income is over-	But not over -	The tax shall be: Single person (not head of a family)*	(1) Married person whose spouse does not file separate return or (2) married person filing joint return or (3) head of family*	Married person filing separate return
$ 2,275	$ 2,300	$ 301	$ 168	$ 282
2,300	2,325	305	172	286
2,325	2,350	309	176	290
2,350	2,375	314	181	295
2,375	2,400	318	185	299
2,400	2,425	322	189	303
2,425	2,450	327	194	308
2,450	2,475	331	198	312
2,475	2,500	335	202	316
2,500	2,525	340	207	321
2,525	2,550	344	211	325
2,550	2,575	348	215	329
2,575	2,600	353	220	334
2,600	2,625	357	224	338
2,625	2,650	361	228	342
2,650	2,675	366	233	347
2,675	2,700	371	237	351
2,700	2,725	376	241	355
2,725	2,750	381	245	359
2,750	2,775	386	250	364
2,775	2,800	391	254	369
2,800	2,825	396	258	374
2,825	2,850	401	263	379
2,850	2,875	406	267	384
2,875	2,900	411	271	389
2,900	2,925	416	276	394
2,925	2,950	421	280	399
2,950	2,975	426	284	404
2,975	3,000	431	289	409

Treasury Department, Division of Tax Research July 11, 1942

* For each dependent, subtract $440 from gross income and use balance to determine tax.

Note: The taxes in the above schedule are such that they generally compensate for deductions and credits not allowable if this schedule is used.

Table 3

Comparison of estate tax rate schedule
under present law and proposal

Net estate after specific exemption 1/ ($ 000)	Bracket rate: Present law 2/	Bracket rate: Proposal	Total estate tax cumulative: Present law	Total estate tax cumulative: Proposal
Under $5	3%	8%	$ 150	$ 400
5 - 10	7	12	500	1,000
10 - 15	11	15	1,050	1,750
15 - 20	11	18	1,600	2,650
20 - 30	14	22	3,000	4,850
30 - 40	18	26	4,800	7,450
40 - 50	22	30	7,000	10,450
50 - 60	25	33	9,500	13,750
60 - 70	28	36	12,300	17,350
70 - 100	28	40	20,700	29,350
100 - 150	30	44	35,700	51,350
150 - 200	30	46	50,700	74,350
200 - 250	30	48	65,700	98,350
250 - 300	32	50	81,700	123,350
300 - 350	32	52	97,700	149,350
350 - 400	32	54	113,700	176,350
400 - 450	32	56	129,700	204,350
450 - 500	32	58	145,700	233,350
500 - 600	35	60	180,700	293,350
600 - 700	35	62	215,700	355,350
700 - 800	35-37	64	251,700	419,350
800 - 900	37	66	288,700	485,350
900 - 1,000	37	68	325,700	553,350
1,000 - 1,500	39-42	70	528,200	903,350
1,500 - 2,000	45	72	753,200	1,263,350
2,000 - 2,500	49	75	998,200	1,638,350
2,500 - 3,000	53	76	1;263,200	2,018,350
3,000 - 4,000	56-59	78	1,838,200	2,798,350
4,000 - 5,000	63	79	2,468,200	3,588,350
5,000 - 6,000	67	80	3,138,200	4,388,350
6,000 - 7,000	70	80	3,838,200	5,188,350
7,000 - 8,000	73	80	4,568,200	5,988,350
8,000 - 9,000	76	80	5,328,200	6,788,350
9,000 -10,000	76	80	6,088,200	7,588,350
10,000 and over	77	80	-	-

1/ A specific exemption of $40,000 and a life insurance exclusion of $40,000 are allowed by the present law. The proposal would allow a single specific exemption of $60,000 but no life insurance exclusion.

2/ Present rates not increased by Ways and Means Committee.

MEMORANDUM

TO: Secretary Morgenthau

From: Mr. Paul July 20, 1942

Attached herewith is a schedule showing the revenue yield of the 1942 bill as finally passed by the House. You will notice that the total is $6,271.2 million, as compared with $6,144 as the bill passed the Ways and Means Committee.

REP

Attachment

Estimated increase (+) or decrease (-) in revenue yield due to Revenue Bill of 1942 (H. R. 7378) as passed by the House of Representatives July 20, 1942

(In millions of dollars)

	Increase (+), decrease (-) over yield of present law
Income and excess profits taxes:	
Corporation:	
Income	+ 383.4
Excess profits	+ 2,315.8
Declared value excess profits tax	- 58.5
Total corporation income and excess profits taxes	+ 2,640.7
Individual income tax	+ 2,872.3
Total income and excess profits taxes	+ 5,513.0
Miscellaneous internal revenue:	
Capital stock tax	- 51.5
Estate tax	- 14.8
Gift tax	+ 7.7
Total	- 58.6
Liquor taxes:	
Distilled spirits 1/	+ 266.1
Fermented malt liquors 1/	+ 61.8
Wines 1/	+ 11.6
Total liquor taxes	+ 339.5
Tobacco taxes:	
Cigarettes 1/	+ 51.4
Tobacco, smoking 1/	+ 11.8
Cigars (large) 1/	+ 15.8
Cigarette papers and tubes	+ 7.8
Total tobacco taxes	+ 86.8
Manufacturers' excise taxes:	
Lubricating oil	+ 13.9
Photographic apparatus	+ 7.6
Rubber articles	- 8.9
Electric signs	- .1
Washing machines	- .1
Optical equipment	- .3
Total manufacturers' excise taxes	+ 12.1
Miscellaneous taxes:	
Telephone, telegraph, radio and cable facilities, leased wires, etc.	+ 26.8
Telephone bill	+ 36.8
Transportation of persons	+ 33.9
Coin-operated amusement and gaming devices	+ 4.4
Transportation of property	+ 252.9
Pari-mutuel wagering	+ 23.6
Total miscellaneous taxes	+ 378.4
Total miscellaneous internal revenue	+ 758.2
Total internal revenue	+ 6,271.2

Treasury Department, Division of Research and Statistics July 20, 1942.

1/ Excluding non-recurring floor stocks taxes which are estimated to yield: Distilled spirits, $90.0 millions; fermented malt liquors, $2.0 millions; wines, $2.3 millions; cigarettes, $5.8 millions; smoking tobacco, $1.4 millions; cigars (large), $1.6 millions.

Note: All estimates show full year effect assuming all proposed changes were fully reflected in revenue for an entire year. Estimates of income and excess profits taxes and the gift tax are at levels of income estimated for calendar year 1942. All other estimates are at levels of income estimated for fiscal year 1943.

TREASURY BILLS

	July 22	July 15	July 8	July 1
Amount offered	$350 M	$300 M	$300 M	$300 M
Bids tendered	679	651	646	671
Low rate	.301%	.316%	.297%	.237%
High rate	.372	.372	.372	.368
Average rate	.368	.365	.365	.360
Amount in New York	$179 M	$151 M	$173 M	$200 M
Amount in Chicago	69	59	38	34
Amount in San Francisco	19	17	16	12
Amount in balance of country	83	73	73	54

DWB

July 20, 1942

7-20-42

SUBSCRIPTIONS BY 200 LARGEST BANKS TO
JULY 1942 OFFERING OF BONDS OF 1949-51

NAME AND LOCATION OF BANK	DEPOSITS	CAP. & SURPLUS	SUBSCRIPTION
1 Chase National Bank, New York	$3,437,579,000	$200,540,000	$125,000,000
2 National City Bank, New York	2,600,389,000	155,000,000	100,000,000
3 Guaranty Trust Co., New York	2,259,895,000	260,000,000	25,000,000
4 Bank of America, N.T.& S.A., San Francisco	1,905,209,000	122,800,000	50,000,000
5 Continental Illinois N.B.& Tr. Company, Chicago	1,616,029,000	100,000,000	50,000,000
6 Bankers Trust Company, New York	1,375,482,000	75,000,000	30,000,000
7 Central Hanover Bk. & Tr. Co., New York	1,326,577,000	81,000,000	50,000,000
8 First National Bank, Chicago	1,298,895,000	75,000,000	60,000,000
9 Chemical Bank & Trust Co., New York	1,014,110,000	70,000,000	25,000,000
10 Manufacturers Trust Company, New York	984,005,000	74,891,000	38,000,000
11 First National Bank, New York	837,545,000	110,000,000	15,000,000
12 Irving Trust Company, New York	795,277,000	102,935,000	15,000,000
13 First National Bank, Boston	762,033,000	67,001,000	10,000,000
14 Bank of the Manhattan Company, New York	759,589,000	40,000,000	20,000,000
15 J. P. Morgan and Company, Inc., New York	689,361,000	40,000,000	7,500,000
16 Security-First Nat'l Bank, Los Angeles	666,566,000	46,000,000	10,000,000
17 National Bank of Detroit	636,876,000	30,000,000	15,000,000
18 Philadelphia National Bank, Philadelphia	629,244,000	35,000,000	17,500,000
19 New York Trust Company, New York	537,082,000	37,500,000	18,750,000

	NAME AND LOCATION OF BANK	DEPOSITS	CAP. & SURPLUS	SUBSCRIPTION
0	Cleveland Trust Co., Cleveland	$ 491,310,000	$ 32,300,000	$ 10,000,000
1	Corn Exchange Bank Trust Company, New York	435,683,000	30,000,000	15,000,000
2	Northern Trust Co., Chicago	421,262,000	9,000,000	5,000,000
3	Mellon National Bank, Pittsburgh	419,756,000	37,500,000	10,000,000
4	American Trust Co., San Francisco	365,718,000	19,000,000	5,000,000
5	Wells Fargo Bk. & Union Tr. Co., San Francisco	338,914,000	15,000,000	2,000,000
6	Union Trust Co., Pittsburgh	324,016,000	92,000,000	10,000,000
7	Harris Trust & Savings Bank, Chicago	321,527,000	15,000,000	6,000,000
[illegible]	First National Bank, St. Louis	320,705,000	14,700,000	4,000,000
9	Pennsylvania Co., For Insurance, Philadelphia	310,224,000	24,700,000	10,000,000
0	Bank of New York, New York	294,129,000	15,000,000	10,000,000
1	First Wisconsin National Bank, Milwaukee	282,045,000	14,500,000	5,000,000
2	First National Bank, Baltimore	246,808,000	8,000,000	40,000,000
3	National City Bank, Cleveland	240,717,000	14,000,000	3,500,000
4	Seattle-First National Bank, Seattle	237,337,000	12,000,000	7,500,000
5	National Shawmut Bank, Boston	233,979,000	30,000,000	16,000,000
6	Detroit Bank, Detroit	222,579,000	7,700,000	3,000,000
7	Commerce Trust Co., Kansas City, Mo.	220,067,000	10,000,000	2,000,000
8	Mercantile-Commerce Bank & Tr. Co., St. Louis	210,463,000	14,000,000	4,000,000
9	Anglo California Nat'l Bank, San Francisco	209,391,000	20,210,000	7,500,000

NAME AND LOCATION OF BANK	DEPOSITS	CAP. & SURPLUS	SUBSCRIPTION
40 Manufacturers National Bank, Detroit	$ 201,574,000	$ 7,500,000	$ 1,000,000
41 Fidelity Union Trust Company, Newark	196,553,000	13,500,000	10,000,000
42 United States Nat'l Bank, Portland, Ore.	196,183,000	9,000,000	1,000,000
43 City National Bank & Tr. Co., Chicago	192,902,000	7,600,000	2,000,000
44 Savings Banks Trust Company, New York	192,100,000	5,000,000	30,000,000
45 Crocker First Nat'l Bank, San Francisco	191,734,000	12,000,000	2,000,000
46 Public National Bank & Tr. Co., New York	187,299,000	14,000,000	7,000,000
47 Marine Trust Company, Buffalo	186,842,000	15,000,000	3,000,000
48 Central National Bank, Cleveland	184,105,000	13,780,000	5,000,000
49 San Francisco Bank, San Francisco	179,119,000	10,000,000	1,500,000
50 First Nat'l Bank & Trust Co., Minneapolis	178,004,000	12,000,000	3,000,000
51 Marine Midland Trust Company, New York	174,404,000	10,000,000	2,500,000
52 Farmers & Merchants Nat'l Bank, Los Angeles	173,834,000	7,500,000	5,000,000
53 First National Bank, Dallas	168,716,000	11,000,000	8,000,000
54 First National Bank, Portland, Ore.	163,633,000	8,000,000	50,000,000
55 Northwestern N. B. & Tr. Co., Minneapolis	163,314,000	10,000,000	5,750,000
Whitney National Bank, New Orleans	162,855,000	8,500,000	2,125,000
57 Bank of California, N. A., San Francisco	162,835,000	14,000,000	8,000,000

	NAME AND LOCATION OF BANK	DEPOSITS	CAP. & SURPLUS	SUBSCRIPTION
8	First National Bank, Atlanta	$ 162,123,000	$ 9,000,000	$ 2,500,000
9	Commercial Nat'l Bank & Tr. Co., New York	160,709,000	14,000,000	7,000,000
0	Indiana National Bank, Indianapolis	160,619,000	9,000,000	5,000,000
1	Riggs National Bank, Washington, D. C.	160,297,000	7,150,000	5,000,000
2	Corn Exch. N. B. & Tr. Co., Philadelphia	155,281,000	11,550,000	4,000,000
3	California Bank, Los Angeles	153,329,000	8,000,000	3,000,000
4	First National Bank, St. Paul	152,056,000	12,000,000	4,000,000
5	Fifth Third Union Trust Co., Cincinnati	149,363,000	10,000,000	5,000,000
6	Fidelity- Phila. Trust Co., Philadelphia	147,831,000	17,700,000	1,000,000
7	Citizens & Southern National Bank, Savannah	146,934,000	7,650,000	6,000,000
8	Citizens Nat'l Tr. & Savs. Bank, Los Angeles	146,841,000	8,305,000	7,000,000
9	First National Bank, Kansas City, Mo.	145,549,000	4,000,000	2,000,000
70	Girard Trust Co., Philadelphia	140,836,000	13,000,000	2,000,000
71	Brooklyn Trust Company, Brooklyn	139,875,000	12,800,000	4,000,000
72	First National Bank, Pittsburgh	138,996,000	10,600,000	3,000,000
73	State Bank of Albany, Albany	138,962,000	5,000,000	2,000,000
74	Wachovia Bank & Trust Co., Winston-Salem	137,874,000	7,000,000	2,000,000
75	Mississippi Valley Trust Co., St. Louis	135,177,000	8,100,000	1,500,000
76	Brown Brothers Harriman & Co., New York	133,722,000	13,365,000	6,400,000

NAME AND ADDRESS OF BANK	DEPOSITS	CAP. & SURPLUS	SUBSCRIPTION
77 Industrial Trust Company, Providence	$ 133,397,000	$ 13,894,000	$ 1,000,000
78 United States Trust Company, New York	131,372,000	28,000,000	3,000,000
79 First National Bank, Philadelphia	128,543,000	7,111,000	2,000,000
80 National Bank of Commerce, Seattle	125,384,000	5,000,000	2,000,000
81 Peoples-Pittsburgh Trust Co., Pittsburgh	125,239,000	13,500,000	1,500,000
82 Merchants National Bank, Boston	124,748,000	6,000,000	2,000,000
83 Manufacturers & Traders Trust Co., Buffalo	123,503,000	11,000,000	5,000,000
84 Farmers Deposit National Bank, Pittsburgh	123,087,000	15,000,000	2,000,000
85 Toledo Trust Co., Toledo	122,636,000	8,000,000	2,000,000
86 American Trust Co., Charlotte	122,604,000	3,600,000	2,000,000
87 Union Planters N. B. & Tr. Co., Memphis	117,456,000	7,000,000	3,000,000
88 First National Bank, Cincinnati	117,339,000	11,100,000	5,000,000
89 Wilmington Trust Co., Wilmington	115,383,000	14,000,000	2,000,000
90 Hartford National Bank & Trust Co., Hartford	114,313,000	8,000,000	3,000,000
91 City Bank Farmers Trust Company, New York	113,532,000	20,000,000	5,000,000
92 Republic National Bank, Dallas	113,220,000	10,000,000	3,100,000
93 State Street Trust Company, Boston	112,367,000	8,475,000	1,000,000
94 Second National Bank, Boston	107,457,000	6,000,000	6,000,000

NAME AND ADDRESS OF BANK	DEPOSITS	CAP. & SURPLUS	SUBSCRIPTION
95 Central Trust Co., Cincinnati	$ 106,184,000	$ 6,700,000	$ 3,000,000
96 Citizens Union National Bank, Louisville	103,392,000	4,000,000	2,000,000
97 Ohio National Bank, Columbus	97,989,000	6,378,000	1,000,000
98 First & Merchants National Bank, Richmond	96,677,000	6,000,000	2,000,000
99 First National Bank, Birmingham	96,245,000	9,563,000	5,000,000
100 The National Commercial Bank & Tr. Co., Albany	95,691,000	6,500,000	4,000,000
101 Lincoln-Alliance Bk. & Tr. Co., Rochester	93,435,000	7,300,000	7,000,000
102 Hibernia Savings & Loan Society, San Francisco	92,928,000	11,218,000	None
103 Commonwealth Bank, Detroit	92,245,000	5,854,000	3,000,000
104 American Nat'l Bk. & Tr. Co., Chicago	91,384,000	3,600,000	1,000,000
105 Empire Trust Co., New York	88,352,000	5,775,000	750,000
106 Continental Bk. & Tr. Co., New York	88,238,000	7,000,000	2,000,000
107 American National Bank, Nashville	87,107,000	7,000,000	3,000,000
108 Boatmen's National Bank, St. Louis	84,716,000	4,200,000	5,000,000
109 Commercial Trust Co. of N. J., Jersey City	84,292,000	6,625,000	500,000
110 Central-Penn Nat'l Bank, Philadelphia	83,693,000	8,040,000	2,000,000
111 First National Bank, Memphis	81,555,000	3,500,000	2,400,000
112 First National Bank, Denver	81,076,000	3,000,000	1,500,000
113 Union Trust Co. of Maryland, Baltimore	78,530,000	4,500,000	2,500,000

	NAME AND ADDRESS OF BANK	DEPOSITS	CAP. & SURPLUS	SUBSCRIPTION
14	Rhode Island Hospital Natl. Bank, Providence	$ 78,414,000	$ 5,000,000	$ 3,000,000
15	State-Planters Bank & Trust Co., Richmond	78,015,000	3,750,000	1,000,000
16	National Bank of Commerce, Houston	77,621,000	5,000,000	1,500,000
17	First National Bank, Houston	76,826,000	6,000,000	5,000,000
18	Atlantic National Bank, Jacksonville	74,280,000	3,800,000	3,000,000
19	Nat'l Stock Yards N. B., Nat'l Stk. Yds., Ill.	73,609,000	3,000,000	2,000,000
20	National Bank of Tulsa, Tulsa	72,613,000	6,000,000	3,500,000
	Hartford-Connecticut Trust Co., Hartford	71,510,000	7,000,000	500,000
22	First Nat'l Bk. & Tr. Co., Oklahoma City	71,447,000	6,775,000	None
23	American Security & Trust Co., Washington, D. C.	70,478,000	7,800,000	2,000,000
24	Hamilton National Bank, Chattanooga	68,813,000	3,750,000	3,500,000
25	Fifth Avenue Bank, New York	68,731,000	3,000,000	400,000
26	Provident Trust Co., Philadelphia	67,784,000	11,200,000	1,000,000
27	Tradesmens N. B. & Tr. Co., Philadelphia	67,708,000	6,600,000	7,000,000
28	Huntington National Bank, Columbus	67,313,000	5,250,000	2,650,000
29	Nat'l Newark & Essex Bkg. Co., Newark	65,582,000	4,250,000	1,000,000
	Hibernia National Bank, New Orleans	65,456,000	3,350,000	3,850,000
31	Baltimore National Bank, Baltimore	65,269,000	2,500,000	1,250,000

NAME AND ADDRESS OF BANK	DEPOSITS	CAP. & SURPLUS	SUBSCRIPTION
32 First National Bank, Scranton	$ 64,310,000	$ 5,100,000	$ 3,000,000
33 First National Bank, Louisville	63,310,000	3,500,000	1,500,000
34 National Bank of Commerce, New Orleans	63,206,000	3,400,000	7,000,000
35 Fort Worth National Bank, Fort Worth	63,134,000	4,000,000	2,000,000
36 Kings County Trust Co., Brooklyn	63,104,000	7,000,000	2,000,000
37 First National Bank, Jersey City	62,950,000	3,425,000	13,000,000
38 First Nat'l Bank & Trust Co., Tulsa	61,987,000	4,000,000	4,000,000
39 Michigan National Bank, Lansing	61,683,000	4,600,000	1,000,000
40 Marshall & Ilsley Bank, Milwaukee	61,325,000	4,300,000	1,000,000
41 South Carolina National Bank, Charleston	60,480,000	2,825,000	1,000,000
42 Omaha National Bank, Omaha	59,333,000	4,000,000	2,500,000
43 Trust Co. of New Jersey, Jersey City	59,317,000	5,600,000	3,000,000
44 Liberty Bank, Buffalo	58,897,000	6,200,000	2,000,000
45 First-Mechanics Nat'l Bank, Trenton	57,777,000	3,507,000	2,500,000
46 Pacific National Bank, Seattle	57,430,000	3,560,000	1,000,000
47 National Bank of Commerce, Norfolk	56,064,000	3,150,000	500,000
48 Phoenix State Bank & Trust Co., Hartford	55,745,000	3,200,000	3,000,000
49 Winters Nat'l Bank & Trust Co., Dayton	55,684,000	2,825,000	1,500,000
50 Equitable Trust Co., Baltimore	55,572,000	3,070,000	1,200,000
51 First National Bank, Fort Worth	54,958,000	2,300,000	3,000,000

NAME AND ADDRESS OF BANK	DEPOSITS	CAP. & SURPLUS	SUBSCRIPTION
2 Mercantile National Bank, Dallas	$ 54,728,000	$ 3,150,000	$ 2,000,000
3 South Texas Comm'l Nat'l Bk., Houston	54,658,000	3,000,000	2,000,000
4 Iowa-Des Moines N. B. & Tr. Co., Des Moines	54,427,000	3,515,000	1,000,000
5 Old Kent Bank, Grand Rapids	54,343,000	4,000,000	1,000,000
6 Maryland Trust Co., Baltimore	54,199,000	3,500,000	2,500,000
7 Provident Svgs. Bk. & Tr. Co., Cincinnati	54,110,000	4,500,000	3,000,000
8 Trust Co. of Georgia, Atlanta	53,289,000	5,000,000	1,500,000
9 Birmingham Tr. & Svgs. Co., Birmingham	53,042,000	2,493,000	3,000,000
0 First Trust & Deposit Co., Syracuse	52,869,000	5,496,000	1,500,000
1 Valley National Bank, Phoenix	52,603,000	2,700,000	4,000,000
2 Union Bank of Commerce Co., Cleveland	52,535,000	6,044,000	1,000,000
3 Marine Nat'l Exchange Bank, Milwaukee	52,377,000	3,500,000	4,000,000
4 Grace National Bank, New York	52,301,000	3,000,000	1,000,000
5 American National Bank, Indianapolis	52,216,000	2,535,000	5,000,000
6 Central Bank, Oakland	51,904,000	5,000,000	1,000,000
7 Florida National Bank, Jacksonville	51,787,000	3,000,000	640,000
8 Union National Bank, Pittsburgh	51,543,000	5,000,000	1,000,000
9 Fulton National Bank, Atlanta	50,326,000	2,475,000	7,000,000
0 Merchants National Bank, Indianapolis	50,180,000	2,500,000	1,500,000

	NAME AND ADDRESS OF BANK	DEPOSITS	CAP. & SURPLUS	SUBSCRIPTION
71	Union Trust Co., Rochester	$ 50,095,000	$ 4,970,000	$ 1,000,000
72	Market Street Nat'l Bank, Philadelphia	50,049,000	4,000,000	None
73	Fletcher Trust Co., Indianapolis	49,867,000	3,000,000	1,500,000
74	National Bank of Commerce, Memphis	49,773,000	2,600,000	500,000
75	Frost National Bank, San Antonio	49,692,000	2,400,000	5,000,000
76	American Bank & Trust Co., New Orleans	49,148,000	3,000,000	5,000,000
77	Drovers National Bank, Chicago	48,799,000	1,900,000	6,000,000
78	Union Bank & Trust Co., Los Angeles	48,597,000	4,750,000	1,800,000
79	Denver National Bank, Denver	47,830,000	2,520,000	5,000,000
80	National State Bank, Newark	47,487,000	3,000,000	5,000,000
81	Camden Trust Co., Camden	47,339,000	3,282,000	2,500,000
82	First National Bank, Miami	47,095,000	2,125,000	6,000,000
83	New England Trust Co., Boston	46,482,000	3,000,000	1,500,000
84	Peoples Nat'l Bk. of Washington, Seattle	46,666,000	2,050,000	1,000,000
85	Merchants National Bank, Cedar Rapids	45,814,000	2,300,000	2,500,000
86	Worcester County Trust Co., Worcester	45,664,000	3,663,000	1,000,000
87	Fourth National Bank, Wichita	45,612,000	2,000,000	2,000,000
88	Boston Safe Deposit & Trust Co., Boston	45,134,000	5,000,000	1,000,000
89	Federal Trust Co., Newark	45,114,000	2,122,000	1,000,000

	NAME AND ADDRESS OF BANK	DEPOSITS	CAP. & SURPLUS	SUBSCRIPTION
0	Colorado National Bank, Denver	$ 44,365,000	$ 2,750,000	$ 500,000
1	Capital National Bank, Sacramento	44,265,000	2,191,000	500,000
2	First Nat'l Bank & Trust Co., Bridgeport	44,264,000	2,150,000	2,000,000
3	Merchants National Bank, Mobile	43,940,000	2,000,000	1,000,000
4	City Nat'l Bank & Trust Co., Kansas City, Mo.	43,810,000	2,500,000	3,000,000
5	Third National Bank, Nashville	43,273,000	2,000,000	500,000
6	Lawyers Trust Co., New York	42,915,000	3,500,000	2,000,000
7	Second National Bank, Houston	42,553,000	2,000,000	2,000,000
8	Hudson County Nat'l Bank, Jersey City	42,439,000	3,610,000	5,000,000
9	Land Title Bank & Trust Co., Philadelphia	42,047,000	9,494,000	4,000,000
0	First National Bank, Mobile	41,693,000	2,500,000	2,000,000

UNITED AUTOMOBILE - AIRCRAFT - AGRICULTURAL IMPLEMENT WORKERS
of AMERICA (UAW-CIO)

International Headquarters - 281 West Grand Boulevard - Detroit, Michigan

R. J. Thomas
International President

Geo. F. Addes
International Sec. & Treas.

INTERNATIONAL UNION

Phone LAFAYETTE 7900

In Reply Refer To
WALTER P. REUTHER
International Director
General Motors Dept.

July 20, 1942

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

Dear Mr. Secretary:

I have been informed by Mr. Herman Wolf, of your staff, that Mr. Houghteling has assigned him to write a second General Motors booklet, satisfactory to labor, to be published by the War Savings Staff and to give the true story of the General Motors Bond Drive.

Naturally, I feel that I am being consulted belatedly. I am disturbed and amazed that a first booklet on the Bond drive at General Motors should ever have been considered, much less publicized and distributed, without the knowledge or participation of the union which I represent. It is not necessary to point out that we do represent the vast majority of General Motors employees. They will be less than pleased when they learn that the Corporation, which planted its own insignia so firmly and conspicuously on all the Bond drive publicity, now gains credit under Treasury imprint and at Government expense, for the whole operation. Such 'glory' for the Corporation is bound to rouse such resentment among the workers (whose purchases can make the voluntary program a success or a failure) that any continuing drive on the part of the union to bring their participation up to the 10 percent and then the 20 percent, level may well prove to be fruitless.

I am particularly disturbed over this matter because of the clear agreement you personally made with me last April when I testified before a Congressional committee on behalf of a genuine labor-management endeavor, democratically conducted from Treasury and from the field, to insure success for the voluntary payroll savings plan. After all, it is our members by the thousands, and not the officials of General Motors or any other corporation, who will suffer injustices and inequities if the voluntary plan fails, leaving compulsory savings or the sales tax as the alternatives.

Because of such War Savings Staff activities as the first General Motors booklet, the previous General Electric booklet, and other "errors on labor participation" which have come to my attention, I find myself increasingly disturbed about the War Savings program and its operation.

Another matter which disturbs me and other C.I.O. leaders in the War Savings picture is the dismissal of Miss Florence Pryor to take effect in short order. I understand that her work was completely satisfactory at Treasury, and I

- continued -

know that in the past she has worked competently for a number of labor unions. Though I appreciate the fact that personnel matters are within your province, I would be less than candid as a labor official, if I did not tell you that I have in my possession reliable information proving to me that the dismissal of Miss Pryor is intimately tied up with the whole labor picture at War Savings, clearly indicating that her dismissal is a case of anti-labor bias on the part of some of your subordinates which can be traced as far back as last summer, when Miss Pryor was first hired. I believe that if you will conduct an impartial investigation of the situation with all parties concerned, you will discover that the attempt to brand Miss Pryor a "red" and a "troublemaker" began when she, hired as a labor writer, protested the issuance of a Payroll Allotment pamphlet which is biased and which has undoubtedly done untold harm to your Program.

I have informed Mr. Wolf that I will cooperate on gathering the information and exhibits necessary for the second General Motors booklet, and I have suggested that he and your CIO staff man, Mr. Leo Goodman, arrange to meet me in Detroit as soon as possible to go over the whole matter with our Publicity Director, Mr. Edward Levinson.

Nonetheless, in order that we can reach a complete understanding on the second General Motors booklet, and in order to clear up the other matters which I have outlined here, I would appreciate the courtesy of an appointment with you when I am next in Washington, either Wednesday or Thursday, July 22nd or 23rd.

Sincerely yours,

(Signed) Walter P. Reuther

Walter P. Reuther

wpr:ep
uopwa-cio
cc: Messrs Houghteling, Odegard, Wolf, Goodman

GM

SAVE

SERVE

General Motors Employees

BOND DRIVE FOR VICTORY

No. 2 of a Series of Case Histories Outlining Successful Promotions used by Various Companies for Increasing Participation in the Pay-Roll Savings Plan

WAR SAVINGS STAFF, TREASURY DEPARTMENT, WASHINGTON, D. C.

SERVING AND SAVING FOR VICTORY

Typifying the spirit of the men and women of General Motors, this picture shows the U. S. Treasury Department's "Minute Man" flag flying beneath the Stars and Stripes on the GM Building in Detroit. Ninety-seven GM plants and other units today fly this Treasury flag denoting that more than 90 percent of the employees of that unit are buying U. S. War Bonds, "Saving and Serving for Victory."

GENERAL MOTORS CORPORATION

DETROIT, MICHIGAN

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

Dear Mr. Secretary:

On behalf of the men and women of General Motors, I am happy to report to you on the success of the General Motors Employees Bond Drive for Victory.

When our campaign began on April 16, there were 70,295 employees, or less than 32 percent of our total employment, purchasing War Bonds through the Pay-Roll Savings Plan. On April 30, there were 233,357, or 99.2 percent of our employees participating in the plan.

Of the 97 plants and other General Motors units taking part in the Bond Drive for Victory, 84 reported 100 percent employee participation, while the remaining 13 ranged from 95 to 99.99 percent.

The following figures show the employee participation before and after the drive:

	Before Campaign March 1942	*After Campaign April 1942*
Number of employees working (U.S.)	222,819	235,090
Total pay roll	$51,224,330	$54,457,053
Number of employees purchasing bonds	70,295	233,357
Amount subscribed for purchase of bonds	$965,529.50	$3,756,173
Per capita subscription per employee per month	$13.70	$16.10
Bond purchases as a percent of total pay roll	1.9%	6.9%
Percent of employee participation	31.5%	99.2%

* *These are preliminary figures based upon individual employee pledges and projected on a monthly basis.*

In achieving the results as shown above, I wish to point out the splendid cooperation received from every employee. In mass meetings various representatives of employees took an active part in building up enthusiasm and interest in the entire program.

May I take this opportunity to express our appreciation for the help and cooperation which we received from the Treasury Department in preparing this campaign and which we feel contributed materially to its success.

Very truly yours,

H. W. Anderson,
Vice President.

THE GM EMPLOYEES BOND DRIVE FOR VICTORY

Because of the fact that the more than 235,000 General Motors employees are located in manufacturing plants and other units in more than 40 cities throughout the United States, thorough organization was required in order that the campaign could be launched and carried on simultaneously in all units.

The organization directing the campaign included:

1. A Bond Drive for Victory committee.
2. Bond Drive for Victory directors.
3. 93 unit campaign managers.

A teaser campaign built around the mystery symbol "S S V" was conducted for one week before the Bond Drive was launched. This phase of the campaign created great interest among employees and the general public with resultant good news publicity.

One week after the teaser campaign began, the Bond Drive was officially opened with employee rallies which featured music and inspirational talks stressing the urgency for buying War Bonds.

Foremen and department heads were the key people in the actual campaign. It was their duty to distribute envelopes containing a booklet describing the bonds, a name-imprinted application card, a lapel pin denoting participation in the campaign, a windshield sticker, a home window sticker, and a return envelope for the application card. A master record was kept of all cards distributed and as the application cards were returned, these were checked off the master record.

Large rayon banners were given to each department as soon as it reached 100 percent participation by its employees and the formal award of these banners stimulated friendly competition between departments and did much to help insure the success of the campaign.

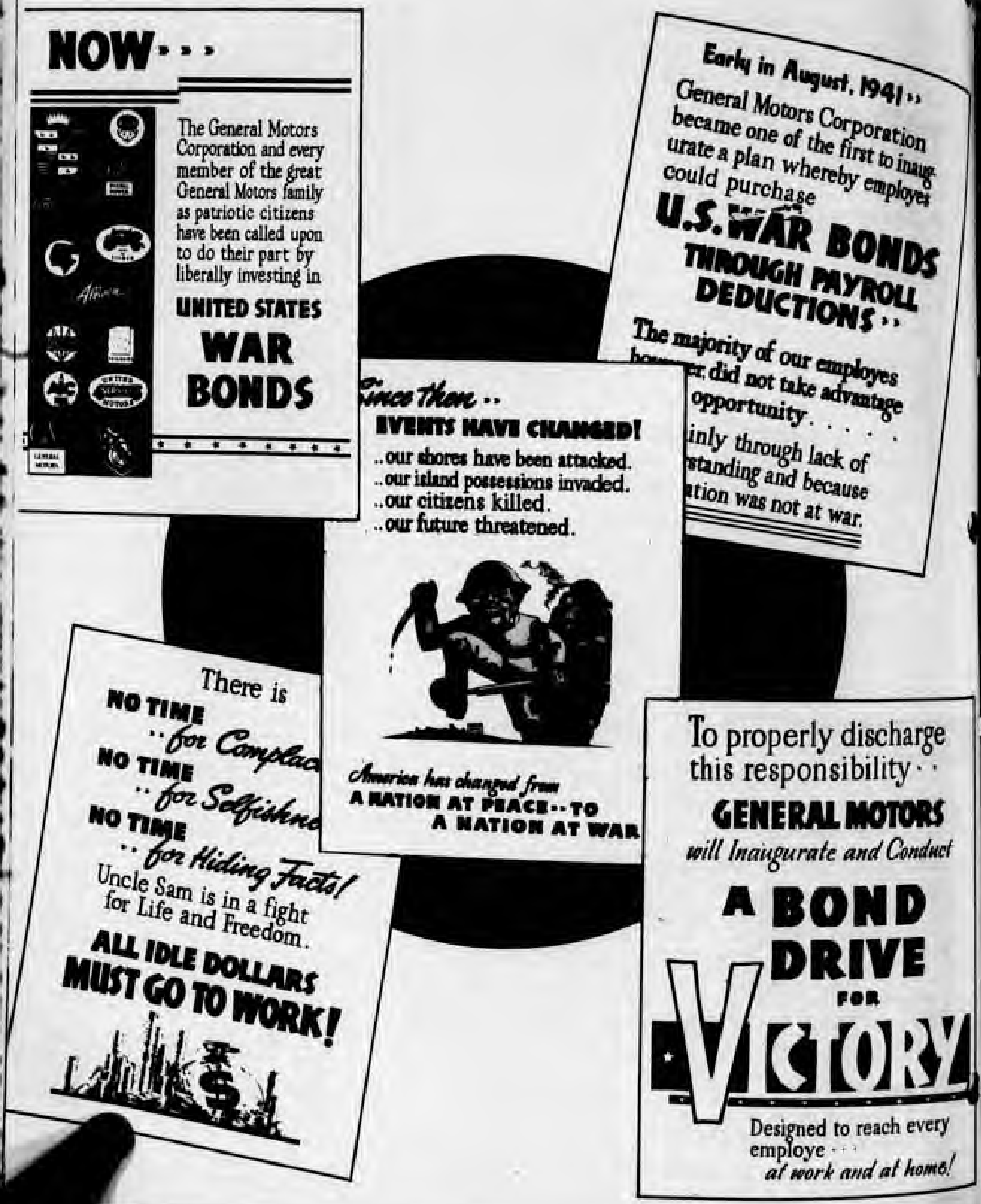
In addition to the 100 percent departmental award banners, the official Treasury Department "Minute Man" Flag was presented to each plant or unit attaining 90 percent or more participation by its employees. The formal presentation of these flags was made at colorful ceremonies.

Each campaign manager forwarded a daily report of the progress of the campaign in his unit to a central headquarters in Detroit and these reports were used to provide a daily standings report which was mailed to each campaign manager every night so that he could see just where his unit stood in relation to every other plant or unit of General Motors throughout the country.

Details of the campaign are covered in pictures and stories on the following pages.

BACKGROUND OF THE CAMPAIGN

BACKGROUND OF THE CAMPAIGN



THE PURPOSE
OF THE CAMPAIGN
will be to ..

ENCOURAGE

EVERY
GENERAL MOTORS
EMPLOYE
to Invest in
WAR BONDS
Every Pay Day

and, thereby gain
the objective of ..

100%
EMPLOYE PARTICIPATION

★

THIS OBJECTIVE WILL BE
ACCOMPLISHED IN TWO WAYS:

1. THROUGH REGULAR PAYROLL SAVINGS

The necessary procedure for employe investment in War Bonds through payroll savings is already established.

2. OUTRIGHT PURCHASES THROUGH *the* CORPORATION

This procedure is not intended to supplant the systematic payroll saving method ... but rather to supplement the payroll savings plan. Thus General Motors will accommodate those employes who can and will make outright purchases of War Bonds through the Company from idle accrued savings.

★ ★ *The* ★ ★
CAMPAIGN
EMBLEM
.. that will be in effect for the 'Duration' will be

V

The insignia contains the letter 'V' for Victory and the words *Save* ... *Serve* .. which dramatize our *'Fight for Life'* in the present emergency.

.. To make this campaign effective and to obtain desired results, .. it will be broken into *three phases* ..

1 PRE-ANNOUNCEMENT
The period to arouse curiosity and stimulate employe interest.

2 ANNOUNCEMENT
The period when all employes will be contacted and given an opportunity to subscribe for the Bonds.

3 POST-ANNOUNCEMENT
The period involving individual employe follow-up and checking for results.

THE PRE-ANNOUNCEMENT CAMPAIGN

A "teaser" campaign was conducted between April 8th and April 15th to arouse the curiosity and maximum interest of the General Motors employees in the Victory Bond Drive program. Included in this "Pre-Announcement" campaign were a variety of materials:

Bulletin Board Posters.—The majority of General Motors employees pass the time clock several times a day. On the morning of April 8th, this mystery poster appeared near time clocks, on bulletin boards and other places where General Motors employees could see it.

Direct-By-Mail—To intrigue the interest of every General Motors worker and his entire family this direct-by-mail card, embodying teaser copy, was mailed to all employees at their home addresses.

Teaser Stencil.—To further arouse curiosity and interest in the campaign, this design was provided for stenciling on floors, sidewalks, and walls in and around the plants and offices.

Teaser Notice.—During the pre-announcement period, April 8th to April 15th, this teaser notice was attached to the pay check or time card of all employees.

Plant Publications.—Articles of a teaser nature regarding the campaign were carried in all General Motors employee publications during the pre-announcement period, as shown above.

THE ANNOUNCEMENT CAMPAIGN

Announcement Rallies.—With the realization that it was highly important that the campaign announcement be made with all the force and drive that could be mustered, announcement rallies were held in plants and offices on April 16th. At plant locations where more than one shift was involved, separate rallies were held, but all were planned so that production of vital war materials would not be interfered with. Martial music, moving pictures, and inspirational addresses made up the rally programs, and in several instances, Army, Navy, and Veterans' units assisted by providing drum and bugle corps and color guards. The above picture is a typical rally scene outside a General Motors plant.

Application Cards.—In order to facilitate employee participation through the Pay-Roll Savings Plan, department heads and foremen distributed a specially addressed, sealed envelope to every employee containing a letter from the plant or department manager, a booklet explaining the reasons for buying War Bonds, an application card, a windshield sticker, a button to show participation in the campaign, and a return envelope in which was placed the application card for return to the foreman or department head. Material in this complete package is illustrated in the above picture.

Signing Up for Bonds.—Here is a typical scene in a General Motors plant during the *Bond Drive for Victory*. Booths were placed in convenient locations in order that employees could sign up for Bonds with as little delay as possible. These booths were operated day and night in order to take care of all shifts.

Bulletin Board Posters.—On April 16th, immediately following the announcement rallies, the teaser posters on time clocks, bulletin boards, and other places where employees gather were removed and replaced with the poster shown above. These posters also were placed in offices, lobbies, corridors, and elevators throughout plants and office buildings.

Quota Boards.—On the day the campaign opened, quota boards showing the established objectives for the plant, office, or department were placed in prominent locations where they could be seen by the general public as well as the employees. The thermometer was marked in from day to day as the drive progressed. The picture at the left shows an outdoor quota board with representatives of management and the union shop committee cheering the announcement that this plant had attained its goal of 100 percent participation.

Illuminated Sign.—To serve as a constant reminder of the drive, this animated and illuminated sign was placed near time clocks and at other points where it could be seen by large groups of employees. It remained in use throughout the entire drive.

Windshield Sticker.—This sticker on car windshields was another means used in publicizing the drive. A larger sticker for home windows was also supplied.

Direct-By-Mail.—This attractive direct-by-mail folder containing complete information regarding the *Bond Drive for Victory* was mailed to the home address of all General Motors employees on Announcement Day.

Displays.—To stimulate further interest in the campaign, displays such as these shown below were used in entrances, lobbies, plants, and offices during the announcement period.


Allison News
INDIANAPOLIS, IND., APRIL 30, 1942
son Goes 100% in Bond Driv
Drive for Victory Starts Thu
ACTION
PRODUCING FOR VICTORY
PUBLISHED BY AC SPARK PLUG DIVISION GENERAL MOTORS CORPORATION
EMPLOYEE WAR BOND
RINGS VICTORY
Delco-Remy
ANDERSON, INDIANA, APRIL
LET'S GO EVERYBODY KEEP 'EM FIRING!
LAUNCHED
Cannoneer
Go Across, Come Across-Produce
GM Staffs Pledge Million In War Bonds
"SSV" All-Out Campaign Bonds For Victory
New Departure Company Wins U.S. Treasury Flag
99 Per Cent In Plant Buy War Bonds
GM's Bond Drive Near Goal in 2 Days
Plan Bond Rally at G. M. Plant
GM Plant Here in Select Class
GM EMPLOYES GO ALL-OUT FOR FREEDOM
Harrison Workers Sign Up 100 Per Cent For Bonds
GM Begins Bond Drive
Chevrolet Chief Lauds Employ
General Motors Workers Buy Bonds
OPEN BOND DRIVE IN G. M. PLANTS
General Motors Workers Pushing War Bond Drive
Cent of G.M. Buy Bonds
100 Per C
EMPLOYEES PRAISED

POST-ANNOUNCEMENT PROGRAM

Continuing Posters.—Following the intensive phase of the campaign, a series of posters was developed for continuing use. One of these posters was provided each week to all plants and units. Other posters are being developed to carry the constant message of the necessity of buying bonds. This poster campaign is planned to continue for the duration of the war. Samples of some of the posters now in use are shown below.

Plant Rally.—Typical of the interest shown by GM men and women in their *Bond Drive for Victory* is this scene in one of the most important plants in the General Motors war production program. Every available inch of space was jammed by employees at a rally inside the plant to launch the War Bond campaign.

Baseball and Bonds.—Carrying the spirit of the GM employees *Bond Drive for Victory* with them, these members of the office administration staff of the New York central office have their own baseball team and proudly wear the Bond Drive insignia of "Save and Serve for Victory" on their uniforms. They are batting 1,000 in the Bond Buying League.

AWARDS

Individual Awards.—In addition to having the satisfaction of slapping the Jap by buying Bonds, every GM man and woman participating in the campaign received a congratulatory card signed by C. E. Wilson, President of General Motors (shown at left), and a large button telling the world that he or she is buying War Bonds.

Departmental Award.—To every department in GM whose employees subscribed 100 percent in the Bond Drive campaign was given the rayon fringed banner as shown at the right. Award of this banner, which did much to stimulate friendly competition between departments, was made at formal ceremonies.

Plant or Division Award.—To every plant or division having 90 percent or greater employee participation was given the official U. S. Treasury Department's "Minute Man" flag, shown at left. Ninety-seven of these flags were won by the 97 GM plants and units, and the presentation of the flags was made with appropriate ceremonies.

DURING THE DRIVE

"We Don't Know Either".—So great was the mystery surrounding the S–S–V teaser signs which preceded the GM employees *Bond Drive for Victory* that the men busily engaged in painting the stencil on plant floors put signs of their own on their backs in answer to the thousands of "What does it mean?" questions hurled at them. Here they are in action.

Girls Lend a Hand.—The men were not alone in making the Bond Drive a success. The girls did their share in putting it across in a big way. Here two girl employees of a GM war production plant are helping to put the "V" in Victory as they advertised the GM Employees *Bond Drive for Victory.*

We All Serve.— The production soldier and the soldier of the firing line both serve their country. Typical of the spirit of GM men and women is this picture which shows a GM production soldier, who has a son in the Army, signing up for War Bonds, while at the right stands another GM employee who has just left his production job to take his place in the Army.

"Boss Ket" Leads Cheers.—Charles F. Kettering, Vice President of General Motors in charge of Research, known to thousands of GM employees as "Boss Ket," is seen in this picture leading the cheers as Research division of GM receives its award for 100 percent participation in the GM Employees *Bond Drive for Victory.* Mr. Kettering (indicated by arrow) was a speaker at employee Bond drive rallies in the GM Detroit building.

RESULTS

Congratulatory Final Standings

	Percent participation	*Rank*
Aeroproducts	100	1
Allison	100	1
Argonaut	100	1
Brown-Lipe-Chapin	100	1
Buick Motor	100	1
Cadillac	100	1
Chevrolet—Atlanta	100	1
Chevrolet—Aviation Engine No. 2	100	1
Chevrolet—Baltimore	100	1
Chevrolet—Bay City	100	1
Chevrolet—Bloomfield	100	1
Chevrolet—Experimental	100	1
Chevrolet—Flint	100	1
Chevrolet—Grey Iron Foundry	100	1
Chevrolet—Indianapolis	100	1
Chevrolet—Janesville	100	1
Chevrolet—Kansas City	100	1
Chevrolet—Motor and Axle	100	1
Chevrolet—Muncie	100	1
Chevrolet—Norwood	100	1
Chevrolet—Oakland	100	1
Chevrolet—Spring and Bumper	100	1
Chevrolet—St. Louis	100	1
Chevrolet—Tarrytown	100	1
Chevrolet—Toledo	100	1
Chevrolet—Transmission	100	1
Delco Appliance	100	1
Delco Brake	100	1
Delco Radio	100	1
Delco Remy—Anderson	100	1
Delco Remy—Antioch Foundry	100	1
Delco Remy—Muncie	100	1
Detroit Diesel	100	1
Detroit Transmission	100	1
Eastern Aircraft—Baltimore	100	1
Eastern Aircraft—Linden	100	1
Eastern Aircraft—Tarrytown	100	1
Eastern Aircraft—Trenton	100	1
Electro-Motive	100	1
Fisher—Central Development	100	1
Fisher—Central Engineering	100	1
Fisher—Central Plants	100	1
Fisher—Cleveland	100	1
Fisher—Detroit Aircraft	100	1
Fisher—Detroit Stamping	100	1
Fisher—Die and Machine	100	1
Fisher—Export	100	1
Fisher—Fleetwood	100	1
Fisher—Garage	100	1
Fisher—Grand Rapids Stamping	100	1
Fisher—Lansing	100	1

	Percent participation	*Rank*
Fisher—Memphis Aircraft	100	1
Fisher—Pontiac	100	1
Fisher—Service	100	1
Fisher—Tank	100	1
Fleet Sales	100	1
Foreign Distributors	100	1
Frigidaire	100	1
G. E. I. C.	100	1
G. M. A. C.	100	1
G. M. Building	100	1
G. M. Institute	100	1
G. M. Overseas	100	1
G. M. Proving Ground	100	1
G. M. Research	100	1
Guide Lamp	100	1
Harrison Radiator	100	1
Hyatt Bearings	100	1
Inland Manufacturing	100	1
Modern Housing	100	1
Moraine Products	100	1
Motors Holding	100	1
Motors Insurance	100	1
New Departure—Meriden	100	1
Packard Electric	100	1
Rochester Products	100	1
Saginaw Malleable Iron	100	1
Saginaw S. G. No. 1	100	1
Saginaw S. . Machine Gun	100	1
Southern California	100	1
Sunlight Electric	100	1
United Motors	100	1
AC Sparkplug	99.99	2
New Departure—Bristol	99.97	3
Fisher—Entire	99.96	4
Fisher—Ternstedt	99.9	5
Oldsmobile	99.9	5
Chevrolet—Entire	99.89	6
Chevrolet—Gear and Axle	99.84	7
Chevrolet Central Office	99.79	8
New York Central Office	99.73	9
Fisher—Flint No. 1	99.7	10
Detroit Central Office	99.46	11
Delco Products	99.2	12
Eastern Aircraft—Bloomfield	98.8	13
Cleveland Diesel	98.43	14
Pontiac	98.0	15
Chevrolet—Forge	97.8	16
Buick Aviation	95.0	17

TREASURY DEPARTMENT

WASHINGTON

R XXXXXXX SAVINGS STAFF

July 20, 1942

TO: The Secretary of the Treasury

FROM: James L. Houghteling

The Labor Section of the War Savings Staff has been joining with an inter-departmental committee on Labor Day programs, which is planning an admirable and very comprehensive program for Labor Day celebrations this year.

I understand that the President of the United States expects to take part in a world-wide broadcast on Labor Day. It occurs to me that a reference to the remarkably fine participation of American workers and labor organizations in helping to finance the war through the purchase of War Savings Bonds might possibly come within the scope of the President's broadcast. Before Labor Day I expect that we will have facts and figures in hand which will be very impressive.

J L Houghteling

7-20-42
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Summary. Preliminary Reports from State Administrators, Local Retail Chairmen on American Heroes Day Sales figures.

Report by cities	Amount
Worcester, Mass.	$1,413,204.90
Atlanta, Ga.	3,300,000.00
Augusta, Me.	200,000.00
Boise, Idaho	202,150.00
Fort Sumner, New Mexico.	15,675.00
Norfolk, Va.	100,000.00
Portsmouth, Va..	35,000.00
Asheville, N. C.	350,000.00
Durham, N. c..	120,000.00
Greensboro, N. C..	227,031.25
Raleigh, N. C.	331,066.00
Winston-Salem.	157,375.00
Fayetteville, N. C..	50,000.00
Hendersonville, N. C..	42,000.00
Dann, N. .C.	15,000.00
Hickory, .N. C...	40,000.00
Des Moines, Iowa	350,000.00
Keokuk, Iowa.	35,000.00
Topeka, Kansas	40,000.00
Hutchinson, Kansas	103,000.00
Lawrence, Kansas	125,000.00
Salina, Kansas	15,000.00
Greenwood, Miss.	7,500.00
Ellisville, Miss	12,800.00
Laurel, Miss.	3,082.00
Vicksburg, Miss.	10,112.00
Hattiesburg, Miss.	4,350.00
Meridian, Miss	43,475.00
Gulfport, Miss	4,480.00
Greenville, Miss	74,669.00
Jackson, Miss.	76,000.00
Orlando, Florida	35,120.00
Madison, Florida	25,000.00
Sarasota, "	20,000.00
Tampa, "	380,000.00
Seattle, Washington.	21,310.15
Springfield, Mass.	55,000.00
Terre Haute, Indiana (not comp).	130,000.00
Mount Vernon, Washington	143,000.00
Canton, South Dakota.	14,500.00
Aberdeen, South Dakota	3,000.00
Madison, South Dakota.	4,800.00
Gregory, " "	22,300.00
Wilmington, Delaware	13,183.75
Arkansas (6 cities).	158,500.00
Neodesha, Kansas	12,500.00
Marysville, Kansas	13,300.00
Yakima, Washington	200,000.00
Grafton, North Dakota.	60,000.00

Jamestown, North Dakota.	$	62,000.00
Bismarck, " "		222,000.00
Williston, " "		55,000.00
Valley City, " "		35,000.00
Lisbon, " "		10,000.00
Mandan, " "		20,000.00
McHenry County " "		20,000.00
Wilkensburg, Penna.		200,000.00
Fall River, Mass.		541,000.00
Columbia, South Carolina		260,000.00

10,240,478

63-

Jamestown, North Dakota.	$	62,000.00
Bismarck, " "		222,000.00
Williston, " "		55,000.00
Valley City, " "		35,000.00
Lisbon, " "		10,000.00
Mandan, " "		20,000.00
McHenry County " "		20,000.00
Wilkensburg, Penna.		200,000.00
Fall River, Mass.		541,000.00
Columbia, South Carolina		260,000.00

10,240,478

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Prepared by: Mr. Brown
Mr. Reagh
Mr. Murphy
Mr. Haas

[TREASURY D]EPARTMENT

[INTER OFFICE C]OMMUNICATION

DATE JUL 20 1942

TO Secretary Morgenthau

FROM Mr. Haas

Subject: Suggestions for a Government Annuity Certificate with an instalment purchase feature by means of a proposed Annuity Savings Bond.

In accordance with your request, we have outlined the principal features which might be incorporated in a Government Annuity Certificate. To facilitate the instalment purchase of such annuities, we have suggested a type of long-term Annuity Savings Bond.

The Annuity Certificate itself would be sold only on a single premium basis, either for cash or in exchange for Annuity Savings Bonds. Three different types of annuities are suggested as follows:

(1) Straight life annuity (see Schedule A attached hereto).

(2) Life annuity with a provision that payments would be continued in any event for a period certain varying from 10 years to 20 years (see Schedule A attached hereto).

(3) Joint and survivorship annuity providing for the continuance of three-fourths of the annuity to the purchaser's beneficiary if alive at his death (see Schedule B attached hereto).

The annuity prices shown in Schedules A and B are based upon an interest rate of 3 percent, compounded annually, and the "1937 Standard Annuity Mortality Table", a table which has recently been adopted by a number of the larger insurance companies as the basis for their annuity prices.

The following limitations are suggested in connection with the sale of the Annuity Certificates:

(1) That each annuity payment must be at least $10.00.

Secretary Morgenthau - 2

(2) That the annuity be payable either on a monthly, or quarterly basis, and that a small administrative charge, say 1 percent, be made if the annuity is paid monthly.

(3) That the maximum annuity be $3,000 per year.

(4) That the purchaser of an annuity certificate be at least 50 years of age; purchasers at age 80 or over would be charged the premium applicable to age 80.

The Annuity Savings Bonds are designed primarily as a medium for accumulating the purchase price of an Annuity Certificate by means of systematic savings over a considerable period of time. They might be issued in denominations (in terms of issue price) of $25, $50, $100, $500, $1,000, and $5,000. Of course, postal savings stamps could serve as a medium of instalment purchasing in the same manner as for the Series E savings bonds.

The proposed Annuity Savings Bonds are similar in nature to the Series E and F savings bonds in that they appreciate in value at an increasing rate. However, there are two significant differences: (1) a much longer period to maturity; and (2) in addition to a scale of cash redemption values there is also a scale of "annuity exchange values". The higher annuity exchange values offer an incentive for the purchase of an annuity and, of course, the relatively low cash redemption values would discourage the use of these bonds for ordinary investment purposes. However, the Annuity Savings Bonds should provide for redemption at the exchange values in event of the death of the holder.

A long period to maturity is believed essential in connection with this proposed Annuity Savings Bond because the purchase of an adequate old age retirement income requires a long period of systematic savings even in the case of those whose financial resources are substantially greater than average. Moreover, the necessity of reinvestment present in the short maturities is eliminated, thus reducing the opportunities to abandon the long-term program.

If the Series E savings bonds were used as a medium of savings for the purchase of an Annuity Certificate, the purchaser would find it necessary to reinvest the proceeds of each maturing bond and at the time of purchase of the Annuity Certificate he would be obliged to redeem most of his bonds at values which would cut his overall yield rate substantially below the 2.9 percent realized on only those bonds which are held to maturity.

The annuity exchange values of the proposed Annuity Savings Bond would provide an interest yield of 3 percent per annum, compounded semiannually, regardless of the period held. The cash redemption values are approximately 95 percent of the annuity exchange values except that in no case is the cash redemption value less than the issue price. This results in yields increasing from .00 percent during the first 1-1/2 years to 2.48 percent after 10 years, 2.72 percent after 20 years, and 2.88 percent after 45 years. Schedule C, attached hereto, shows a table of the proposed cash redemption values and annuity exchange values, together with yields for period held. This table covers a term of 45 years, which may be varied without affecting the basic idea of the plan.

The proposed Annuity Savings Bonds might be issued with a call provision to be exercised by the Treasury upon six months' notice, through drawings or otherwise, in the event it became desirable to reduce such long-term debt bearing a then-high interest rate. New offerings of the bonds would be discontinued. However, such provisions would not materially decrease the attractiveness of the program if the holder of bonds called for redemption were given the option of taking cash at the <u>exchange</u> value (so that he would not suffer by comparison with the purchaser of Series E bonds), or of exchanging for an annuity, either deferred or immediate. Under no other circumstance would deferred annuities be issued. In no event would Annuity Certificates already issued be subject to cancellation or revision, so that a purchaser could be assured of establishing a life income even though its amount might be limited by the length of time the Annuity Bonds were available. This is a great advantage not possessed by the present savings bond program, under which a periodic income cannot be assured in the absence of guaranteed future offering of savings bonds.

The form and general provisions of the Annuity Savings Bond would be similar to the Series E and F savings bonds. However, the Annuity Savings Bond should contain tables showing the amount of each type of annuity which could be purchased at each age per $1,000 of aggregate annuity exchange value held by an individual. The three schedules, A, B, and C, attached hereto, would appear on each bond, along with the necessary explanation of each table. Therefore, considerably more printed matter than appears on the Series E and F bonds would be necessary, and for this reason a bond folded once to provide, in effect, four separate pages, might be a practicable solution to this difficulty.

Secretary Morgenthau - 4

The Annuity Certificate would be relatively simple in form as no schedules of redemption or other tabular values would be necessary. Payments under the straight life annuity would terminate on the death of the annuitant. The life annuity in combination with a certain period would require that a beneficiary be designated (subject to change) to whom the payments would be continued during the remainder of the certain period in event the purchaser did not live to the end of such period. However, the joint and survivorship annuity would require that a beneficiary be designated, not subject to change, to whom, if then living, would be paid three-fourths of the purchaser's annuity beginning at the death of the latter. Should the beneficiary pre-decease the purchaser, no adjustment in the purchaser's annuity would be made nor could a new beneficiary be designated.

There are admittedly greater administrative difficulties involved in the annuity program outlined herein than in the present savings bond program. For example, proof of age would be required on issuance of an Annuity Certificate, since the annuity purchasable with a given sum varies by age of purchaser, and in the case of the joint and survivorship annuity, age of beneficiary is also a factor.

Attachments

SCHEDULE A

Proposed Annuities Purchasable with
Exchange Values of Annuity Savings Bonds

Quarterly annuity payment per $1,000 of annuity exchange value, payable (1) for life, with a certain period: or (2) for life, without a certain period.

Age of purchaser		Certain period (years)	Quarterly annuity payment 1/	
ale	Female		For Life with a certain period 2/	For life without a certain period
-	50	20	$12.74	$13.62
-	51	20	12.90	13.89
-	52	20	13.07	14.16
-	53	20	13.24	14.45
-	54	20	13.41	14.76
50	55	20	13.58	15.08
51	56	20	13.75	15.41
52	57	20	13.92	15.77
53	58	20	14.09	16.14
54	59	20	14.27	16.53
55	60	20	14.43	16.95
56	61	20	14.60	17.38
57	62	20	14.76	17.85
58	63	20	14.92	18.33
59	64	20	15.08	18.85
60	65	20	15.23	19.39
61	66	19	15.70	19.96
62	67	18	16.21	20.57
63	68	17	16.76	21.22
64	69	16	17.37	21.90
65	70	15	18.04	22.62
66	71	14	18.77	23.38
67	72	13	19.58	24.20
68	73	12	20.47	25.06
69	74	11	21.46	25.97
70	75	10	22.55	26.94
71	76	10	23.02	27.98
72	77	10	23.48	29.07
73	78	10	23.93	30.24
74	79	10	24.37	31.49
75	80	10	24.81	32.81
76	-	10	25.23	34.23
77	-	10	25.63	35.73
78	-	10	26.01	37.34
79	-	10	26.37	39.06
80	-	10	26.71	40.89

Monthly payments are equal to 33 percent of quarterly payments.
Payments are continued to a beneficiary for the remainder of the certain period if the purchaser dies before the expiration of such period following date of purchase.

erest - 3% compounded annually. Mortality - 1937 Standard Annuity Mortality Table.

SCHEDULE B

Proposed Annuities Purchasable with
Exchange Values of Annuity Savings Bonds

Quarterly annuity payment 1/ per $1,000 of annuity exchange value, payable until the death of purchaser, with three-fourths of such payment continued from that time until the death of a beneficiary designated at date of purchase.

Age of Beneficiary 2/		Age of Purchaser 2/							
Male . . .	Female	- 50	50 55	55 60	60 65	65 70	70 75	75 80	80 -
20	25	$10.35	$10.60	$10.85	$11.12	$11.38	$11.63	$11.88	$12.10
25	30	10.64	10.93	11.22	11.52	11.81	12.10	12.37	12.62
30	35	10.96	11.30	11.65	11.99	12.33	12.66	12.97	13.26
35	40	11.30	11.72	12.13	12.55	12.95	13.34	13.71	14.04
40	45	11.66	12.16	12.68	13.18	13.68	14.15	14.59	14.99
45	50	12.02	12.63	13.26	13.89	14.51	15.11	15.66	16.15
50	55	12.35	13.09	13.86	14.66	15.45	16.22	16.93	17.57
55	60	12.65	13.52	14.46	15.46	16.48	17.48	18.42	19.27
60	65	12.91	13.91	15.03	16.26	17.56	18.87	20.14	21.31
65	70	13.12	14.24	15.53	17.01	18.63	20.34	22.06	23.69
70	75	13.29	14.50	15.95	17.67	19.64	21.81	24.09	26.35
75	80	13.40	14.70	16.28	18.21	20.51	23.17	26.11	29.20
80	85	13.49	14.84	16.52	18.62	21.20	24.32	27.97	32.02
85	90	13.54	14.93	16.69	18.91	21.72	25.23	29.52	34.57

1/ Monthly payments are equal to 33 percent of quarterly payments.
2/ Age at date of purchase.

Interest - 3% compounded annually. Mortality - 1937 Standard Annuity Mortality Table.

SCHEDULE C

Proposed Annuity Savings Bonds

Schedule of annuity exchange values and cash redemption values with yields for period held 1/

Semi-annual periods held	Exchange value	Cash value	Yield on cash value during period held	Semi-annual periods held	Exchange value	Cash value	Yield on cash value during period held
1	$101.52	$100.00	.00%	46	$198.36	$187.60	2.75%
2	103.04	100.00	.00	47	201.32	190.40	2.76
3	104.56	100.00	.00	48	204.36	193.24	2.76
4	106.12	100.64	.32	49	207.40	196.12	2.77
5	107.72	101.32	.53	50	210.52	199.04	2.77
6	109.36	102.24	.74	51	213.68	202.00	2.78
7	111.00	103.40	.96	52	216.88	205.00	2.78
8	112.64	104.80	1.18	53	220.16	208.04	2.78
9	114.32	106.40	1.38	54	223.44	211.12	2.79
10	116.04	108.16	1.58	55	226.80	214.24	2.79
11	117.80	110.04	1.75	56	230.20	217.40	2.79
12	119.56	112.00	1.90	57	233.64	220.60	2.80
13	121.36	114.00	2.03	58	237.16	223.84	2.80
14	123.16	116.00	2.13	59	240.72	227.12	2.80
15	125.00	118.00	2.22	60	244.32	230.44	2.80
16	126.88	120.00	2.29	61	248.00	233.80	2.80
17	128.80	122.00	2.35	62	251.72	237.20	2.81
18	130.72	124.00	2.40	63	255.48	240.64	2.81
19	132.68	126.00	2.45	64	259.32	244.12	2.81
20	134.68	128.00	2.48	65	263.20	247.64	2.81
21	136.72	130.00	2.51	66	267.16	251.24	2.81
22	138.76	132.00	2.54	67	271.16	254.92	2.81
23	140.84	134.00	2.56	68	275.24	258.68	2.81
24	142.96	136.00	2.58	69	279.36	262.52	2.82
25	145.08	138.00	2.59	70	283.56	266.44	2.82
26	147.28	140.00	2.61	71	287.80	270.44	2.82
27	149.48	142.00	2.61	72	292.12	274.52	2.82
28	151.72	144.04	2.62	73	296.48	278.68	2.83
29	154.00	146.12	2.63	74	300.96	282.92	2.83
30	156.32	148.24	2.64	75	305.44	287.24	2.83
31	158.64	150.40	2.65	76	310.04	291.64	2.84
32	161.04	152.60	2.66	77	314.68	296.12	2.84
33	163.44	154.84	2.67	78	319.40	300.68	2.84
34	165.88	157.12	2.68	79	324.20	305.32	2.85
35	168.40	159.44	2.68	80	329.08	310.04	2.85
36	170.92	161.80	2.69	81	334.00	314.82	2.85
37	173.48	164.20	2.70	82	339.00	319.68	2.85
38	176.08	166.64	2.71	83	344.08	324.62	2.86
39	178.72	169.12	2.71	84	349.24	329.64	2.86
40	181.40	171.64	2.72	85	354.48	334.72	2.86
41	184.12	174.20	2.73	86	359.80	339.88	2.87
42	186.88	176.80	2.73	87	365.20	345.12	2.87
43	189.68	179.44	2.74	88	370.68	350.44	2.87
44	192.52	182.12	2.74	89	376.24	355.84	2.87
45	195.44	184.84	2.75	90	381.88	361.32	2.88

1/ Yield on exchange value is 3 percent regardless of period held. Yields are nominal annual rates compounded semiannually.

Treasury Department 175
Division of Monetary Research

Date.......7/21/42..........19

To: Mr. White

From: E. M. Bernstein

You may wish to call the Secretary's attention to the popularity of the Treasury song "Any Bonds Today". I have asked the Legal Division to look into the legal side immediately.

C
O
P
Y

DEPARTMENT OF STATE
WASHINGTON

July 20, 1942

In [illegible] refer to
[illegible]/449

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses copies of telegram no. 342, dated July 20, 1942, from the American Legation, Canberra, Australia, transmitting a request from the Commonwealth Treasury to use the Berlin song "Any Bonds Today" in the next war loan drive. Despatch no. 157, dated July 1, 1942, has not as yet been received by the Department.

Enclosure:

From Legation, Canberra,
no. 342, July 20, 1942.

Granted
O.K.
H.M.Jr.

Copy:bj:7-20-42

EH

This telegram must be paraphrased before being communicated to anyone other than a Governmental agency. (BR)

Canberra

Dated July 20, 1942

Rec'd 7:08 a.m.

Secretary of State,

Washington.

342, July 20, noon.

Referring to my despatch no. 157, July 1.

Commonwealth Treasury also requests authority to use in next war loan drive Berlin song "Any Bonds Today" believed to be the property of United States Treasury. Words would be altered only to adapt to Australia.

JOHNSON

RR

Copy:bj:7-20-42

UNITED STATES SAVINGS BONDS, SERIES E

TOTAL DAILY SHIPMENTS BY DENOMINATIONS FROM JULY 1 TO JULY 18, 1942

Date of Shipment	Denominations - Number of Pieces					Total Pieces
	$25	$50	$100	$500	$1,000	
July 1	441,453	79,590	78,344	2,256	2,527	604,170
2	515,964	94,404	93,481	3,068	3,510	710,427
3	464,350	80,760	79,220	8,320	3,565	636,215
6	736,205	82,647	89,767	8,475	2,235	919,329
7	678,221	163,951	160,712	24,510	13,894	1,041,288
8	558,650	106,000	115,461	15,039	3,790	798,940
9	440,389	89,212	112,623	7,807	5,816	655,847
10	672,288	117,122	107,512	5,508	5,967	908,397
11	643,310	121,615	135,412	5,062	15,649	921,048
13	654,983	118,591	98,816	6,314	8,528	887,232
14	673,000	109,750	102,000	7,775	10,000	902,525
15	548,501	156,626	152,361	12,270	14,535	884,293
16	384,250	91,600	107,800	13,010	19,955	616,615
17	555,023	138,080	124,232	8,378	10,066	835,779
18	599,366	109,552	98,646	6,052	9,777	823,393
Total	8,565,953	1,659,500	1,656,387	133,844	129,814	12,145,498

July 20, 1942.
MRL/kwk

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UNITED STATES SAVINGS BONDS - SERIES E

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

(At issue price in thousands of dollars)

Date	July daily sales	Cumulative sales by business days			
		July	June	May	July as percent of June
July 1942					
1	$ 15,821	$ 15,821	$ 19,834	$ 12,679	79.8%
2	14,880	30,701	27,841	24,263	110.3
3	16,822	47,523	40,811	46,532	116.4
6	29,797	77,320	58,199	55,460	132.9
7	17,724	95,044	82,988	73,824	114.5
8	21,599	116,643	98,197	97,049	118.8
9	22,746	139,390	125,245	114,218	111.3
10	24,772	164,161	134,157	128,670	122.4
11	19,077	183,238	154,242	151,956	118.8
13	26,550	209,787	169,920	161,346	123.5
14	15,744	225,532	186,470	177,133	120.9
15	18,407	243,938	201,700	194,047	120.9
16	17,828	261,766	225,684	208,939	116.0
17	22,345	284,111	233,218	223,242	121.8
18	12,233	296,344	249,033	247,532	119.0

July 20, 1942.

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

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

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

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UNITED STATES SAVINGS BONDS - TOTAL
Comparison of July sales to date with sales during the same number of business days in June and May 1942

(At issue price in thousands of dollars)

Date	July daily sales	Cumulative sales by business days			
		July	June	May	July as percent of June
July 1942					
1	$ 28,418	$ 28,418	$ 29,539	$ 19,981	96.2%
2	24,269	52,687	45,442	39,430	115.9
3	27,277	79,964	67,046	72,048	119.3
6	46,531	126,495	98,208	88,605	128.8
7	31,110	157,605	132,341	122,575	119.1
8	43,451	201,056	154,085	157,866	130.5
9	39,918	240,974	192,659	181,431	125.1
10	47,755	288,729	206,523	201,464	139.8
11	36,127	324,856	236,552	232,801	137.3
13	47,164	372,020	259,772	246,756	143.2
14	30,102	402,122	281,724	271,525	142.7
15	33,807	435,929	303,163	296,152	143.8
16	31,670	467,599	334,398	317,861	139.8
17	37,659	505,257	345,497	337,371	146.2
18	21,929	527,186	368,782	371,066	143.0

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

July 20, 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.

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UNITED STATES SAVINGS BONDS - SERIES F AND G COMBINED

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

(At issue price in thousands of dollars)

Date	July daily sales	Cumulative sales by business days			
		July	June	May	July as Percent of June
July 1942					
1	$ 12,597	$ 12,597	$ 9,705	$ 7,302	129.8%
2	9,389	21,986	17,601	15,168	124.9
3	10,455	32,441	26,235	25,516	123.7
6	16,734	49,175	40,009	33,145	122.9
7	13,386	62,561	49,353	48,751	126.8
8	21,852	84,413	55,888	60,817	151.0
9	17,172	101,585	67,414	67,213	150.7
10	22,983	124,568	72,366	72,794	172.1
11	17,050	141,618	82,310	80,845	172.1
13	20,614	162,232	89,852	85,410	180.6
14	14,358	176,590	95,254	94,391	185.4
15	15,400	191,991	101,464	102,106	189.2
16	13,842	205,833	108,715	108,923	189.3
17	15,314	221,147	112,279	114,129	197.0
18	9,696	230,842	119,749	123,534	192.8

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

July 20, 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.

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Sales of United States Savings Bonds
From July 1 through July 18, 1942
Compared with Sales Quota for Same Period
(At issue price in millions of dollars)

Date	Series E: Actual Sales: Daily	Series E: Actual Sales: July 1 to Date	Series E: Quota, July 1 to Date	Series E: Sales to Date as % of Quota	Series F and G: Actual Sales: Daily	Series F and G: Actual Sales: July 1 to Date	Series F and G: Quota, July 1 to Date	Series F and G: Sales to Date as % of Quota	Total: Actual Sales: Daily	Total: Actual Sales: July 1 to Date	Total: Quota, July 1 to Date	Total: Sales to Date as % of Quota
1	$ 15.8	$ 15.8	$ 23.6	66.9%	$ 12.6	$ 12.6	$ 19.4	64.9	$ 28.4	$ 28.4	$ 43.0	66.0%
2	14.9	30.7	47.9	64.1	9.4	22.0	36.4	60.4	24.3	52.7	84.3	62.5
3	16.8	47.5	73.0	65.1	10.5	32.4	50.6	64.0	27.3	80.0	123.6	64.7
6	29.8	77.3	126.0	61.3	16.7	49.2	82.6	59.6	46.5	126.5	208.6	60.6
7	17.7	95.0	139.3	68.2	13.4	62.6	94.2	66.5	31.1	157.6	233.5	67.5
8	21.6	116.6	162.2	71.9	21.9	84.4	114.5	73.7	43.5	201.1	276.7	72.7
9	22.7	139.4	189.8	73.4	17.2	101.6	129.5	78.5	39.9	241.0	319.3	75.5
10	24.8	164.2	216.0	76.0	23.0	124.6	139.9	89.1	47.8	288.7	355.9	81.1
11	19.1	183.2	236.6	77.4	17.1	141.6	147.7	95.9	36.1	324.9	384.3	84.5
13	26.5	209.8	273.2	76.8	20.6	162.2	160.6	101.0	47.2	372.0	433.8	85.8
14	15.7	225.5	287.6	78.4	14.4	176.6	168.0	105.1	30.1	402.1	455.6	88.3
15	18.4	243.9	311.6	78.3	15.4	192.0	181.8	105.6	33.8	435.9	493.4	88.3
16	17.8	261.8	335.5	78.0	13.8	205.8	193.5	106.4	31.7	467.6	529.0	88.4
17	22.3	284.1	358.7	79.2	15.3	221.1	202.8	109.0	37.7	505.3	561.5	90.0
18	12.2	296.3	377.4	78.5	9.7	230.8	210.5	109.6	21.9	527.2	587.9	89.7
20			411.8				223.9				635.7	
21			425.9				231.8				657.7	
22			451.1				247.0				698.1	
23			477.5				260.1				737.6	
24			503.8				270.7				774.5	
25			525.0				279.5				804.5	
27			562.7				295.1				857.8	
28			577.2				304.3				881.5	
29			601.3				322.1				923.4	
30			625.8				337.5				963.3	
31			650.0				350.0				1,000.0	

July 20, 1942.

Office of the Secretary of the Treasury, Division of Research andStatistics.

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

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

Treasury Department
Division of Monetary Research

Date July 20, 1942 19

To: Secretary Morgenthau

From: H. D. White

I would urge your careful consideration of the views in the appended memorandum. They represent the carefully considered opinion on these matters of myself and of several well qualified members of my staff.

I fully appreciate that the recommendations made in the memorandum represent a sharp departure from present policy and practice but these are times requiring drastic measures. I feel confident enough about the merits of our proposal to plead for an earnest reexamination of the whole problem raised in the memorandum.

The statement contained therein is only a general statement of the program. We are prepared to submit supporting technical memoranda once the general principles embodied here are considered to be a live option.

I am sending a copy of this memorandum to Mr. D. W. Bell.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 20, 1942

STRICTLY CONFIDENTIAL

TO Secretary Morgenthau

FROM Mr. White

Subject: A New Program for Inflation Control and Government Borrowing

Expenditures and Receipts

The war production program now calls for total Federal expenditures (including the expenditures of the Federal corporations) of about $79 billion in the fiscal year 1943. Of this total, about $71 billion is specifically for war activities and about $8 billion for non-war activities.

Even assuming a slightly higher yield of existing and pending tax legislation than has been estimated in published Treasury statements, total Federal receipts in the fiscal year 1943 will be only about $25 billion. Of this total, about $17-1/2 billion would be the yield of existing taxes, about $4-1/2 billion would be the yield of new taxes, and $3 billion the gross receipts of the Federal corporations.

Therefore, if the expenditure program is realized, the Federal debt will rise by about $54 billion in the fiscal year 1943. It is possible that Congress will be willing to levy additional taxes at a later time, but it seems very unlikely that increases in revenues will more than offset increases in expenditures. Therefore it may reasonably be forecast that, from now on, the Federal debt will increase by at least $50 billion a year as long as the war lasts.

On June 30, 1942, the gross public debt and guaranteed obligations of the Federal Government totaled $77 billion. The computed interest rate was about 2.3 percent; therefore the annual interest charge was about $1.7 billion. If the war lasts two years more, and borrowing continues at such rates, the United States will have at the end of the war a public debt of over $175 billion with an annual interest burden of about $4.0 billion. If it were made a public policy to amortize this debt in 100 years, total annual debt service would begin at $5.75 billion a year and fall slowly thereafter.

Such a volume of fixed interest and amortization obligations would be a serious political obstacle to expenditures on social services and other necessary public purposes. Insofar as these obligations were held predominately by the wealthy and by banks,

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the first obligation of the Federal Treasury would become that of redistributing income in their favor. Fiscal policy would be particularly burdened during periods in which incomes and tax receipts fell, while these claims to interest and amortization remained constant.

Inflation and Individual Saving

The inflationary pressure of the war production program is increasing steadily. If the full program is to be realized, war expenditures must expand in the next six months from an annual rate of $50 billion to an annual rate of $70 billion and then rise to an annual rate of $90 billion six months later. At the same time, supplies of goods available for civilian purchase will be falling rapidly. A year from today, if the war production program is realized, civilian supplies will have to be at depression levels.

Unless the poor are to bear an undue share of the burden of going without, supplies will have to be allocated in accordance with some such program as the one described below. If price controls are to remain effective, individuals will have to save the increase in their incomes. To keep prices at something like present levels, individual saving will have to rise greatly. Voluntary saving in all forms -- i.e., government bonds, insurance, deposits, debt repayment, etc. -- is now at an annual rate of about $20 billion. Individual saving will have to rise to about $35 billion a year by January, and to about $50 billion a year by July 1943.

Inflation Control and the Financing Problem

The problem which confronts the Treasury therefore has a double aspect. On the one hand it is the problem of withstanding inflation--of maintaining a stable price level and securing an equitable distribution of scarce supplies. On the other hand it is the problem of financing--of getting the money needed to pay for the war in the way which will be best both for the present and for the future.

In view of the magnitude of this problem, we suggest that a thorough reexamination of all its aspects should not be delayed. It is our view that such a reexamination must lead to a radical departure from methods hitherto followed. There is no disagreement on objectives. The objectives are:

(1) To reduce, as much as possible, the amount by which consumers' purchasing power exceeds the supply of goods available for purchase at the price level which we wish to maintain and to distribute the reduction in purchasing power equitably.

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(2) To keep the total interest burden as small as possible, while allowing more favorable terms on the savings of individuals with small incomes than on the savings of the rich and of institutions.

(3) To assure that our war financing program does not provide the elements which, when the present special controls are removed, will contribute to a post-war inflationary boom, while favoring any measure which will facilitate reasonable expansion of consumers' purchasing power in the post-war period.

Agreement on these objectives is general. However the significance of this agreement is completely overshadowed by the basic disagreement on the methods by which these objectives are to be attained.

A Policy

In our view, the following must be the basic judgments of our policy on these questions:

(1) It is impossible to achieve the necessary reduction of excess consumer purchasing power through a campaign for voluntary purchase of War Bonds. The requirements of the war production program are so great that consumers will have to cut their purchases to depression levels. They are not going to cut that hard voluntarily. Therefore, if inflation is to be averted, we must have greatly more taxation or General Rationing or compulsory saving, or some combination of these.

(2) The average rate paid on Federal borrowing must be lowered drastically. Fiscal policy will be greatly burdened if the Federal Government borrows about $50 billion a year at an average rate like that on outstanding securities, 2.3 percent. A large part of this additional interest will be simply a windfall profit to banks. Most of the rest will go to the large savers and institutions who are now profiting from the unnecessarily high interest rates paid under the present financing program.

(3) The available reserves of the banking system must be expanded greatly to facilitate Federal war borrowing. As long as (a) priorities regulations afford effective control over the investment outlays of business and (b) taxation, General Rationing or compulsory saving limit the expenditures of individuals, such expansion of reserves will not be inflationary.

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Part of the necessary expansion might be achieved by Federal Reserve purchase of Treasury securities at nearly zero interest rates. Part might be derived from lowering legal reserve requirements.

Legal authority should be obtained to raise banking reserve requirements to at least double the present maximum. This authority may be needed in the post-war period, when priority controls have been abolished, taxes repealed, and the rush of businessmen to satisfy the "backlog" of demand may threaten an inflationary boom.

(4) If the control of inflation takes the form of General Rationing or compulsory saving, some discretion must be left the Executive concerning the post-war abandonment of General Rationing or the rate of release of accumulated compulsory savings. If the purchasing power sterilized by either of these measures becomes very large, its release may have to be gradual to prevent an inflationary post-war rush for goods.

A Program

We recommend the following measures for a comprehensive program. These measures are not listed in the order of their urgency, nor in the order in which it might be expedient to present them to the public, but so as to bring out their fundamental inter-relations.

(1a) A General Rationing program should be adopted, limiting the total consumption expenditures of all individuals and families to the volume of goods and services available for purchase at the price level it is decided to maintain. A year from today total consumers' expenditures, valued at present prices, will have to be of the order of $60 billion to $65 billion a year, rather than the $75 billion to $80 billion a year which they are today. A year hence the General Rationing schedule would therefore have to be very severe, but it would reach that degree of severity only very gradually--as incomes expanded and the supply position deteriorated.

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We are convinced that General Rationing constitutes the most effective and equitable of available techniques for limiting consumers' expenditures. However, in case Congress and the public are not prepared to accept it, we suggest the following alternative:

(1b) All individuals should be subjected to a graduated schedule of compulsory lending, to yield approximately \$20 billion at the expected income level of fiscal 1943. An amount not to exceed \$250 per year per member of the family of this compulsory lending would be at 2.9 percent, the present rate on Series E bonds. The rest would be at zero interest. Such a program would have considerable influence in reducing consumers' expenditures, but it would not be as effective or as equitable as General Rationing. It would cost the Treasury, until these compulsory savings were redeemed, about \$225 million a year in interest, rather than the \$580 million which it would cost to borrow the whole \$20 billion at Series E rates.

All corporations should be required to lend to the Federal Treasury, at zero interest, for the duration, 75 percent of the currently accruing undistributed profits plus 75 percent of their accruing uninvested reserves. Undistributed profits would be profits after dividends and taxes, as computed by the Bureau of Internal Revenue. Uninvested reserves would be all capital charges allowed by the Bureau of Internal Revenue less such capital charges for which priority certificates for reinvestment had been received from W.P.B. This levy might yield about \$5 billion per year.

(2) The Treasury should sell to the Federal Reserve Banks at least \$3 billion per year of non-interest bearing bonds, to ease the financial burden on the Federal Budget and to provide the member banks with reserves for further bond purchases. Member bank reserve requirements should be lowered to the extent necessary to make it possible for the banks to acquire about \$30 billion a year of additional government securities if alternative (1a) is accepted or about \$20 billion if (1b) is preferred.

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Research

(3) At least $15 billion a year of new securities should be placed directly with banks, at zero interest, on the basis of a percentage of their deposits. These securities would constitute a special reserve requirement. That is, required reserves would be partly in the form of deposits with the Federal Reserve Banks and partly in the form of special reserve bonds. Such bonds might popularly be regarded as "the bankers' contribution" to the war effort.

(4) Apart from the maximum of $250 per year for each individual, no interest-bearing bonds should be issued for the duration, except to life insurance companies, other specially favored savings institutions, and charitable endowments. To compensate banks for additional expenses, or for specific services, they might be permitted to subscribe in small volume to special issues bearing interest at 1 percent or less.

(5) All compulsory lending--whether by individuals, corporations, or banks--should be non-transferable and should be convertible into cash, at par, at any time, only on proof of need. General convertibility of compulsory savings should be at the discretion of the Secretary of the Treasury. This authority should include the power to redeem them in part, or in whole, or in significant categories as suited to the economic conditions.

A financial program of this kind, could be made adequate to any necessary limitation of consumers' expenditures. It would cost the Treasury, until the bonds are redeemed, only about one-fourth or one-fifth as much as would borrowing of the same magnitude under the traditional methods of financing now followed. Such interest payments as were made under our program would be a reward for the real sacrifice of foregoing current consumption. Interest would not be paid as tribute to banks in consideration for the authority granted them to create deposits. Institutions and persons with large incomes would not be able, during a time when we are destroying so much real wealth, to accumulate a great volume of interest claims to income to be paid them out of the national treasury.

This program is drastic, and it will arouse opposition. But the needs of the times are equally drastic. We cannot devote half of our national resources to war and safely follow methods of financing appropriate to peace and prosperity.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE July 20, 1942

TO Secretary Morgenthau

FROM Mr. Haas

Subject: The Business Situation,
Week ending July 18, 1942.

Summary

(1) The recent resurgence of imminent inflation fears appears to have ebbed slightly as a result of legislative developments and talk of administration measures to strengthen the inflation control program. Partly in reflection of this situation, commodity prices drifted lower last week and the recent spurt in stock prices and trading activity subsided.

(2) Recent wage controversies, highlighted by the "Little Steel" wage rate case, have focussed increasing attention on the problem of wage stabilization as an element of effective price control. The WLB decision in the "Little Steel" case appears likely to touch off numerous additional demands for wage increases.

(3) Living costs as measured by the Conference Board index were unchanged in June, thus marking the first halt in living costs since November 1940. Food costs showed a further rise, but all other components declined. Living costs in June were 10.9 percent higher than a year earlier, and 17.6 percent higher than in the pre-war month of June 1939.

(4) Department store sales in the week ended July 11 rose 10 percent above year-earlier levels, thus showing the widest gain over the corresponding period of 1941 since the latter part of April. Retail prices of typical department store items on July 1 showed a further very slight decline from the previous month, but stood nearly 16 percent above year-earlier levels. Department store inventories in the New York Federal Reserve District at the end of June were 80 percent higher than a year earlier.

(5) In reflection of the continued progress in converting strip mills to plate production, deliveries of steel plates in June rose 4 percent to a new record high of more than 1 million tons. Nevertheless, the WPB recently characterized the steel plate supply situation as very critical.

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Inflation fears slightly relaxed

A slight ebbing in the recent resurgence of imminent inflation fears appears to have occurred during the past week. Commodity prices have consequently drifted lower, and the recent flare-up in stock prices and trading activity has died down, although previous stock market gains were fairly well maintained in the face of adverse war news.

Action of the House in approving the sale of 125,000,000 bushels of Government-owned wheat at 85 percent of the corn parity price cooled inflationary sentiment in the commodity markets last week. In addition, the Senate raised OPA's price control appropriations above levels previously voted by the House, and increasing talk was heard of impending moves for effective stabilization of wages.

Price control threatened by wage demands

Growing attention has centered recently on the necessity of achieving effective wage stabilization as an element of general price control. Developments in this connection were highlighted last week by the WLB decision granting workers in the "Little Steel" industry a wage increase of 44 cents per day in addition to other concessions. Perhaps of greater importance than the actual wage increase was the announcement that the Board has determined upon a basic wage policy, the essence of which is to maintain the purchasing power of hourly wage rates prevailing on January 1, 1941.

Since the Board estimates that living costs rose 15 percent from that date to April 27, 1942, when the President's anti-inflation message was delivered, it believes workers are entitled to corresponding increases in wage rates. In addition to other potentially inflationary features, this formula would appear to invite wage demands from numerous groups that have thus far benefitted little from the war. Furthermore, in accepting the "Little Steel" wage increase decreed by the WLB, the CIO has already indicated that it will request an extension of the increase to all steel companies.

Near the end of the week it was reported that the important Pacific Coast aircraft wage stabilization conference had virtually collapsed. Labor leaders were reported to be incensed over a statement at the meeting by Richard Gilbert of the OPA that "Wage stabilization means no wage increases except to eliminate inequalities and substandards of living."

Employment at record levels

Recent wage controversies have been further complicated by a growing labor shortage, as expanding industries such as shipbuilding and aircraft compete for the country's labor supply. Conference Board estimates indicate that in May employment exceeded the estimated normal working force of the nation for the first time since 1929. Thus additional workers in the aggregate, now have to be recruited from the ranks of those who do not customarily enter the labor market.

The supply of farm labor at the beginning of July was reported to be only 58 percent of normal. Nevertheless, as a result of the employment of students and others not normally engaged in farm work, the number employed on farms on July 1 was estimated to be 80,000 more than a year earlier, totalling a little over 12,000,000 persons (including farm operators and family help). Farm wage rates on July 1 were reported by the Department of Agriculture to be the highest in 22 years.

Cost of living unchanged in June

The effect of price stabilization was reflected in living costs between May 15 and June 15, the first full month of operation of the general price regulation. Living costs averaged unchanged for the first month since November 1940, according to the Conference Board index. Food costs continued to rise but all other items declined.

The BLS cost-of-living index is not yet available, except for food costs, which increased 1.3 percent during the month. Estimating other components for June from the Conference Board index, the changes in the BLS index since the beginning of the war are shown in Chart 1. The combined index shows an increase of 17.6 percent since June 1939, and 10.9 percent since last June. Clothing costs have risen 21.7 percent and food costs 16.3 percent in the past year.

Basic commodity prices decline

Commodity prices responded to a slackening in inflationary sentiment last week by sharp declines which cancelled most of the gains of the preceding fortnight. (See Chart 2.) The BLS price index of 28 basic commodities declined substantially, owing principally to weakness in grains and cotton.

The BLS index of 8 uncontrolled commodities dropped to its level of a month ago, which in turn had been the lowest recorded since March. Wheat prices, depressed by reports of the impending spring wheat movement and further manifestations of lack of storage space, declined to their lowest levels since October. Barley prices were the lowest since early December. Corn and flaxseed prices were off less sharply. Cotton prices declined on Washington reports that more inclusive measures may be taken against inflation.

Livestock prices, however, were strong, with hog prices touching a 16-year peak. Prices for steers were the highest since May. After a temporary suspension of buying, the Government renewed Lend-Lease purchases of pork products. The squeeze between the price of live hogs and the price of pork products has narrowed still further, and the packers' gross margin decreased to 2¢ per hundred pounds as of July 11, compared with 10¢ a week before. One result of this squeeze appeared last week in an announcement by an Indiana packing plant that its pork packing business had been indefinitely suspended.

A slight decline in the index of 20 controlled commodities reflected a decrease in the price of rosin, which was only partially offset by a further rise in wool tops. (The rosin quotation actually is for gum rosin which is not controlled.)

Last week's decline in basic commodity prices carried the index back to the range within which it has fluctuated since March. In the week ended July 11, the BLS all-commodity index remained unchanged, continuing its horizontal movement of the past three months. (See Chart 3) At 98.5, the index stands 31.3 percent above the pre-war level of August 1939.

Grain for manufacture and feed below parity

Agreement on the Agriculture appropriation bill included the following provisions:

(1) Not more than 125 million bushels of wheat may be sold for feeding purposes;

(2) No grain shall be sold for feed at a price less than 85 percent of the parity price of corn at the time such sale is made; and

(3) Grain may be sold below parity if it has substantially deteriorated in quality or is sold for the purpose of feeding or the manufacture of certain industrial alcohols, acetone, and rubber.

Although these provisions are less inflationary than was expected from the proposed compromise reported last week, involving parity loans on basic farm products, the status of the parity loan bill is still in doubt. The bill as passed by the Senate is now before the House Rules Committee. Conflicting statements have been carried in the press concerning possible shelving of the bill.

Government subsidies under discussion

The House conferees have accepted the Senate ban on use of any of the operating funds for the OPA as subsidies to industries caught between price ceilings and rising costs, but have modified the ban to permit possible indirect subsidies. Debate on the bill, however, brought out the fact that the Administration already has authority to pay subsidies.

Specific authority is given the OPA in the Emergency Price Control Act for subsidy payments to obtain the necessary production of commodities. The RFC act, as amended, authorizes payment of subsidies for practically all war and defense supplies and equipment. The President has authorized the Commodity Credit Corporation to subsidize certain farm products in order to keep their cost to the consumer down to the price ceiling.

Two types of such subsidies are in operation. Last January the Metals Reserve Company was directed to purchase all lead, copper, and zinc output beyond certain quotas at specified percentage increases above their basic ceiling prices. Transportation costs are being subsidized in part for sugar, coal, fuel oil, fertilizer, and coffee imports.

Variety store sales stronger than rural sales in June

Although rural retail sales (seasonally adjusted) followed the trend of department store sales and declined moderately in June, variety store sales rose slightly and were only fractionally below the 1942 high reached in February. (See Chart 4).

Total sales by the two large mail-order houses are running sharply below those of last year. Sales by Sears Roebuck in June fell 12 percent below year-earlier levels, while sales of Montgomery Ward dropped over 8 percent. The sales of both of these concerns have suffered from the loss of durable goods volume growing out of war-time restrictions.

Department store sales again above year-earlier levels

After dropping below 1941 levels in the two previous weeks, department store sales in the week ended July 11 rose 10 percent above the corresponding period in 1941. This was the widest gain over year-earlier levels since the week ended April 25. (See Chart 5) However, preliminary reports from the New York City area indicate that retail trade eased off again last week, with department store sales estimated at about the same or slightly under year-earlier levels.

Retail prices of typical department store items on July 1, as measured by the Fairchild index, were 15.8 percent higher than on the corresponding date in 1941, despite a further slight decline of 0.1 percent during June. Thus in spite of the improvement in department store sales reported in the week ended July 11, the physical volume of goods sold in department stores was still running below year-earlier levels.

New York department store inventories still high

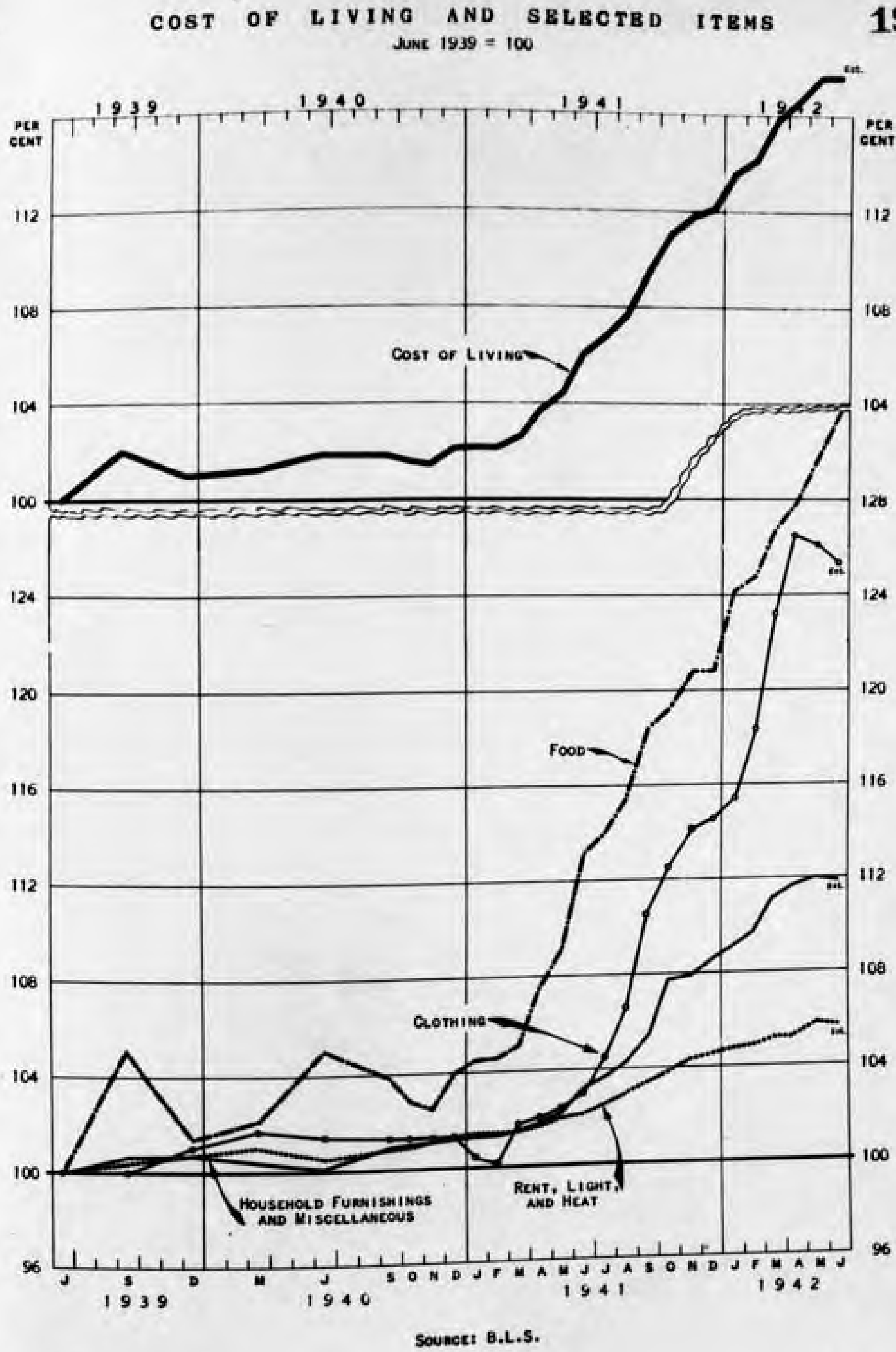
Merchandise inventories of New York department stores continue to be maintained at high levels. Inventories of New York City stores at the end of June were 85 percent above the same date in 1941, as compared with a gain of 86 percent in May. Inventories of all department stores in the New York Federal Reserve District at the end of June were 80 percent above year-earlier levels as compared with 79 percent in the previous month.

Steel plate deliveries at new high

Although steel ingot production lagged somewhat in June, dropping to 96.4 percent of capacity from 98.2 percent in the previous month, a further 4 percent gain to a new record high was achieved in steel plate deliveries. Since a shortage of steel plates has been one of the most serious bottlenecks of the war effort, a strenuous effort to increase output by converting strip mills to plate production has been under way. Indicative of the progress that has been made in this connection, plate output of strip mills in June for the first time ran ahead of shearing mills, the regular source of plate. As a result of the extended upswing in plate output, deliveries in June were running 70 percent above the level prevailing last November before our entry into the war. (See Chart 6).

Nevertheless, a recent WPB report characterized the steel plate supply situation as very critical. The Vice-Chairman of the Maritime Commission recently indicated that the amount of materials available rather than shipyard capacity would determine the limit of ship production. He stated, for example, that he had no assurance that enough steel would be available next year to keep yards operating at peak production levels. The cancellation of a contract with the Higgins Corporation of New Orleans for 200 Liberty ships, as announced in the press Saturday, was reportedly due to a curtailment in the amount of steel allocated to the Maritime Commission for its shipbuilding program.

Chart 1



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Division of Research and Statistics

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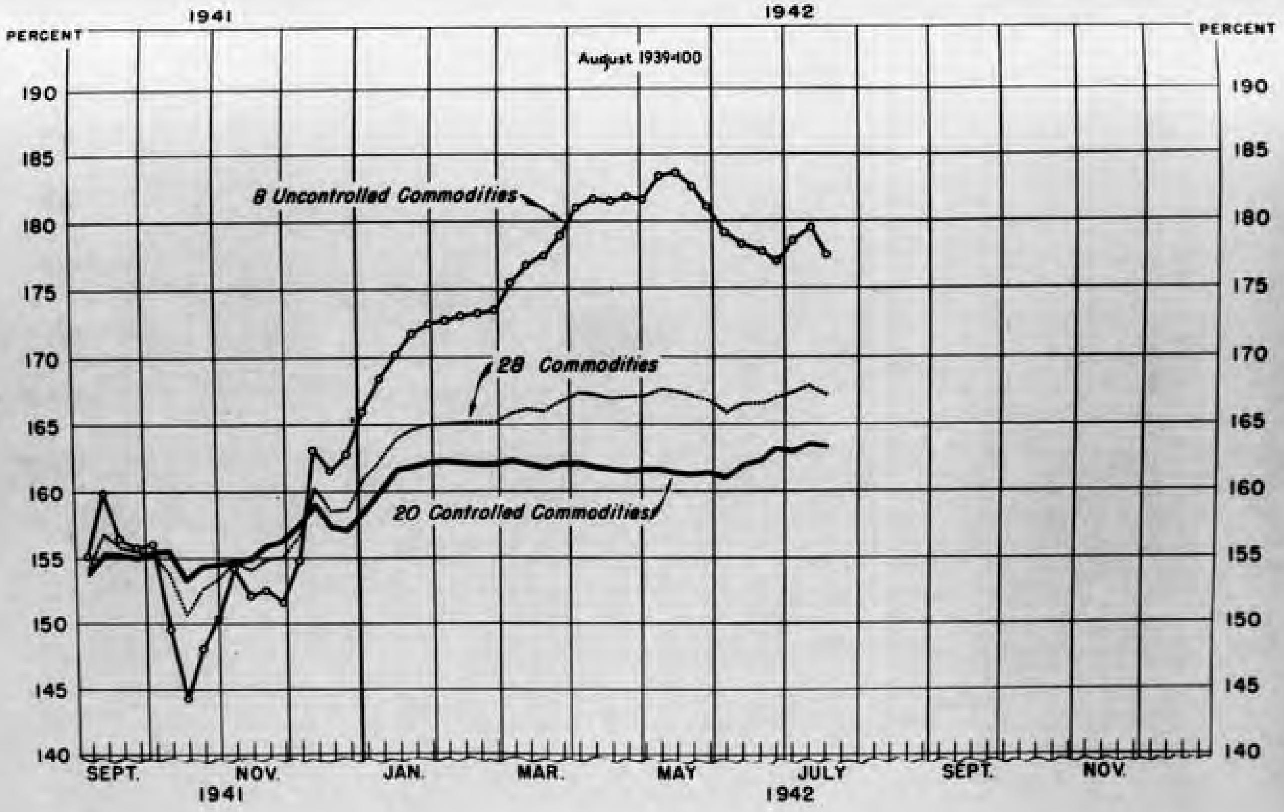
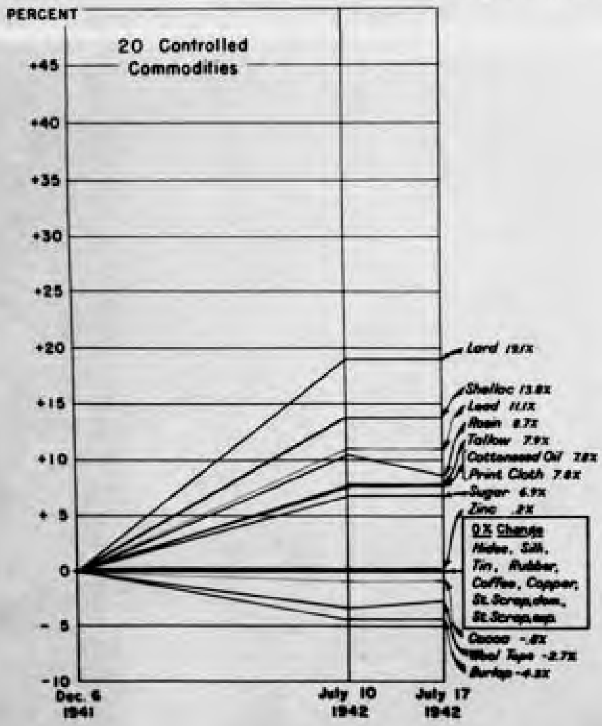
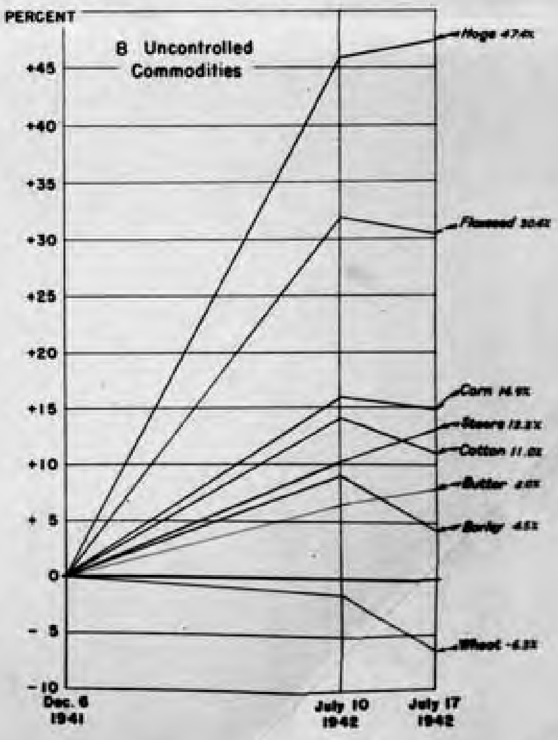
MOVEMENT OF BASIC COMMODITY PRICES



PERCENTAGE CHANGE DEC. 6, 1941 TO JULY 10 AND JULY 17, 1942





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P-244-4

Chart 2

# COMMODITY PRICES
1926=100

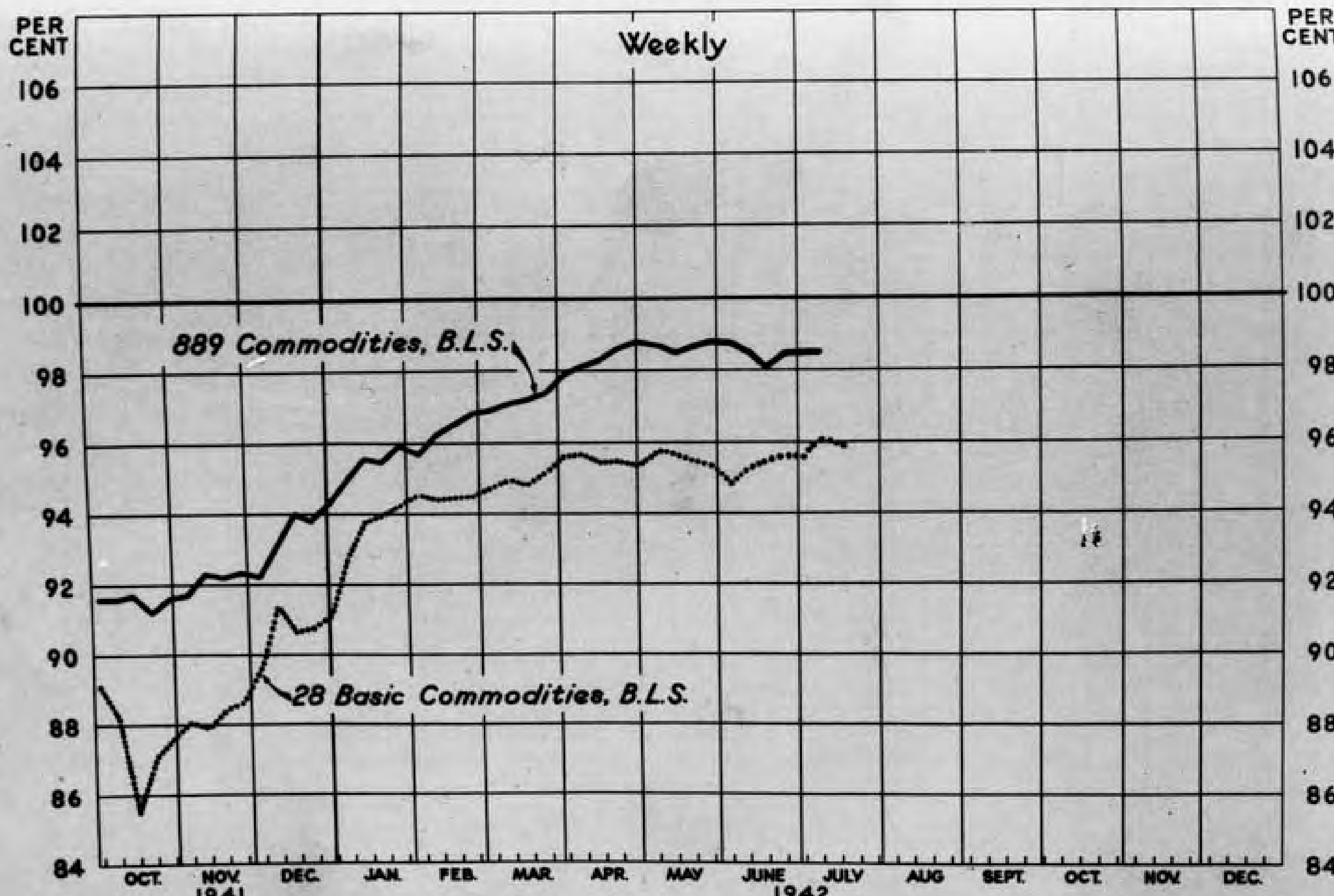

Chart 3

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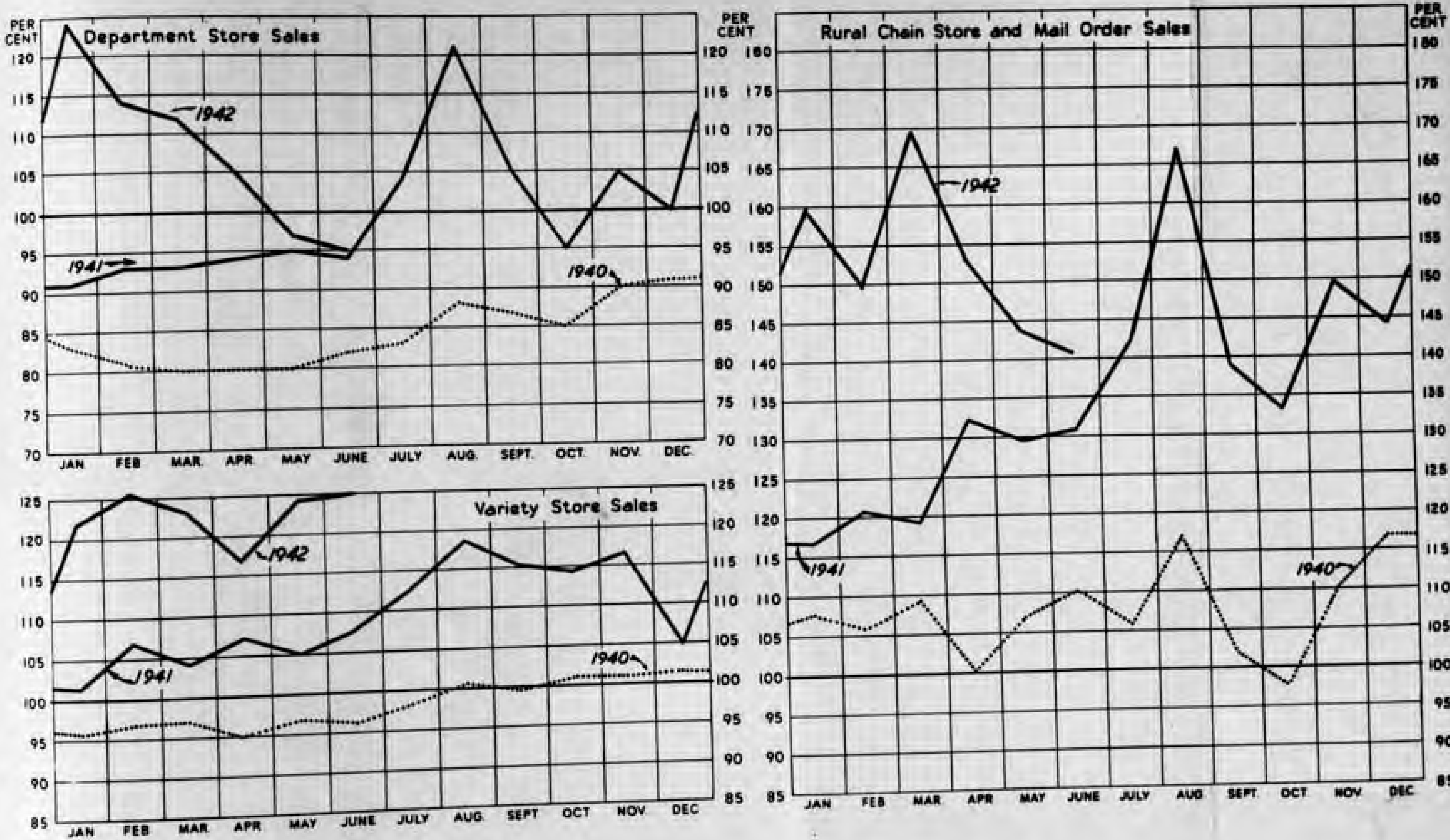
RETAIL TRADE

Urban and Rural Sales of General Merchandise

1929 = 100. ADJUSTED



C-150-C

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Chart 5

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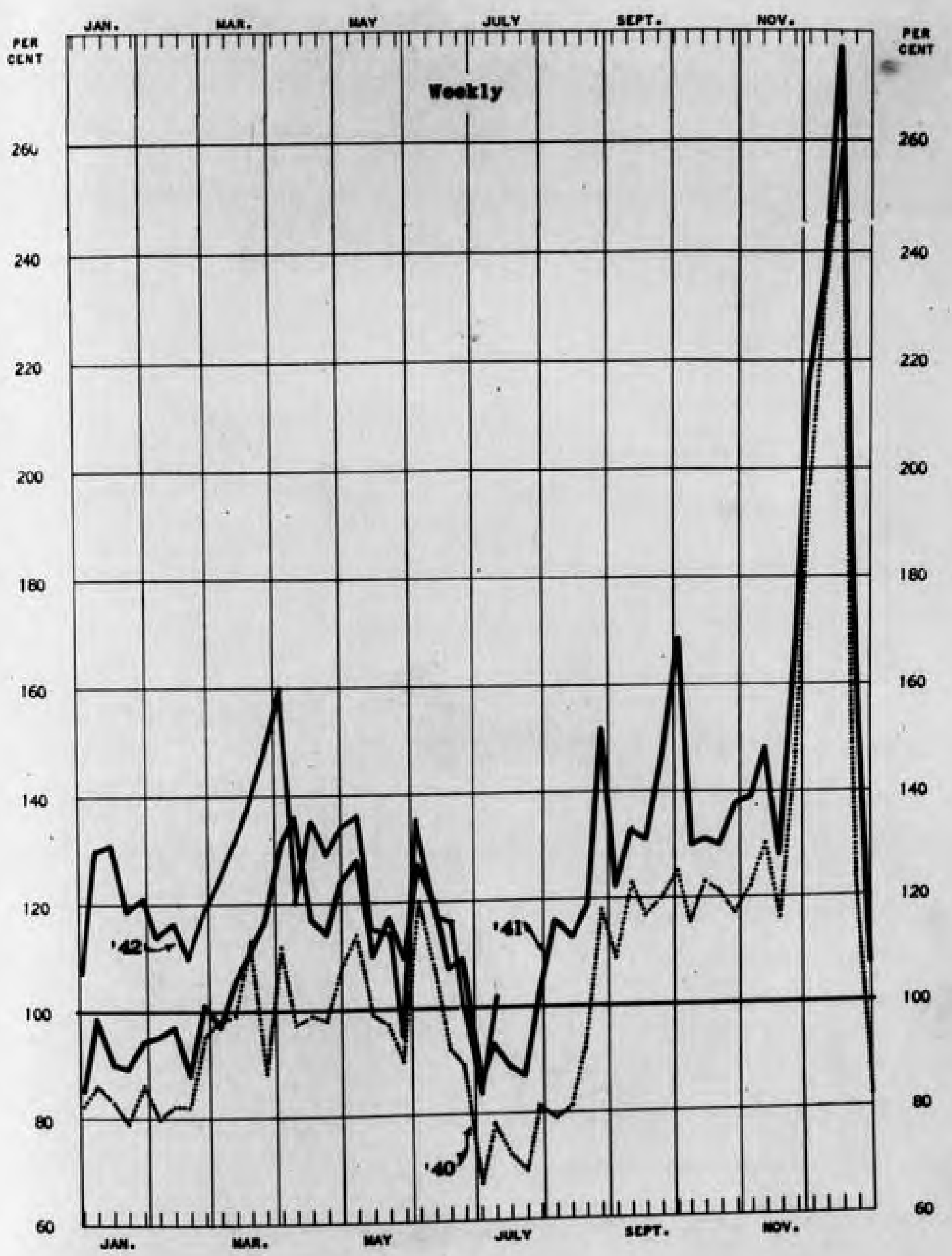
DEPARTMENT STORE SALES

1935 - '39 = 100, UNADJUSTED



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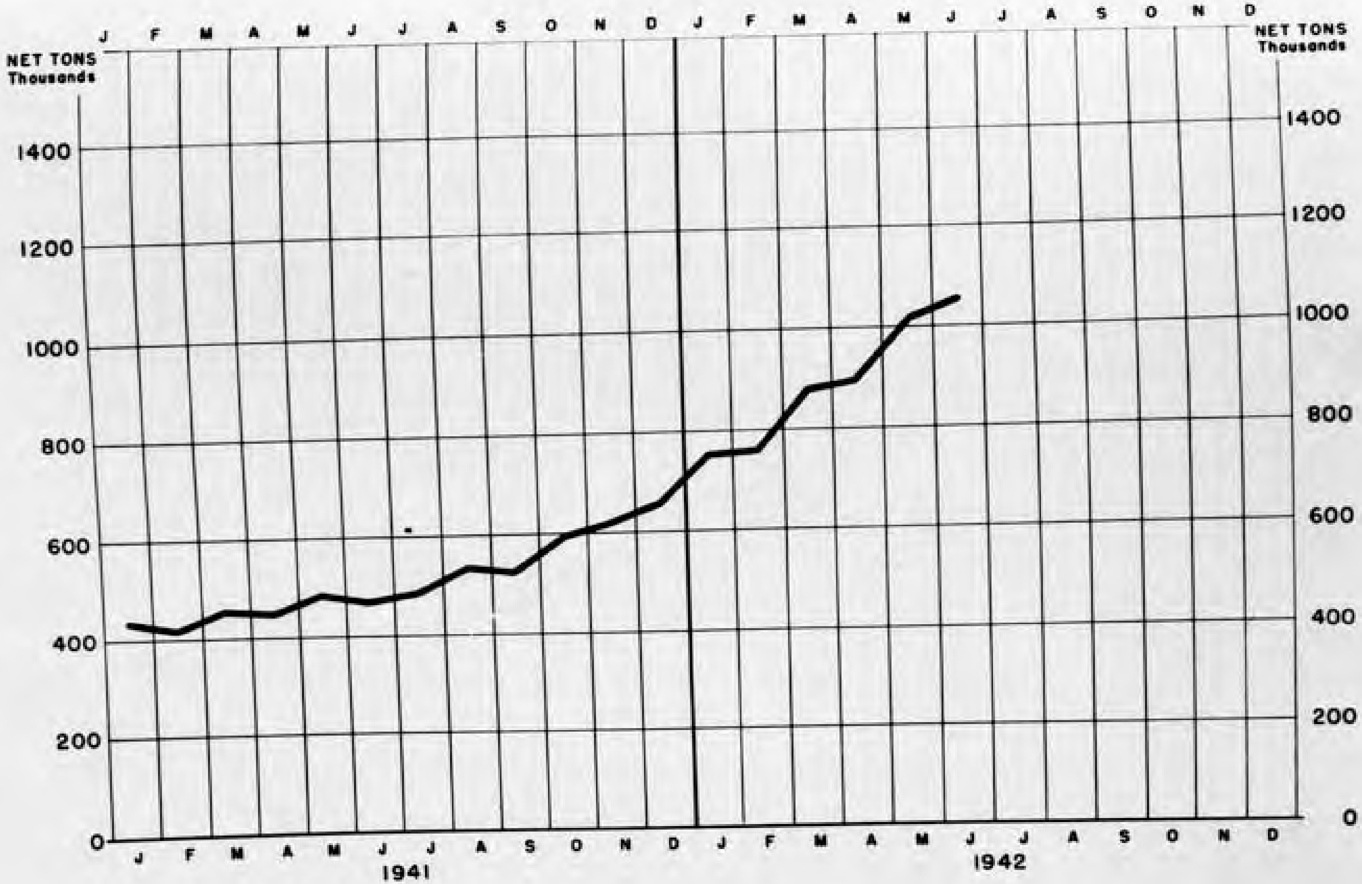
C - 390

STEEL PLATE DELIVERIES



* Production figures prior to October 1941

Office of the Secretary of the Treasury
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C-434

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Chart 6

July 20, 1942.

Dear Mr. Holme:

I am returning herewith Mr. Halliwell's letter of July 3, which you sent to the Secretary for his reading. Mr. Morgenthau has seen this, and as you wanted it back for your files, I am getting it to you as soon as possible.

Sincerely yours,

(Signed) H. S. Klotz

H. S. Klotz,
Private Secretary.

Mr. Brant Holme,
Merles - Head,
R.F.D. 3,
Troy, New York.

HSK/dbs

Enclosure.

File - nma

BRANT HOLME
TEL. CENTER BRUNSWICK 26 F 32
MERLES - MEAD R. F. D. 3, TROY, NEW YORK

July 13, 1942

Dear Henry:

I am relaying the enclosed for whatever it may add to the "picture" for you.

I shall appreciate your having it returned to me for my files.

Faithfully,

Brant

Mr. Henry Morgenthau, Jr.
2434 Belmont Road
Washington, D C

COPY

OFFICE OF PRICE ADMINISTRATION
WASHINGTON, D. C.

Room 5302
Census Building

July 3rd
1942

Brant Holme, Esq.
Suite 2315
122 East 42nd St.
New York, New York

My dear Mr. Holme:

This will confirm our telephone conversation of Wednesday, July 1st.

It is a matter of sincere regret to me that developments here will prohibit our enjoying your valued assistance in this Office in the immediate future.

As you know, I was chagrinned at the necessity for asking you to cancel your arrangements to come to Washington because of the "personnel freeze" now effective, but I can believe that your business connections will be quickly re-established and that your associates will consider they are most fortunate.

From a purely selfish standpoint, of course, I am disappointed in being denied the assistance your splendid capabilities would provide in the many difficulties confronting us here.

With every good wish, I am

Cordially

(Signed) R. D. Halliwell

R. D. Halliwell
r 1 a

July 20, 1942

Crane & Co., Inc.,
Dalton, Mass.

Dear Sirs:

Please be advised that you are hereby authorized to furnish the American Bank Note Company with approximately 29 tons of bank note paper to contain red and blue synthetic fibers scattered throughout the paper. It is understood that in a portion of the paper these fibers are to be 3/8th inch long, and in the balance 1/8 inch.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Under Secretary of the Treasury

WSB:M 7/16/42

Mailed by Mr. Bell

nmc

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7/20/42

Mr. White says this memorandum was never sent to the President. It was decided to take the matter up first with the Secretaries of State and War (see letters of 7/20/42)

THE SECRETARY OF THE TREASURY
WASHINGTON

MEMORANDUM FOR THE PRESIDENT:

Currency Used by Occupying Forces

The financial tasks involved in the invasion and occupation of territories now held by the Axis are to provide:

(1) Currency that the United Nations armed forces will need within a few days or weeks after their entry.

(2) A sound monetary, banking and fiscal order in the area which the occupation authorities will have to administer behind the advancing armies.

1. The United Nations forces should have available for cash expenditures, a currency of unquestioned acceptability in order to obtain the maximum amount of local goods and services with the greatest ease. Throughout Europe there is less confidence in the future of sterling than in the future of the dollar, and, hence, the dollar would probably be more eagerly accepted than sterling. The greater popularity in Europe of American forces, particularly in France, would also facilitate acceptance of American currency.

2. The currency used should be so marked that it would be possible to easily segregate it from regular United States currency, because:

(a) In the event of reoccupation of conquered territory by the enemy, it would be easier for the United States to prevent the enemy from utilizing and benefiting from the ownership of the specially marked United States currency.

(b) It will be possible to regulate the exchange value of the special currency vis-a-vis regular United States currency.

(c) The use of specially marked United States currency would cost less to the United States than would the use of regular currency. Regular currency would have purchasing power throughout the world equivalent to the regular United States dollar, whereas the purchasing power of the specially marked currency could be regulated by the United States under such terms and conditions as it later saw fit. The transaction could be so arranged that the expenditures by the United States army in occupied territory would bear less heavily on our budgetary expenditures than would be possible with the use of regular currency.

3. Whatever currency is used, exchange rates between that currency and the local currency would have to be established at once. The rate selected should be designed to favor the local currencies and to be in convenient round multiples for facility in exchange. The following rates should be used to begin with, though they would be subject to modification as the situation warranted.

French franc........	50 to	the U. S. dollar
Netherlands florin..	2 to	"
Belgian franc.......	35 to	"
Danish krona........	5 to	"
Norwegian krona.....	5 to	"

That portion of the soldier's pay to be spent in the invaded country should be paid in the specially marked currency so as to avoid the circulation of regular United States currency and specially marked currency side by side. If they both were used, a discount might quickly appear on the specially marked currency.

4. It would be desirable ~~if~~ for all the United Nation forces ~~used~~ to use the same currency to begin with, but England might prefer to use sterling for reasons of prestige and of possible economic gain.

A simple way of avoiding confusion and difficulty that might result from using both currencies might be to use only the specially marked United States dollar and to provide the British forces with the amounts necessary under a lend-lease arrangement. The terms of repayment could be worked out either now or after occupation.

5. The second and later task is the establishment of a sound monetary, credit, and fiscal system in areas of occupation. Here the program must differ from area to area. In some areas the occupation period may be expected to be short and the United Nations free government will be ready to assume civil authority, in others occupation may be prolonged for years. In the case of friendly countries, with a free government recognized by the United Nations, a legitimate currency similar to their old one might well be issued as soon as any considerable territory is held by the occupying authorities. However, in the case of Axis homelands, it seems that a United Nations special currency should be made the only currency valid in territory under United Nations occupation pending a more permanent economic settlement between the United Nations on the one hand and the defeated Axis powers on the other.

Monetary and fiscal programs for each of the likely invaded countries should be prepared as soon as possible for general guidance of the occupation authorities. It is not possible to provide for all contingencies in advance, and therefore a specially trained personnel must be available on the spot. A special financial corps should go along with the occupying forces. This corps must consist of men who have specialized training in monetary, banking and fiscal matters. Financial administration cannot safely be made a part-time job or even a full-time job for men whose training is in other kinds of work.

CONFIDENTIAL

Preliminary Report on the Financial Administration of Occupied Territory

Summary

The financial problems involved in the invasion and occupation of territories now held by the Axis divide themselves readily into two parts.

First is the supply of currency that United Nations armed forces will need to have at their disposal immediately upon their entry. Second is the provision of a sound monetary, banking and fiscal order in the area which the occupation authorities will have to administer behind the advancing armies.

The first part of the problem is relatively simple. The United Nations forces should have a currency of unquestioned acceptability in order to obtain the maximum amount of goods and services with the greatest ease. The United States dollar is such a currency. The conversion rate between the dollar and local currencies selected for the occupation should lean towards overvaluing the currencies now held by the friendly people of Axis-invaded areas, in order to doubly assure eager acceptance of the new notes. To facilitate control, and avoid the risk of subsequent loss to the enemy, such dollar currency should bear a special overmark. Such an overmark would be similar in character, though not in words, to that now used in Hawaii, and similar conditions might be imposed concerning the exchange of this special currency into ordinary U. S. dollars.

The second part of the problem is the difficult one, and here treatment must differ from area to area. In some areas the occupation period may be expected to be short and a United Nations free government will be ready to

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This report was prepared in the Division of Monetary Research by a committee consisting of Messrs. O. Gass, S. D. Southworth, J. E. Hicks and I. S. Friedman.

assume civil authority, in others occupation may be prolonged for years. In the case of friendly countries, with a free government recognized by the United Nations, a legitimate currency similar to their old one might well be issued as soon as any considerable territory is held by the occupying authorities. However, in the case of Axis homelands, it seems that the United Nations dollar should be made the only currency valid in territory under United Nations occupation pending a more permanent economic settlement between the United Nations on the one hand the defeated Axis powers on the other.

More detailed plans on some of these points are suggested in the text below. However, it must be emphasized that it is not possible to provide for all contingencies in advance, and therefore a specially trained personnel must be available on the spot. A special financial corps should go along with the occupying forces. This corps must consist of men who have specialized training in monetary, banking and fiscal matters. Financial administration cannot safely be made a part-time job or even a full-time job for men whose training is in other kinds of work.

Division of Monetary
Research

Preliminary Report on the Financial Administration of Occupied Territory

The following is an extremely tentative outline of the financial administration which the forces of the United Nations might establish in occupied territories—in Europe or Africa or Asia, in Axis homelands or in Axis-invaded countries. This outline takes note of some of the major aspects of the problem—objectives, general procedures, currency, banks, security markets, fiscal administration, price control and rationing, but it does not attempt to go beyond the broadest and most general principles with regard to any of these subjects.

Objectives

The major objectives of the financial administration of the United Nations in occupied territories should be:

(1) to facilitate the military occupation of the territory involved;

(2) to restore the day-to-day economic life of the territory and to promote a higher level of economic activity;

(3) to gain the widest possible support for the occupying authorities, while rooting out enemy influence;

(4) to suspend any final settlement of financial claims, titles, rights, etc., as far as may be feasible in keeping with the other objectives.

(1) To facilitate the military occupation of the territory involved.

This objective is primary; no consideration can be allowed to stand in the way of winning the local campaign or the war on all fronts. Financial administration must make available to the occupying forces, as

Division of Monetary Research

expeditiously as possible, all goods and services which might facilitate military operations in that territory or which might be of use to the United Nations elsewhere. All measures proposed to achieve the other objectives of financial administration should be disallowed if they interfere seriously with the military aims of the occupying forces.

The degree to which the financial administration can contribute to the success of military operations will vary widely according to local conditions. For example, financial administration will be less important in areas having little, if any, goods available for the occupying forces and where it may be necessary for the occupying forces to bring with them all of the necessary goods, including foodstuffs. However, in all cases financial administration will be of some importance, for improper methods will unnecessarily antagonize the local population and impede the achievement of the military objectives.

(2) <u>To restore the day-to-day economic life of the area and to promote a higher level of economic activity.</u>

This end would serve the interests of both the occupying forces and the local population. By stimulating the economic life of the area, more goods and services could be obtained from that area by the United Nations forces, while the local population would enjoy the highest level of well-being compatible with the needs of the occupying forces. Care would have to be taken lest the enemy benefit by the increased economic activity. Goods produced in the area must not find their way to the enemy. Producers of goods suspected of enemy sympathies must not be allowed to continue in business without adequate control.

(3) To gain the widest possible popular support for the occupying authorities, while rooting out enemy influence.

It will be to the advantage of the occupying forces to have the fullest cooperation of the people of the occupied area. A cooperating population will not only produce more goods and render more services than a recalcitrant population and contribute manpower to the armed forces, but also can be of immediate and direct aid in providing military intelligence on the disposition of enemy troops, enemy strongholds, enemy sympathizers, and enemy plans. To obtain the cooperation and support of the local population, the financial administration, should take measures to minimize the hardships and discomforts being experienced by the people and to maintain essential services such as water supply and fuel. If feasible, measures might be taken which would give positive recognition to those supporting the United Nations, particularly those who were active as such during the period of Axis occupation. The enemy will probably attempt to perpetuate his influence among the formerly occupied peoples. The local populace will be looking to the United Nations armies to take punitive measures against former Axis supporters. The financial administration should attempt to insure the cooperation of the people in the elimination of the influence of the enemy.

(4) __To suspend any final settlement of financial claims, titles, rights, etc., as far as may be feasible in keeping with the above objectives.__

The occupation government is essentially provisional. The occupying administration must recognize that the final disposition of property rights and institutional arrangements is the province of the future civilian authorities. If the occupying authorities keep in mind that their job is one of temporary administration, aimed primarily at helping to achieve military success, they will have an automatic guide to the limitations and boundaries of their functions and duties.

__General Procedures__

Certain general procedures are suggested which might appropriately be followed by the United Nations occupying authorities.

(1) __Goods and services acquired from the local population should be currently paid for with cash; the use of requisitions should be kept to a minimum.__

Payments in cash would increase the supply of goods and services which could be obtained from the population. Large sections of the population of the area which is being occupied may look with suspicion and perhaps even distrust on the occupying forces. They may wish to see whether the United Nations forces represent in any real way something different from the forces which have been driven out. The primary aim of the occupying forces will be to obtain the needed goods and services which might be available and not unnecessarily to antagonize the population by useless display of power and authority. As pointed out above, a cooperating population would supply more of the desired goods and services and could be of considerable assistance to the occupying forces.

The use of requisitions should be limited to cases where it is not possible to agree on price or where, for some special reason, cash is not available.

Confiscation should be resorted to only as a punitive measure.

(2) Payment should be made in a specially prepared currency.

When the invading force first occupies territory formerly under military control of the enemy, it should be equipped with currency that would have immediate and unquestionable acceptance by the local population. The currency should have sufficient prestige in those areas to be eagerly sought by the local residents. Such a currency is the U. S. dollar which has unrivaled acceptability the world over, providing, of course, that it is legally obtained and held. However, there is always the risk that some of the area gained in fighting will have to be given up, or that the currency will seep out of the area through sympathizers of enemy forces, etc. This would mean that the enemy would come into possession of U. S. currency which would have a substantial value. It would therefore be wise to have some distinguishing mark on the currency used by the U. S. forces. Such a mark might be an overstamp or perforation, whichever better serves the purpose. Questions of ease of counterfeitability and of strengthening of notes, and of speed of preparation would enter into the calculation as to what the type of distinguishing mark to use. In the case of Hawaii, an overprint was used and it seemed to fill the purpose quite satisfactory.

The army equipped with such currency would purchase with dollars such materials and services as they could. Soldiers' pay to be spent in the area should also be in the specially marked currency. It is presumed that this currency would always have a value equal to the unmarked U. S. currency. But that need not necessarily be the case. It depends on the subsequent developments in the campaign. The special mark would make it possible to identify the currency for special treatment.

This procedure applies only to the initial stages of the invasion. After the enemy forces have moved forward so that there is a substantial area behind the lines, a program should be established to organize the economic life of the occupied area. This would involve the use of another type of currency. The new currency might take any of several forms but in most cases it would seem to be desirable to utilize a currency either similar or identical with the currency of the invaded nation.

The use of a special currency, prepared in advance, would have certain advantages as against the use of the currency of one or more of the United Nations or the use of simulations of the already existing local currency. As against the use of the currency of one or more of the United Nations, the special currency could be designed to be familiar to the local population in any particular country. It might facilitate shifting some of the costs of the reoccupation from the governments of the occupying forces to the people of the country being occupied, if this were desired. It could be made legal tender only in the occupied area and not freely exchangeable by individuals for dollars, sterling or other United Nations money; there would be much less likelihood of the enemy benefiting by a possible reoccupation of the area if a currency of this kind was used. Finally, a special currency would be less likely to raise delicate questions as to which of the United Nations currencies should be used as the occupation currency.

As against counterfeiting local currency, the use of a specially prepared currency would have the advantage of helping to maintain the prestige and moral standing of the United Nations. Moreover, it would be easier to insulate the reoccupied area from the area still being held by the enemy if the same medium of exchange were not being used in both.

If it is decided to use a special currency, it should be prepared in advance and in generous quantities so that there should be no delays to the occupying forces resulting from a shortage of the necessary currency.

(3) A special corps of monetary and financial administrators should go along with the occupying forces.

The members of this financial corps should be stationed in all key financial institutions charged with currency emission, banking, securities control, tax administration, price control and rationing. To facilitate their work, particularly since the number of available administrators would necessarily be limited, these representatives of the financial corps should direct policy while making use of local personnel in administration as much as possible. The trustworthiness of the local personnel would have to be judged on the spot. This corps must consist of men who have had specialized training in monetary, banking and fiscal matters — training quite as thorough as that of the military men. Financial administration cannot safely be made a part-time job or even a full-time job for men whose training is in other kinds of work. No matter how well plans are laid much will have to be left to the discretion of the financial administrators on the spot and they must be men of special experience and special aptitude for the job.

Currency

The United Nations troops will have need of a suitable currency immediately upon invading any territory. Plans therefore must be made at once in order that the actual printing of currencies may begin in the very near future.

A suitable currency can contribute to the success of an invasion by providing an acceptable means for the purchase of local supplies and for the payment of United Nations troops and local volunteers, and by facilitating the resumption of economic life behind the lines. It was concluded above that the plan which appeared to offer the greatest advantages was to prepare special currencies rather than to use a United Nations' currency or counterfeits of existing currencies. In this section some of the alternative plans for special currencies, called for convenience "occupation currencies" will be discussed.

Who should issue occupation currency?

If the population of the area to be occupied is friendly, and if the country is represented by a free government acceptable to the United Nations, the sponsorship of the occupation currency by that government will serve to increase the acceptability of the currency and hence the success of the occupation. This procedure implies, of course, that there will be a different occupation currency for each friendly country occupied. There are several alternatives:

1. The United States or another of the United Nations might issue occupation currency in the name of the future government of the occupied territory. This plan has the advantage of not committing the United Nations to the support of any particular free government and its personalities, but it has two disadvantages which probably more than offset the advantage. Without the sponsorship of a particular free government and of locally known personalities, the support of some sections of the local populations will be lost. Furthermore, the United Nations might disagree among themselves about which should enjoy the benefits and accept the responsibility of issuing the currency.
2. The free governments already existing, or more acceptable new free governments, might issue the currency in their own name. This is perhaps the best plan, but it implies at least a limited commitment by the United Nations to establish these free governments and the personalities composing them as the legitimate government of the occupied territories.
3. The use of existing or new central banks of the free governments

might offer the advantage of free government sponsorship without so definite a commitment to these governments. Interposing a third institution between the United Nations and the free governments would make the United Nations' commitment one step less direct. It would also permit currency to be issued by a central bank, in accordance with the procedure with which European peoples are most accustomed. If a central bank were to be used, it should be placed under effective control of the United Nations.

When it has been decided who shall issue occupation currency, its preparation should begin at once. The United Nations, the free governments, or the central banks of the free governments should be instructed to prepare a suitable currency for every area that the troops of the United Nations are likely to invade. The knowledge that these currencies are being prepared will serve to increase Axis fears of an invasion, and the simultaneous preparation of currencies for many areas will sufficiently conceal plans of the United Nations.

<u>What type of currency should be used?</u>

1. The currencies to be issued should clearly be distinguishable from any currency previously used in the country concerned and prominently marked as the currency of "the government of ________", the "free government of ________", or "the central bank of free ________". Aside from this distinction, the notes issued in occupied friendly territories should be as similar as possible in size, design, legend and denomination to the currency of the legitimate government existing before enemy conquest. In this

way, the advantages of open dealing are combined with the advantages of convenience and familiarity to the local populations.

2. The occupation currencies should be made legal tender in the countries taken over by the United Nations forces. All United Nations purchases and sales should be made with this currency, or with checks upon deposits of this currency. Conversion of existing currencies into occupation currencies should be made obligatory within a short time.

3. The occupation currencies should be exchangeable for the currencies of the United Nations only in accordance with a special license. There is little advantage in permitting persons to convert occupation currency freely into the currencies of the United Nations, and by not permitting such conversion dollars, pounds, etc., can be kept out of enemy hands in the event that the invasion should be unsuccessful.

However, it will be necessary to permit some remittances to United Nations areas, some exchange of soldiers' pay, some exchange of goods, etc. For these purposes, we suggest — as a basis for discussion — the following exchange rates. They are designed (a) to favor friendly countries and penalize Axis homelands, (b) to preserve something like the existing relationship among the currencies of the friendly countries, (c) to be in convenient round multiples for facility in exchange.

German Mark	5 to $1.00
Norwegian Kroner	5 to $1.00
Danish Kroner	5 to $1.00
Netherlands Florin	2 to $1.00
Belgian Franc	35 to $1.00
French Franc	50 to $1.00
Italian Lira	40 to $1.00

These are rates which appear to be roughly appropriate for July 1942. But the situation may change in most or all of the countries by date of invasion. The situation is bound to differ from country to country and with the stages of the campaign. The rate of exchange most appropriate to the task in hand can be properly determined only directly before the event, and must be subject to modification as the situation develops. It is quite conceivable that a campaign in Italy might begin with an exchange rate of 40 lira to the dollar and end with 100 or 200 to the dollar.

4. The occupation currencies should be made exchangeable for each other. Many of the countries that are to be invaded ad adjacent to each other, and the occupying authorities could gain many advantages from reasonably free trade among the occupied parts of adjacent countries.

<u>How shall occupation currency be issued?</u>

1. Occupation currency should be issued to the governments of the countries making the invasion. The terms under which occupation currency should be made available to the invading governments are,

however, subject to discussion. The United Nations should make certain that, in appointing any free government or central bank to be the issuer of occupation currency, the institutions so appointed should thoroughly agree that the governments of the occupying countries have the right to any amount of occupation currencies they may deem useful. The occupying governments might pay for such currency in their own currencies, they might receive occupation currency on loan from the issuer, or the advances made by the issuer might be considered to be the contribution of the occupied country to the costs of the military operations and to food supplies, and services inevitably furnished to some extent to local populace by invading armies.

Paying for the currency in currencies of the United Nations has some disadvantages. The rate at which the occupation currency should be bought would be subject to great uncertainty and would probably change greatly during the course of the occupation. Obtaining the currency as a loan expressed in terms of the occupation currency is a workable plan. One way in which the loan could be repaid is the following:

After the earliest stages of occupation, the United Nations will probably ship to the invaded areas considerable volumes of civilians' supplies, and occupation currency collected from the sale of these supplies could be used to repay such loans without the question of conversion rates ever entering. Whether or not provision of the currency should be considered as the contribution of the occupied countries to the costs of the invasion is more questionable. There is no certainly fair way to distribute the costs of the invasion amongst the United Nations, the invaded countries, and the enemy. That the free governments of the occupied countries should provide occupation currency as part of their share of the cost is no more than a rule of thumb.

2. Occupation currency should also be issued for the conversion of existing currencies in the occupied areas. As was stated above, this conversion should be obligatory within a very short period. The existing currencies may be converted at a discount, or at par. Unless currency depreciation has gone so far as to make the existing denomination system cumbersome, conversion at par would be the simplest plan. However, as the occupied circle widens, successive conversions will have to be made at different rates if the relative values of the currencies change during the course of the invasion. Converting existing currencies into occupation currency will provide occasion for examination of individual holders. A record of large conversions should be kept, and any exceptionally large offers of notes should be placed in blocked accounts for subsequent investigation.

3. Finally, occupation currency should be issued to meet withdrawals of bank deposits. As discussed in the financial section, below, the authority issuing occupation currency should make available to the banks of the area as much currency as they need to meet withdrawals.

Division of Monetary Research

What type of fractional currency should be used?

The shortage of all coinage metals, of mint capacity, and of shipping space makes a satisfactory solution of the problem of fractional currency very difficult. Especially would it be unwise to attempt to issue fractional coins merely for replacement purposes. It would be possible to recognize and continue to use coins presently circulating in the areas concerned. The possibility of doing this is one of the reasons why it would be preferable to issue occupation currency in the denominations currently in use and to convert existing currencies at par. This solution will be far from perfect, for a shortage of fractional currency probably exists in many of the areas to be invaded.

What should be the rate between invasion currency and currencies of the United Nations?

It was stated above that invasion currency should not be freely convertible into the currencies of the United Nations, and it was also stated above that the governments of the United Nations probably should not buy invasion currency with their own currencies. For both of these reasons the problem of a conversion rate between invasion currency and the currencies of the United Nations should not be serious. However, for the purposes of paying troops whose salaries are defined in United Nations' currencies, of determining army expenditures in accordance with their budgets, and of permitting subsistence

Division of Monetary
Research

remittances, some rate of exchange must be determined from time to time. In determining these exchange rates, an attempt should be made to place as nearly as possible at the ratio of the purchasing powers of the currencies.

Changes in these procedures appropriate to the invasion of Axis homelands.

If the invasion is to be made in an Axis homeland some changes in technique would be called for. In such cases there would be no free government to issue occupation currency. One might be set up, but the political commitment involved in so doing would be great. Unless such a government were set up, the United Nations would have to issue notes directly.

These notes could be called "_______ of the United Nations Forces" and be made in most respects possibly similar to the United States dollar or sterling. The denominations, however, should be made to agree with that currently in use in the country and the conversion rate should be a very convenient one, such as 50 lire per "dollar", although at successive stages of the invasion this rate will probably have to be changed to take account of the progressive deterioration of enemy currency. Compulsory conversion of existing currencies into these "dollars" should be made within a short period.

The Financial System

A completely disorganized financial system probably will await the United Nations in territories they invade. Banks, security markets, and many businesses may be closed, and large part of their assets and business records may have disappeared.

The retreating enemy may be expected to take with him as much of the currency, securities, personal notes, and even business and banking records of the area as he is able to find and to carry. The managers of many financial and business houses will have been Axis puppets, and will have fled with their movable assets and records. Those managers, who are loyal or neutral, themselves, probably will have removed and hidden as many of the assets and records as they could in order to prevent enemy looting of their businesses. Also, members of the general public, to protect themselves from the great uncertainty of events, and to prepare themselves for flight if that should be necessary, probably will have made every attempt to convert deposits into cash, securities, and other easily movable assets, and then to hide these assets.

Some of the problems thus created will call for immediate handling; others can be left for consideration after the occupation is well established; most of them, however, should be left for final solution by the more permanent civil government. The measures that should be taken immediately are those that can contribute directly to the success of the invasion and occupation; those that should be handled later in the occupation are measures that can contribute to the rehabilitation of the day-to-day life of the population of the invaded areas and hence indirectly contribute to the success of the occupation and the war effort; those that should be left to the civil authorities are measures that affect the long-run life of the community, and have little effect upon either the invasion or the occupation.

Much discretion must be left to the occupying authorities on the spot. A corps consisting largely of trained native persons should be recruited at once in the United Nations by the Free Government or, by the central bank of each government, (if it should be decided to use central banks as the issuers of occupation currency), to accompany the invasion forces, and to carry out the financial program. While the military authorities must have final control, a trained personnel, and a largely native personnel, is best suited to the nature of many of the financial tasks.

Financial measures of the invasion

1. Immediately upon entry into an area, the occupation authorities should impose a general freezing regulation. Any financial institutions that may happen not to be closed should be closed at once, pending certification by the occupying authorities. The continuance of banking and security operations is not essential to success in the invasion stage, and the frozen accounts may therefore be left for later consideration.
2. The financial agents of the occupying authorities should attempt at once to determine the loyalty of business managers, and as quickly as possible to replace any whose loyalty is suspected.
3. Other problems that need to be handled immediately are subsistence withdrawals and the establishment of a source of credit for essential businesses. The great disorganization probably will leave many essential businesses financially unable to continue production, and the success of the invasion may clearly be furthered through the establishment of a means for providing credits. If a central bank of

the free government has been established, it should set up immediately an office for the provision of such credits. If a central bank has not been established, the financial administrators should be empowered to make such loans with free government funds.

Financial measures of the occupation

1. When the occupation has become established, the financial administrators might reorganize the general banking facilities of the area. All outstanding deposit and note liabilities should be restated in terms of the new currency. Bank cash and currency of the old type should be exchanged for new currency on the same terms as those offered the general public. Local banks, under loyal managers and under the strict control of the financial administrators, might be reopened, and provided with central bank or free government funds to the extent that their assets are found to be unequal to their deposit and note liabilities. Emergency credit functions might be turned over to them to the extent that they are able and willing to handle them. Their existing small deposits might then be unfrozen. Larger deposits could be unfrozen when the financial administrators had certified to the banks the loyalty of their owners.

2. During this period, the financial administrators should also undertake a census of property claims, the purpose of which would be to provide some of the information that will be needed later for the final settlement of claims by the civil government. It might be announced that only those claims reported in the census will be considered in the final settlement to be made by the civil government.

3. As soon as United Nations occupation is established firmly in any area, it will be necessary to establish a system of foreign exchange control to license transactions with other United Nations areas and to prohibit transactions of benefit to the enemy. The administration of this foreign exchange control should present very few novel problems since the essential considerations involved would be identical with those at present prevailing with regard to trade among United Nations areas and the relations of United Nations areas to those controlled by the enemy.

4. The reestablishment of organized security markets, the final settlement of property claims, and other similar matters, may be left safely to the civil government which will succeed the occupying authorities.

Japanese experience with invasion currencies.

The experience of Japan in the use of invasioncurrencies is worth noting. The Japanese have tried various types of invasion currency in their campaign in China. The first type used was Bank of Japan notes. However, when these Bank of Japan notes were found to be depreciating as against the Chinese national yuan, military yen were introduced. These military yen were printed and issued by the Bank of Japan and distributed in China by the Yokohama Specie Bank. At first the circulation of these military yen had to be enforced by military means but later the public accepted them voluntarily as they could be used to purchase goods from the Japanese.

In addition, the Japanese have sponsored various note-issuing puppet banks in China, the most important being the Federal Reserve Bank of China at Peiping, the Central Reserve Bank of China at Nanking and the Menchiang Bank of Inner-Mongolia. The currencies of these banks have fluctuated in value in the past but, at present, all are at a premium over Chinese national yuan.

The Japanese have taken measures either to discourage or to prohibit the circulation of Chinese national yuan in the various occupied areas in China. Since December 7, 1941, the regulations against the circulation of Chinese national yuan have been rigidly enforced.

German Financial Procedure in Occupied Territories.

In all cases where Germany has taken over territory after active military operations, she has followed a uniform procedure.

In the first stage of the invasion the German military authorities have issued special Mark currency (Reichskreditkasse notes) to purchase such goods and services as the armed forces needed. As soon as the German armies have been better established and have displaced the local government of the invaded area, these special Mark notes have been replaced by currency of the local type issued by German-controlled central banks.

The Germans have stationed a bank commissioner, who has complete control over policy, in the central bank of each occupied area. They have also appointed supervisors to govern the policy of the major private banks.

All foreign exchange transactions have been made subject to German permission. It has been required that foreign exchange holdings be registered and either blocked or sold to the puppet central banks under German control.

The Germans derive their funds for purchases from the occupied area from direct advances called occupation costs, from clearing credits advanced by the central bank or government, and from direct advances by private banks which have been brought under their control. In addition to these sources of funds, in most of the occupied areas the Germans take all public revenues and maintain complete sovereignty over the government machinery. Occupied France is an exception to this general rule.

The Germans have utilized their control over the currency and banking system to consolidate enterprises and bring them under German control or German "participation" to the extent they deemed necessary.

Occupation and civil government in Axis homelands.

The range of activities undertaken by occupying authorities must be determined in large part by the length of the period of occupation. Where the interval between invasion and the formation of a civil government recognized by United Nations is to be prolonged, as is most likely to be the case in Axis homelands, it will be necessary for the occupying authorities to undertake a wider range of activities than in other areas. If — as may happen in one or the other of the Axis homelands — the period of occupation extends over years, a new reconciliation of the respective spheres of authority of the military and civil officials will have to be worked out. In short, the problem of extended semi-permanent occupation is a new one and will need novel solutions. However, even where it is expected that this period of occupation will be very prolonged, the procedures outlined above apply to the earlier period of occupation.

Fiscal Policy, Prices and Rationing

Closely related to the monetary and banking problems which would arise out of the invasion and occupation of any territory by the United Nations are questions of taxation, price control and the rationing of essential commodities.

In areas inhabited by a friendly people, with a free government recognized by the United Nations, the occupying authorities will have strictly limited functions in these fields. They should attempt: (1) to keep existing public services operating, (2) to use as much of the old machinery and personnel as possible, (3) to change the fiscal system of the area where important injustices have been imposed by the enemy, (4) to maintain any existing price controls, (5) to ration equitably the supplies of the area.

In Axis homelands, where the period of occupation before complete cession of authority to a civil government may be prolonged, the responsibilities of an occupying administration would be more far reaching. The old machinery and the old personnel of the area will, in large part, not be usable because it will contain a large number of active pro-Axis leaders. Previous injustices may demand thorough-going rectification on the part of the occupying authorities, who will not be in a position to wait for the erection of a permanent civil government. If it is desired to strike at certain individuals or classes in the Axis homelands, such action will have to be initiated immediately after the invasion. In short, the invading armies will be bringing a revolution to the Axis homelands, and they will be confronted with revolutionary problems. For the solution of these problems, they will need continuing directives from the higher councils of the United Nations.

JUL 20 1942

CONFIDENTIAL

Dear Cordell:

The War Department last week informally discussed with the Treasury the matter presented by General Eisenhower's cable relating to the appropriate currency that occupational forces might use. I also discussed this matter briefly with the President, you and Secretary Stimson after last Friday's Cabinet meeting.

copy rec'd by War + no copies [illegible]

Obviously this is a matter that should be explored by the State, War and Treasury Departments as it raises a question of concern to all three Departments. The problem falls into two main categories:

(1) Provision for a currency that United Nations armed forces would need within a few days or weeks after invasion.

(2) Provision for a sound monetary, banking and fiscal order in the area in which the occupation authorities would have to administer behind the advancing armies.

The first of these two is, of course, the more immediate problem. We are advised that the British Treasury has already prepared a special sterling currency which it has offered to supply to American forces under agreed-upon terms. Whether the currency which the American forces use should be that currency or United States dollars or specially marked currency is a matter which needs to be discussed by these three interested agencies.

In this connection, there is enclosed a copy of a memorandum covering a preliminary survey of the financial tasks involved, which was prepared

CONFIDENTIAL

in the Treasury in response to a request made by Assistant Secretary Berle prior to the receipt of the above-mentioned cable. I believe this memorandum might serve as a basis for discussion of the more immediate part of the problem now presented by General Eisenhower's cable.

I shall be glad to sit down with you or whomever you may designate, and with a representative of the War Department to discuss what we should recommend to the President.

Sincerely,

(Signed) H. Morgenthau, Jr.

The Honorable,
The Secretary of State,
Washington, D. C.

DWB:NLE
July 20, 1942

CONFIDENTIAL JUL 20 1942

Dear Henry:

Referring to our conversation after last Friday's Cabinet meeting on the matter presented in General Eisenhower's cable, I am enclosing herewith a copy of my letter of today to Cordell Hull, together with a copy of the memorandum referred to therein.

→ Read by War + no copy in Treas.

I shall be glad to sit down with you or whomever you may designate, and with a representative of the State Department, to discuss what we should recommend to the President.

Sincerely,

(Signed) H. Morgenthau, Jr.

The Honorable,
The Secretary of War,
Washington, D. C.

DWB:ELK
July 20, 1942

BRITISH AIR COMMISSION
1785 MASSACHUSETTS AVENUE
WASHINGTON, D. C.
TELEPHONE HOBART 9000

PLEASE QUOTE
REFERENCE NO.__________

With the compliments of British Air Commission who enclose Statement No. 42 - Aircraft Despatched - for week ended July 14, 1942.

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

July 20, 1942.

MOST SECRET

STATEMENT NO. 42

AIRCRAFT DESPATCHED FROM THE UNITED STATES WEEK ENDED JULY 14TH, 1942

YPE	DESTINATION	ASSEMBLY POINT	BY SEA	BY AIR	FLIGHT DELIVERED FOR USE IN CAN.
OEING					
17E Fortress II	U.K.	Canada en route		10	
oston III	U.K.	U.K.	1		
ONSOLIDATED					
24 D	U.K.	Canada en route		1	
BY 5B	Middle East	Middle East		3	
OCKHEED					
29A AC 151	U.K.	Canada en route		1	
28 Hudson VI	Middle East	Middle East		3	
" "	U.K.	Canada en route		2	
28 Hudson VI A	South Africa	South Africa		8	
" "	U.K.	Canada en route		1	
entura	South Africa	South Africa		3	
LENN MARTIN					
26A Marauder	U.K.	Canada en route		2	
altimore	Middle East	Port Sudan	6		
ORTH AMERICAN					
25B	U.K.	Canada en route		1	
25 C	U.K.	Canada en route		8	
ustang	U.K.	U.K.	24		
arvard II	Canada	Canada			1
ULTEE					
engeance	India	Bombay	6		
OTALS			37	43	1

ritish Air Commission
uly 18th, 1942.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 20, 1942

TO Mr. White

FROM Miss Kistler

Subject: Canada's U. S. Dollar Position.

1. Since January 1, 1942, Canada's holdings of gold and U. S. dollar balances have increased approximately $50 million to roughly $240 million on July 8. This rise of $50 million in Canada's official U. S. dollar holdings is in sharp contrast to the Canadian anticipated drain of $68 million January-June 1942; it is laid almost entirely to capital imports from the United States.

2. By the close of the current year, Canada's U. S. dollar reserve is expected to increase at least another $100 million and possibly by as much as $250 million, or to $350-$500 million. We base this prediction on the following factors:

a. Between January 1 and July 1, 1942, U. S. Government placed roughly $500 million of contracts with War Supplies, Limited, raising the total value of U. S. Government contracts from $230 million on the former date to $720 million on the latter. As a consequence, Canada's U.S. dollar receipts on U.S. Government orders, during the period July-December 1942, are now expected to be $90 to $110 million higher than the Canadian Government estimated in March they would be.

b. In addition, the Metals Reserve Corporation has considerably expanded its program for the purchase of minerals and metals in Canada. New contracts have been signed for zinc concentrates, mercury and cobalt, and deliveries schedules for aluminum have been considerably expanded. Furthermore, the R.F.C. has recently undertaken to finance the development in Canada of marginal and submarginal mines producing various strategic minerals. Delivery of, and payment for, aluminum have been running much higher than anticipated in March and if present trends continue, Canada's U.S. dollar receipts from these contracts will be $40-$50 million higher, July through December 1942, than anticipated by the Canadian Government last March.

c. The Canadian Government in March estimated that it would have a deficit of U.S. dollars during the last six months of 1942 aggregating $11 million. If this forecast is as wide of the mark as the companion estimate for the first six months of the year, then the Canadian Government's U.S. dollar holdings at the close of the current year will be still higher and perhaps by as much as another $100 million.

Division of Monetary
Research

3. If the above forecasts are accurate, the Canadian Government will end the current year with a gold and U.S. dollar reserve almost as large, if not larger than, the $400 million with which it began the war in September 1939.

Moreover, Canada's international debtor position is stronger today than it was three years ago. Since September 1939, although Canada has increased her net indebtedness vis-a-vis the United States by roughly $300 million, she has repurchased $650 million of Canadian securities from the United Kingdom as well as accumulated the equivalent of a $630 million (U.S.) obligation against the British Government.

4. In the absence of any unforeseen unfavorable development, this favorable trend is expected to continue into 1943. Receipts from U. S. Government contracts (particularly so if all, or a large proportion of, the aggregate contracts now pending are signed) are expected to more than offset the deficit of U.S. dollars which the Canadian Government may experience on all other transactions. No sharp curtailment in gold production is expected in the immediate future as Canadian gold production has been frozen at the average of the first four months of 1942, or at a level only slightly under the 1941 high.

5. In addition to the $720 million of contracts already signed by the U.S. Government with War Supplies, Limited, a tank contract of $350 million, a second ship contract of $220 million and a number of miscellaneous contracts aggregating another $300 million are under consideration.

The favorable exchange outlook and the size of the pending orders raises a number of policy questions:

1. Whether Canada's exchange position should be considered in deciding whether or not to place any particular contract in Canada?

2. Whether new contracts should continue to be placed provided Canada diverts resources from certain unessential uses (such as production of gold and newsprint) to the war effort?

3. Whether new orders should continue to be placed in Canada in return for the shifting directly to British account of certain existing U.S. Government orders in Canada for goods to be lend-leased to Britain?

4. Whether there is any level of reserves at which the U. S. Government should discontinue placing orders in Canada?

5. Whether we should not be careful that U. S. Government orders placed in Canada do not lead to a diversion of capacity from production for Canadian and U.K. account to U.S. account?

July 20, 1942.

Dear Mr. McCabe:

Thank you for your letter of July 17, which brought me a copy of the secret report on the status of the Soviet Aid Program as of June 30, 1942. I am glad to have this material.

Sincerely,

(Signed) H. Morgenthau, Jr.

Honorable Thomas B. McCabe,
Acting Administrator,
Office of Lend-Lease Administration,
Five-fifteen 22nd Street, N.W.,
Washington, D. C.

GEF/dbs

File - mms

SECRET

OFFICE OF LEND-LEASE ADMINISTRATION 244
FIVE-FIFTEEN 22d STREET NW.
WASHINGTON, D. C.

E. R. Stettinius, Jr.
Administrator

July 17, 1942

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

Dear Mr. Secretary,

I am sending you herewith, by special messenger, a copy of the secret report on the status of the Soviet Aid Program as of June 30, 1942.

A copy of the letter of transmittal to the President is attached.

Sincerely yours,

Thomas B. McCabe
Thomas B. McCabe
Acting Administrator

Attachments

SECRET
245

July 17, 1942

Dear Mr. President,

In compliance with your letter of March 17, 1942, requesting that you be kept advised as to the status of the Soviet Aid Program, we are transmitting herewith the report as of June 30, 1942.

This report is particularly significant since it contains the record of performance for the full period covered by the first Moscow Protocol. The protocol committed the United States to make available goods estimated at a value of $750,000,000 (originally overestimated at $1,015,000,000).

By the end of the protocol period, approximately 80 per cent of the original commitment had been made available. In addition, enough non-protocol items had been made available to bring the total value of items to more than 100 per cent of the value of the original protocol commitment.

Exports during the period, of both protocol and non-protocol items, were equivalent to 87 per cent of the dollar value of protocol commitments.

Aid to the Soviet Union is continuing under the terms of the second protocol, extending from July 1, 1942 to June 30, 1943. As you know, however, great difficulties are being encountered with regard to deliveries to Russia, due to the convoy situation.

Sincerely yours,

Thomas B. McCabe
Acting Administrator

The Honorable

The President of the United States

SECRET

246

STATUS OF THE SOVIET AID PROGRAM

AS OF JUNE 30, 1942

Office of Lend-Lease Administration

STATUS OF THE SOVIET AID PROGRAM
As of June 30, 1942

OFFICE OF LEND-LEASE ADMINISTRATION
Washington
July 16, 1942

PROTOCOL PERFORMANCE

The Moscow Protocol of October 1, 1941 terminated on June 30, 1942. According to its terms the United States agreed to make available at U.S. centers of production amounts of goods as specified in the Protocol. Although aid in shipping was promised, no commitments were made for the export of protocol items.

Progress, which was limited in the early months, became more rapid following the President's directive of March 17, 1942, setting protocol obligations above other programs. By the end of the protocol period the United States had made available approximately 80% of the estimated dollar value of the original commitments. The value of non-protocol items made available more than compensated for the deficiencies in protocol items.

Exports to the U.S.S.R. increased slowly from October through February and then rose sharply to a peak in April. Convoy difficulties subsequently resulted in a serious curtailment of shipping and also in the unloading in the United Kingdom of certain vessels en route to the U.S.S.R. Exports during the protocol period, of both protocol and non-protocol items, were equivalent to about 87 per cent of the dollar value of commitments.

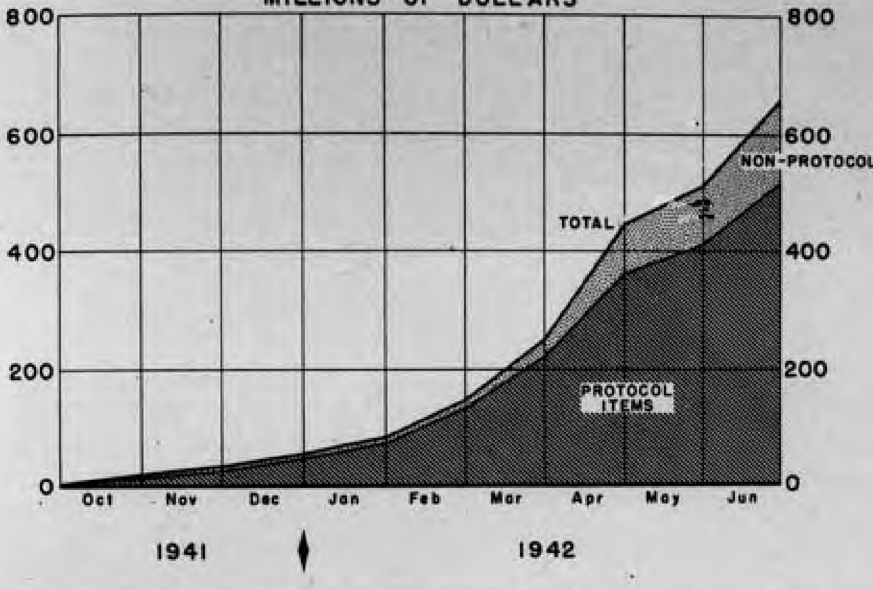
Aid to the Soviet Union is continuing under the terms of a second protocol extending from July 1, 1942 to June 30, 1943.

July 16, 1942

SECRET

VALUE OF EXPORTS TO U.S.S.R. - CUMULATIVE

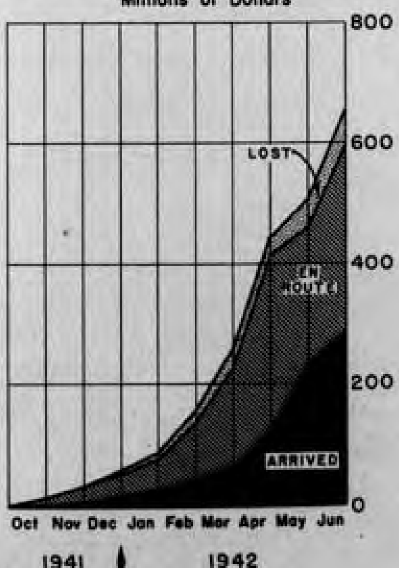
MILLIONS OF DOLLARS



EXPORTS TO U.S.S.R.

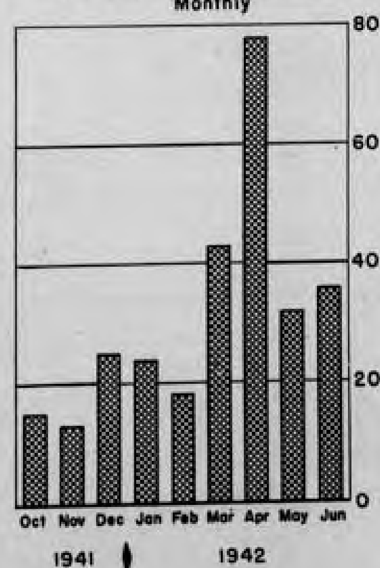
CUMULATIVE SINCE OCTOBER 1, 1941

Millions of Dollars



NUMBER OF SHIPS SAILING FOR U.S.S.R.

Monthly



Office of Lend-Lease Administration — July 16, 1942

SECRET
Sheet 1

EXPORTS AND AVAILABILITY OF MATERIAL UNDER THE MOSCOW PROTOCOL
October 1, 1941 to June 30, 1942

Protocol Item and Number	Exports 1/ Oct. 1 to June 30	Arrived to June 30	Lost to June 30	Made Available to June 30	Required Availability to June 30 Under Protocol	To Be Made Available in July
1A Planes - Medium Bombers B-25	76	66 2/	2	77	900	12
1A Planes - Light Bombers A-20	548	331 3/	22	798 4/		102
1B Planes - Pursuit P-40	689	244	105	857	900	100
2A Tanks - Medium	980	363	127	1,108	1,125	340
2B Tanks - Light	1,070	420	113	1,181	1,125	262
3 Anti-Aircraft Guns 90 mm	4	4	0	4	152	8
4 Anti-Tank Guns 37 mm	63	0	0	63	756	0
6A1 Jeeps (1/4 Ton 4x4)	6,270	2,829	446	7,001		1,500
6A2 Armored Scout Cars	190	0	0	624	5,000	400
6A3 Personnel Carriers (Half track)	67	0	0	308		274
6B Trucks	36,783	17,776	4,195	71,502	85,600	0
7 Field Telephones	59,925	16,722	4,960	81,510	108,000	4,000
8 Field Tel. Cable (miles)	393,714	147,468	26,772	505,000	562,500	0
9 Underwater Cable (km)	67	0	0	268	450	0
10 Submarine Cable (km)	433	6	0	746	900	175
11A Aluminum (tons)	14,672	4,349	1,587	14,847	15,580 5/	407
11B Duraluminum (tons)	5,566	1,875	817	6,193	7,716 5/	1,568
14 Nickel (tons)	1,398	518	658	1,424	1,200	43
15 Molybdenum (tons)	3,948	2,185	1,100	3,948	2,700	0
18 Rolled Brass (tons)	38,787	20,447	5,762	44,344	45,000	4,080
20 Zinc (tons)	6,215	2,672	1,305	6,215	6,750	0
22 Copper Products (tons)	2,332	990	609	3,316	2,700	1,064
23 Ferrdsilicon (tons)	2,650	558	189	3,113	2,700	0
24 Ferrochrome (tons)	1,322	185	161	1,834	1,800	0
25 Armor Plate (tons)	7,505	1,361	0	8,946	9,000	0
26 Hard Alloys & Cutting Tools ($1,000)	24	0	0	2,342	900	2,482
28 High Speed Steel (tons)	847	222	3	1,323	900	713
29 Tool Steel (tons)	1,362	35	0	2,233	4,500	1,195
30 Calibrated Steel (tons)	8,942	1,856	306	44,081	0	13,938
31 Hot Rolled Steel (tons)	34,217	1,695	2,608	70,486	63,000	1,315
32 Steel Billets (tons)	20,852	4,605	113	46,327	72,000	17,858
33 Cold Rolled Steel Strip (tons)	27,682	3,927	3,692	65,663	72,000	5,699
34 Cold Rolled Steel Sheet (tons)	65,479	10,043	7,965	65,479	72,000	2,132
35 Tin Plate (tons)	33,665	15,968	5,184	38,295	36,000	0
36 Steel Wire (tons)	11,575	1,067	129	38,779	63,000	18,442
37 Steel Wire Rope (tons)	307	0	0	6,990	10,800	5,594

1/ Exports laden on vessels allocated for June but not yet sailed will by agreement be applicable to the Protocol of October 1, 1941.
2/ 62 arrived in U.S.S.R.; 4 on hand in Basra, Iran.
3/ 222 arrived in U.S.S.R.; 119 on hand in Near East.
4/ Includes 141 not yet crated for shipment
5/ Commitment as modified.

SECRET
Sheet 2

EXPORTS AND AVAILABILITY OF MATERIAL UNDER THE MOSCOW PROTOCOL
October 1, 1941 to June 30, 1942

Protocol Item and Number	Exports Oct. 1 to June 30	Arrived to June 30	Lost to June 30	Made Available to June 30	Required Availability to June 30 Under Protocol	To Be Made Available in July
38 Steel Alloy Tubes (tons)	467	0	37	1,805	1,800	104
39 Stainless Steel Wire (tons)	0	0	0	15	180	25
40 Nickel Chrome Wire (tons)	199	114	8	215	180	140
41 Barbed Wire (tons)	35,988	17,509	5,511	37,444	36,000	1,644
42A Toluol (tons)	15,226	2,885	0	27,870	18,000	1,814
42B T.N.T. (tons)	10,419	3,023	1,045	14,140	10,000	1,814
44 Phenol (tons)	3,581	1,601	724	5,317	4,900	280
45 Petroleum Products (tons)	184,872	118,411	5,688	184,872	180,000	-
46 Ethylene Glycol (tons)	1,019	456	170	1,019	1,080	-
47 Sodium Bromide (tons)	599	289	124	973	900	74
48 Phosphorus (tons)	1,329	737	266	1,500	900	163
49 Dibutyl Phthalate (tons)	1,842	192	15	2,829	2,200	272
50 Dimethylaniline (tons)	634	126	290	1,219	1,200	227
51 Diphenylamine (tons)	695	341	26	876	900	272
52 Colloxylin (dry wt. tons)	2,494	907	230	2,745	2,700	212
53 Machine Tools (pieces)	3,134	1,392	372	3,652	-	-
54 Electric Furnaces (pieces)	131	41	4	-	140	-
55 Forging & Press Equip.(pieces)	159	66	19	-	627	-
56 Misc. Ind. Equip. ($1,000)	7,784	3,814	813	7,784	-	3,737
58 Abrasives ($1,000)	2,238	721	241	2,238	2,700	331
59 Graphite Electrodes (tons)	1,926	582	45	2,722	3,600	573
60 Graphite Crucibles (tons)	679	312	77	679	-	-
64 Sole Leather (tons)	10,681	3,838	1,761	12,622	13,500	2,524
66 Army Boots (1,000 prs.)	1,582	829	122	1,811	1,600	400
67 Army Cloth (1,000 yds)	1,656	993	160	1,823	1,000	97
68A Wheat (tons)	27,355	26,829	0	27,355	0	-
68B Wheat Flour (tons)	55,421	39,612	499	55,421	0	-
69 Sugar (tons)	77,030	40,338	8,125	77,030	0	-
71 Navy Items:						
Arming of U.S.S.R. Merchant Ships	14	-	-	14	13	-
Armament for Ice-Breakers	4	-	-	4	3	-
Diesel Engines for Minesweepers	0	0	0	0	60	6
Diesel Engines for Small Boats	26	0	0	29	40	11
Engines for Torpedo Boats	280	76	0	280	50	10
Diesel Generators	0	0	0	0	150	62
72 Medical Items ($1,000)	3,163	1,749	329	5,993	0	-

Note: One vessel reported as arriving in a U.S.S.R. port in May was sunk before going on berth for discharge in early June. Its cargo is now considered a loss.

All tonnage data shown in this report are in metric tons.

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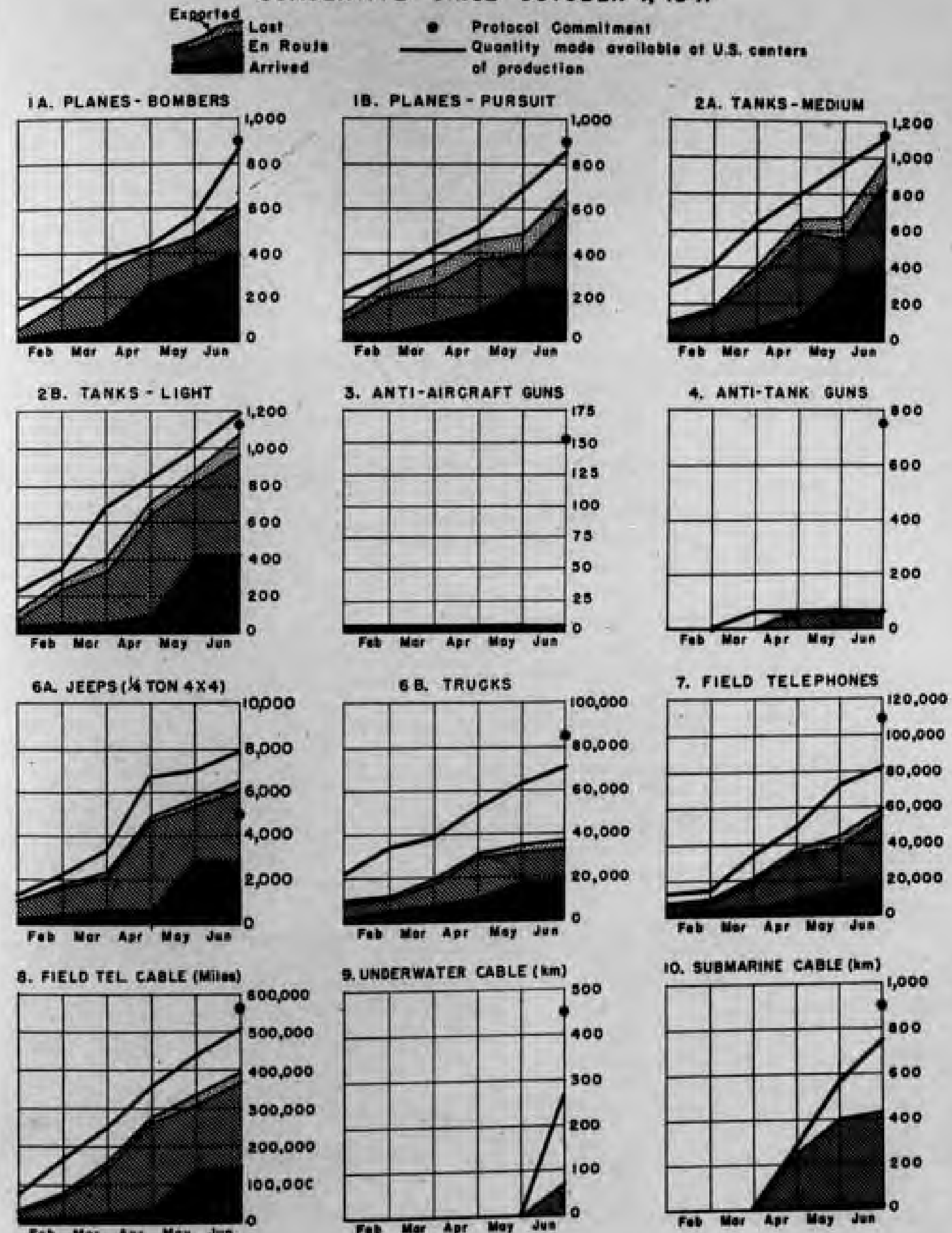
SHEET I

EXPORTS AND AVAILABILITY OF MATERIAL UNDER THE MOSCOW PROTOCOL

CUMULATIVE SINCE OCTOBER 1, 1941

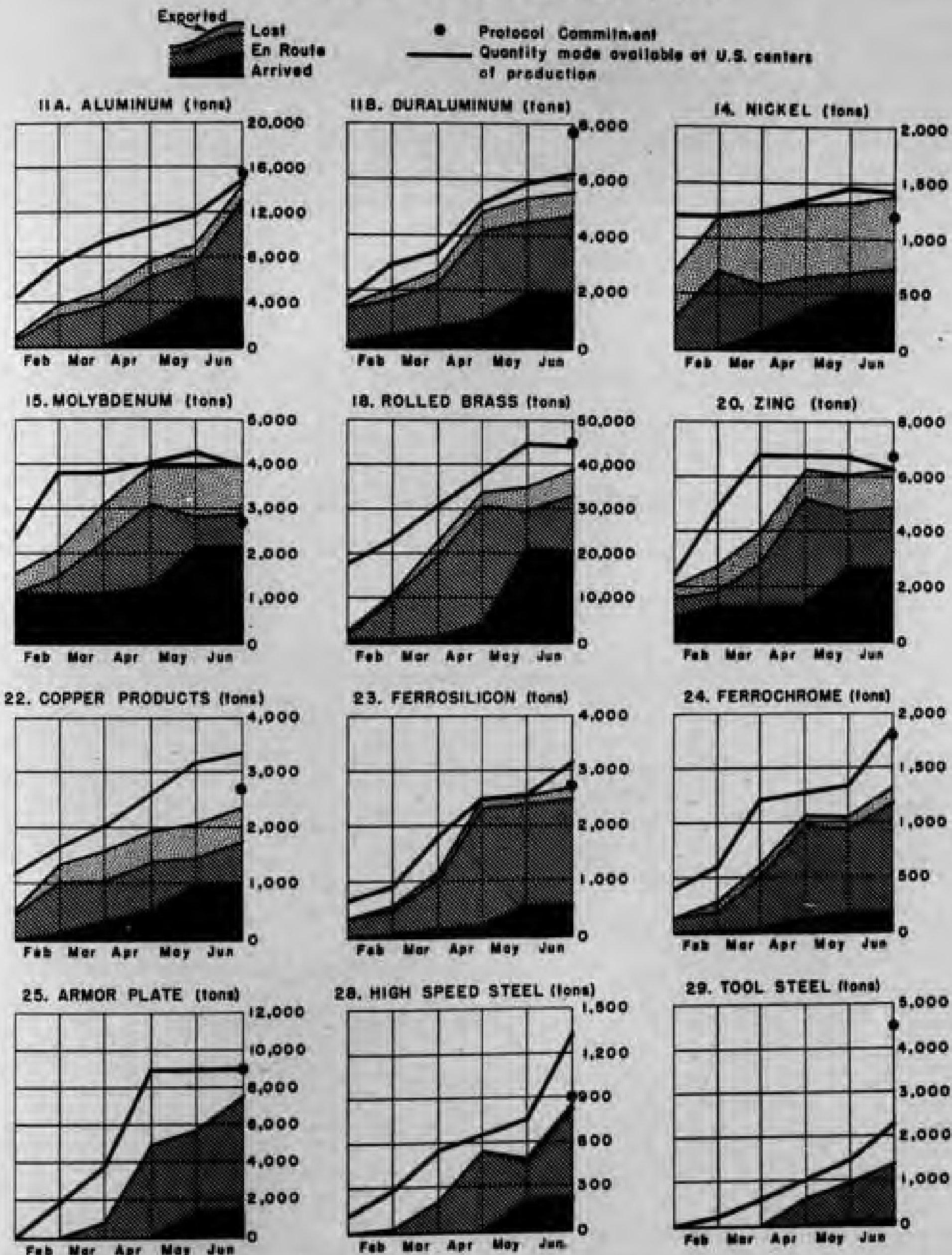


Office of Lend-Lease Administration - July 16, 1942

SECRET
SHEET 2

EXPORTS AND AVAILABILITY OF MATERIAL UNDER THE MOSCOW PROTOCOL

CUMULATIVE SINCE OCTOBER 1, 1941



Office of Lend-Lease Administration— July 16, 1942

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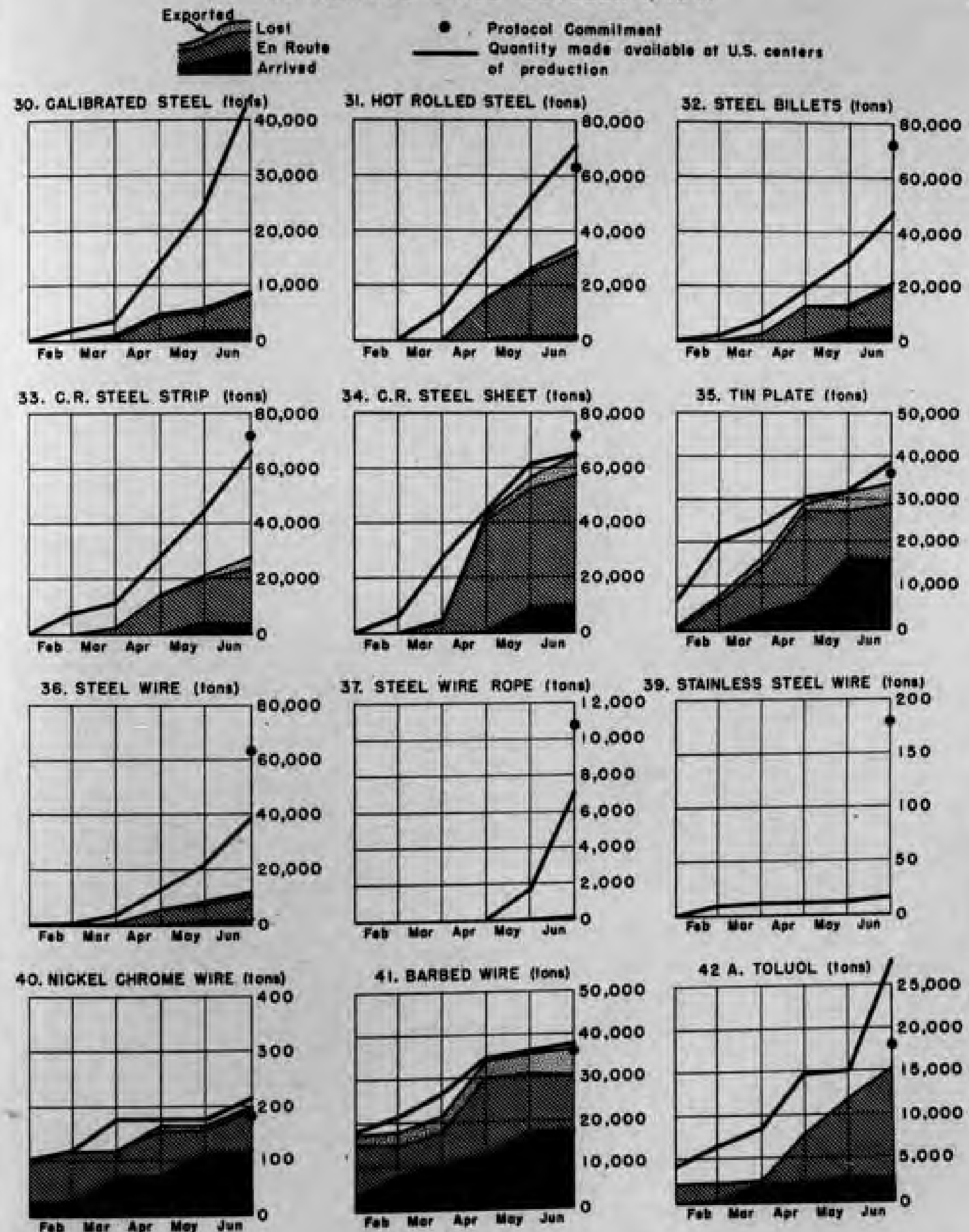
SHEET 3

EXPORTS AND AVAILABILITY OF MATERIAL UNDER THE MOSCOW PROTOCOL

CUMULATIVE SINCE OCTOBER 1, 1941

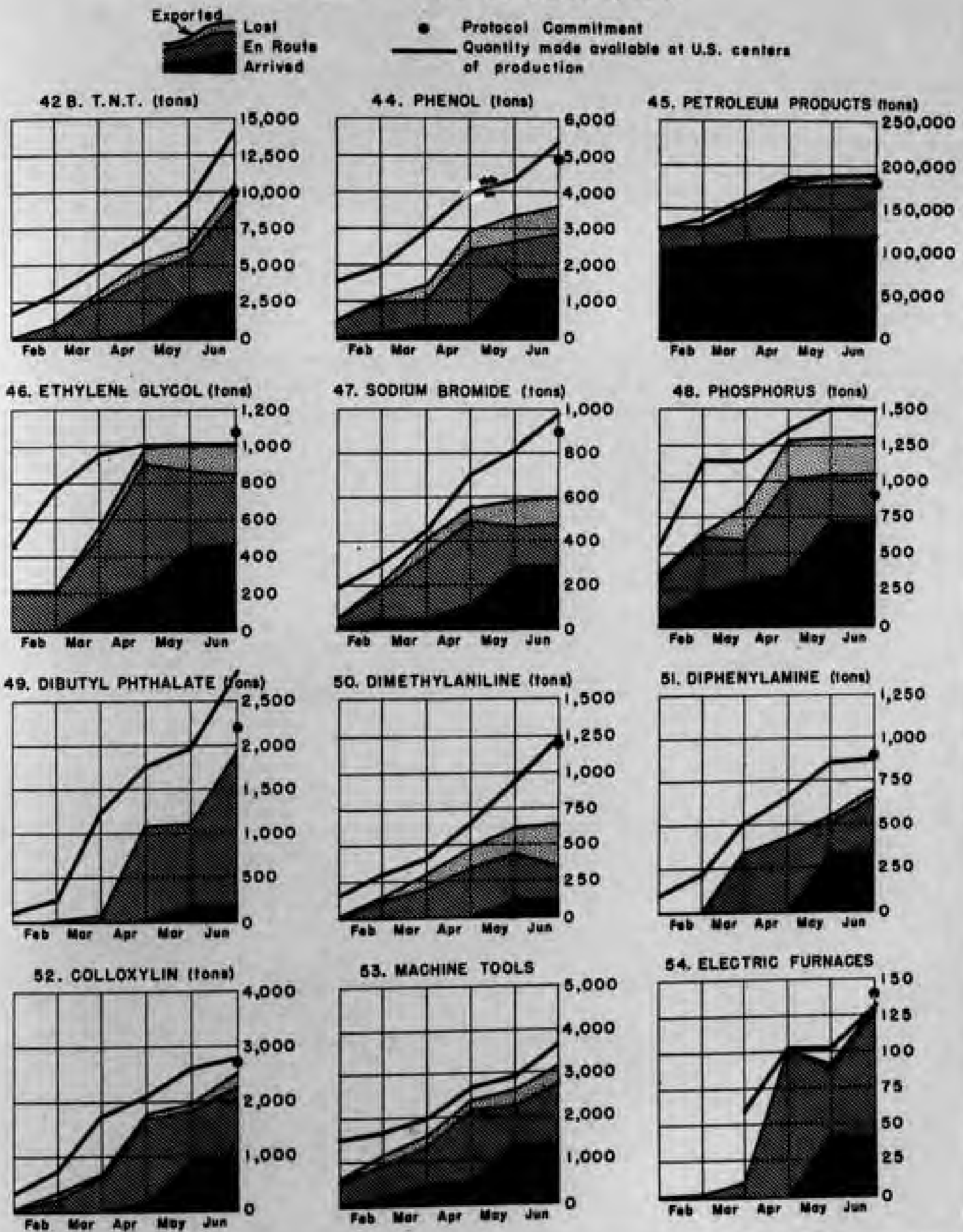


Office of Lend-Lease Administration – July 16, 1942

SECRET
SHEET 4

EXPORTS AND AVAILABILITY OF MATERIAL UNDER THE MOSCOW PROTOCOL

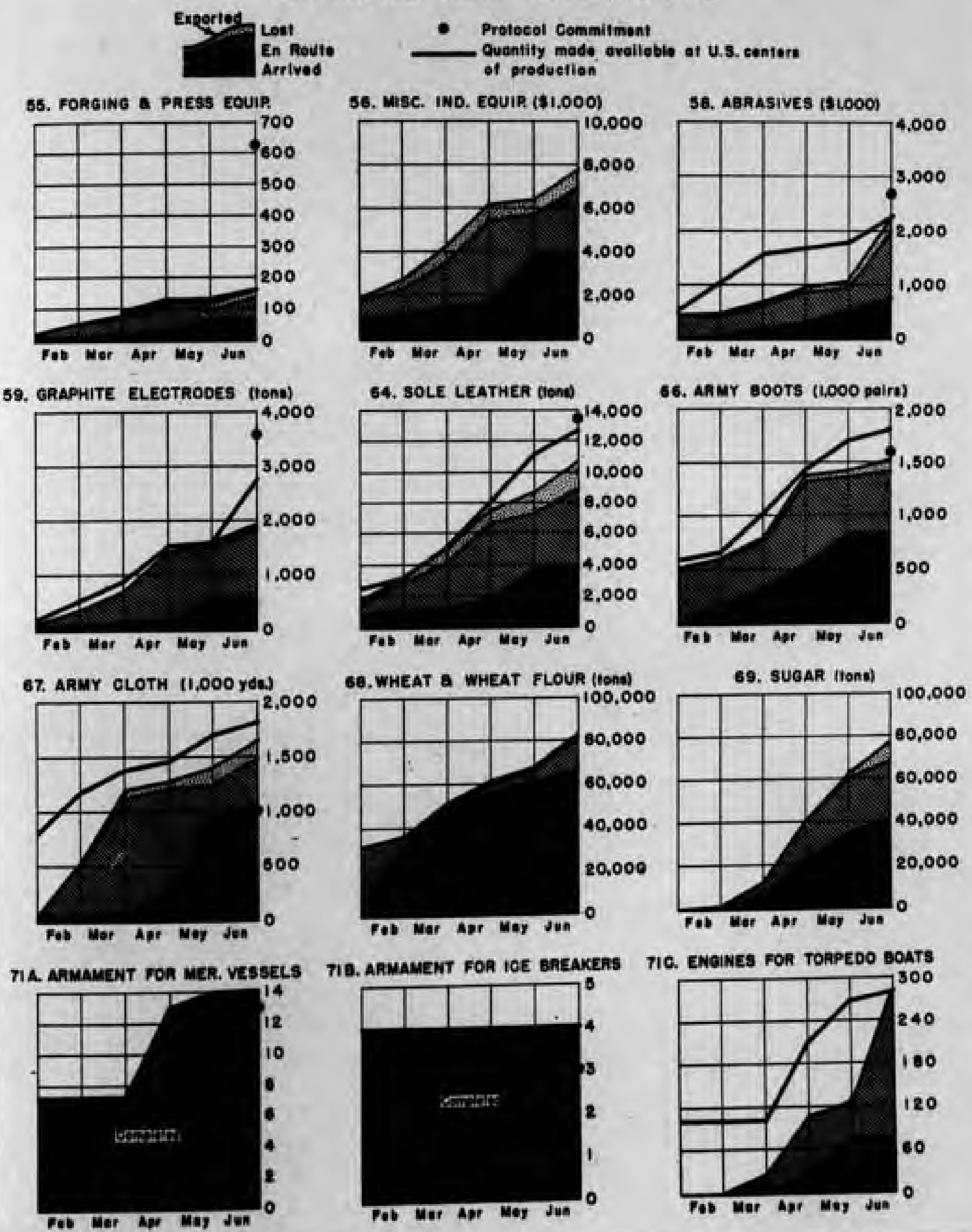
CUMULATIVE SINCE OCTOBER 1, 1941



Office of Lend-Lease Administration – July 16, 1942

EXPORTS AND AVAILABILITY OF MATERIAL UNDER THE MOSCOW PROTOCOL

CUMULATIVE SINCE OCTOBER 1, 1942



Office of Lend-Lease Administration – July 16, 1942

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STATEMENT OF RUSSIAN SHIPPING
As of June 30, 1942

Month	Number of Ships Sailing					Arrived	En Route as of June 30	Cargo Disch. En Route	Lost
	For North Russia	For Persian Gulf	For Soviet Arctic	For Soviet Far East	Total				
October 1941	10			5	15	14			1
November	9	1		3	13	12			1
December	14	7		4	25	22	1		2
January 1942	20			4	24	19	1		4
February	13	2		3	18	14	1		3
March	31	6		6	43	26	4	7	6
April	62	6		10	78	27	41	8	2
May	15	10		7	32	7	18	4	3
June	9	11	6	10	36		35		1
Total Oct. 1-June 30	183	43	6	52	284	141	101	19	23

Of the 284 ships which sailed from October 1 to June 30, 78 were Russian (57 from the West Coast and 21 from the East Coast), 14 were British, 1 Swedish, and 191 American. In addition to the 284 sailings, there were 27 ships carrying cargoes primarily for other countries which carried partial cargoes for Russia. The 284 sailings were made by 256 ships, 25 ships having sailed twice and 3 three times. The 23 vessels listed above as lost were sunk while carrying full cargoes to the U.S.S.R. In addition 3 ships were lost on their return voyages.

As noted above, 19 ships have been discharged en route, with portions of their cargoes forwarded in other vessels, portions restowed in a smaller number of American vessels, and the remainder placed in storage for forwarding in the future.

According to an agreement with U.S.S.R. representatives, 18 ships allocated for the month of June will carry cargoes applicable to the protocol of October 1, 1941. These vessels which were available as of June 30 but have not yet sailed are summarized as follows: for North Russia, 6; for Persian Gulf, 4; and for Soviet Arctic, 8.

During the protocol period 57 Soviet vessels sailed 78 times from U.S. ports. Repairs and services furnished these ships since November 7, 1941 have been provided under the Lend-Lease Act at a cost exceeding $13,300,000. In addition, more than $71,297,000 has been expended for the rental of U.S. merchant vessels and the ferrying of aircraft.

Repair of vessels has often been of major character and included installation of engines, conversion of a vessel into a troopship, and extensive work in preparing vessels for Arctic voyages. In many instances Soviet vessels have been armed and degaussed to an extent exceeding the requirements of the protocol.

SECRET

EXPORTS OF NON-PROTOCOL ITEMS TO THE U.S.S.R.
October 1, 1941 to June 30, 1942

Item	Quantity	Value
Military Items: (number)		
Observation Planes O-52	30	$ 1,359,949
Pneumatic Floats	1,065	756,931
Tractors	150	1,556,196
Motorcycles	1,500	669,780
Sub-Machine Guns .45 cal.	76,400	4,390,080
.81 mm Mortars	30	24,226
Smokeless Powder (tons)	987	1,015,347
Ammunition	-	38,184,747
Other Steel*: (metric tons)		
R.R. Rails and Equipment	37,745	2,464,459
Oil Well Drilling Equipment	31,617	4,479,427
Other Steel	7,198	1,551,194
Other Metals and Alloys	216	93,748
Foodstuffs: (metric tons)		
Canned Meat	36,666	28,551,695
Lard	30,254	9,827,819
Other Pork Products	8,409	4,221,515
Dried Eggs	8,011	18,019,629
Dried Beans	11,831	1,542,688
Cereals	5,305	1,228,783
Butter	1,480	1,145,352
Edible Linseed Oil	16,033	4,244,674
Other Foods	2,245	475,893
Chemicals:		
Metallic Sodium (metric tons)	1,002	291,460
Methanol (metric tons)	8,160	987,367
Ethyl Fluid (gallons)	287,370	1,422,063
Other Chemicals (metric tons)	3,010	919,866
Oils (metric tons)	1,406	423,388
Miscellaneous	-	9,943,164
Total	-	$139,791,440

* Steel not applicable to any particular Protocol category.

C
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DEPARTMENT OF STATE
WASHINGTON

July 20, 1942

In reply refer to
FD 124.90F5/2

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and with reference to telegram no. 8, dated May 6, noon, from the American Legation at Jidda, Saudi Arabia, concerning exchange problems of the Legation, a copy of which was forwarded to the Treasury May 13, 1942, encloses a copy of the Legation's despatch no. 6, dated May 6, 1942.

The Secretary of State's letter of May 13, 1942 transmitting the text of telegram no. 8 requested suggestions as to possible action to relieve the exchange problem presented by the Legation in that telegram. The Department's telegram no. 3 of May 9, 1942 informed the Legation that the Department was investigating possibilities in this regard.

Enclosure:

From Legation, Jidda,
no. 6, May 6, 1942.

COPY

No. 6

Jidda, May 6, 1942.

Subject: Conversion of Dollar Drafts into Saudi Rials

The Honorable

The Secretary of State,

Washington.

Sir:

I have the honor to refer to the Legation's telegram No. 8 of May 6, 1942, 12:00 noon, and to give, for the information of the Department, fuller details of factors entering into the conversion of dollar drafts into Saudi Rials and other operations likely to be reported in the Legation's accounts.

The unit of local currency is the Saudi Rial, which has the silver content of an Indian rupee of a former coinage, and which is officially equal in value to the present rupee. About 3.7 Saudi Rials are the equivalent of one dollar.

There is also a base metal coinage of piasters, half-piasters, quarter-piasters, and paras. In Jidda one Saudi Rial has the uniform value of 22 piasters. In Riyadh, the relationship is fairly uniform at 21 piasters to the rial. Elsewhere the relative values may be different. It is believed that 40 piasters are equal to one piaster throughout Saudi Arabia, but since the purchasing power of the para is infinitesimal, this ratio is no important.

Three kinds of currency are in circulation in Jidda: Saudi coinage, Egyptian currency and gold. There is no fixed relationship between the three.

Dollars are not easily salable, and practically the sole purchaser is the Nederlandsche Handel-Maatschappij, N.V., a Netherlands trading firm which conducts a banking business. The Nederlandsche Handel-Maatschappij, however, does not handle rials, and to convert a dollar draft into rials, it is necessary to sell the draft to the bankers for gold sovereigns, paying about $14.00 per sovereign, and to use the gold for the subsequent purchase of rials from money-changers in the bazaar. Since the gold value of the sovereign is only about eight dollars and twenty-three cents, the Legation's expenses are greatly increased by the necessity of purchasing gold at speculative prices as one step in the acquisition of local currency.

The personal expense of members of the Legation staff is correspondingly increased.

If the Department can find a way to supply the Legation with gold sovereigns with which to pay its expenses, a saving of some 45% in the allotments for rent and contingent expenses will be effected.

It may be well to note, in this connection, that bazaar money-changers discount sovereigns which do not bear the effigy of King George V.

Respectfully yours,

James S. Moose, jr.,
Charge d'affaires ad interim.

To the Department in triplicate
124.4/125.5/851.51

Copy:bj:7-20-42

C
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Y

PARAPHRASE OF TELEGRAM RECEIVED

FROM: AMEMBASSY, Chungking

TO : Secretary of State, Washington

DATED: July 20, 1942, 1 p.m.

NUMBER: 855

CONFIDENTIAL

SECTION ONE:

The Inspector General of Customs, C. B. Joly, has informed me that a grave crisis in customs affairs is imminent which results from the decision of the government to apply the treasury law to the customs. He states that apart from removing loan funds from the control of the Inspector General, the proposed measure will undermine the inspectorate system and disrupt the service as, under the law, each customs district is treated as a financial entity which will deprive the commissioner and the inspectorate of the (?) and adaptability essential to successful administration of a modern civil service on national line. Inspectorate would have no control over (*) in each port; expansion and retrenchment according to trade requirements would be completely localized; staff remuneration and transfers would be subject to local conditions; and the raison d'etre of the inspectorate would disappear.

It has been stated by the Minister of Finance that he

has

has no authority to postpone the application of a law to the customs although already there has been a continual postponement in this respect for several years. The Inspector General says that it has not been possible to arrange for application of the law in a form which will not completely undermine inspectorate system. Note continuing efforts to that end but it is expected if he is not successful he will be obliged to point out that there is no room for inspectorate, that administration of service should be placed under direct control of the Ministry of Finance and he and other foreign officers should be paid off as it would be useless to attempt to operate under the law as the servicd would break down and then scapegoats would be made of the foreign officers.

SECTION TWO:

No request for our intervention in the matter has been made by the Inspector General. However he says that he believes that we and the British Embassy should know the situation. Because it possesses no reference library in Chungking, this Embassy is unable to study the matter in the light of any treaty or other stipulations but I do not believe that the existence of any such stipulations would deter the Chinese Government at this time from pursuing

whatever

whatever course it wishes. Advice or representation from the American or other governments on such things will likely be well received.

The Treasury law contemplates modern fiscal arrangements along lines of those in well organised government administrations but in present state of China's administrative organization and development it will, if applied to the customs, disrupt that service which is the one outstandingly efficient organization of the government and which is reasonably free from politics. The customs service through its control of the customs revenues has been able to offer security for loans and indemnities and thus has established on a sound basis the international and domestic credit of the Republic of China.

GAUSS

Copy:bj:7-24-42

HRL

PLAIN

Chungking

Dated July 20, 1942

Rec'd 1:07 p.m.

Secretary of State,

Washington.

856, twentieth

FOLLOWING FOR SECRETARY OF TREASURY FROM ADLER

"IF - 51. The Board on the eighteenth received a letter dated the seventeenth from Dr. Kung of which the following is a certified translation.

'In view of the passing away of the American member of your Board Mr. A. Manuel Fox and in view of the fact that the alternate member Mr. William H. Taylor is unable to carry out his duties for a certain reason I hereby appoint Mr. Solomon Adler to fill temporarily in acting capacity the vacancy in the membership of the Board. You are hereby notified of this appointment and requested to communicate the appointment to Mr. Adler and acknowledge receipt of this message.'"

GAUSS

RR

JG
This telegram must be paraphrased before being communicated to anyone other than a Governmental agency. (BR)

Jerusalem

Dated July 20, 1942

Rec'd 9:45 p.m.

Secretary of State,

Washington.

URGENT

86, July 20, 3 p.m.

With arrival of Army Air Corps in Palestine the question has arisen concerning method of handling notes and drafts for local funds for these forces and Controller of Foreign Exchange has asked whether this Consulate General has received instructions concerning the procedure to be followed. He refers to arrangements with Barclay's Bank in Egypt. Official army drafts have already been presented and Barclay's in Palestine have been instructed to accept such drafts pending receipt of instructions by this Consulate General. Request instructions urgently.

PINKERTON

KLP

Message gummed at 12:50 a.m. 21st

July 20, 1942

Mr. Livesey
Mr. D. W. Bell

Referring to telephone conversation, will you please send the following cable to the American Legation, Monrovia, Liberia.

"From Treasury:

(1) In order to facilitate the negotiation of checks drawn on the Treasurer of the United States the following procedure is suggested.

(2) All U. S. dollar checks drawn on the Treasurer of the United States negotiated by the Bank of Monrovia, Inc. are to be delivered to the American Legation, Monrovia, accompanied by list in triplicate with complete description each check as follows: Name of drawer; symbol number; check number; amount; payee's name; date of check.

Legation will carefully verify checks against list and advise Treasury by wire through State Department aggregate amount of checks delivered by bank. Upon receipt of this advice Treasury will effect credit in corresponding amount to account of Bank of Monrovia with the National City Bank of New York.

Legation should instruct Bank of Monrovia to use all possible diligence in identification of payee and determining validity of endorsements. The Bank of Monrovia should endorse checks as follows: Quote Pay to the order of the Treasurer of the United States for credit of our account with the National City Bank of New York. Signed Bank of Monrovia. Liberian Treasury will look to bank only for usual guaranty under laws applicable in Liberia.

Legation should forward checks accompanied by one copy of list to Treasurer of United States, Washington, as promptly as possible by safest means available. Second copy of list should follow by separate carrier at earliest possible date. Third copy should be retained by Legation.

(3) Legation should make no arrangements for insurance as shipments will be covered by Government Losses in Shipment Act.

(4) The Bank of Monrovia, Monrovia, is hereby designated a depositary of public moneys of the United States in order to carry out the procedure outlined in this telegram.

(5) Please advise Bank of Monrovia and U. S. Government officials appropriate parts hereof.

(6) To minimize number of checks drawn on Treasurer of United States, suggest you advise disbursing officers that they should cable through their respective departments their local currency requirements. Arrangements will then be made to advance dollar credits to Bank of Monrovia."

The Department approves the foregoing. Any expense incurred in carrying out the instructions contained in this telegram should be included in regular accounts as separate item for billing Treasury in accordance Sec. V-43, Foreign Service Regulations.

[illegible]

COPY NO. 13

BRITISH MOST SECRET
U.S. SECRET

OPTEL No. 247

Information received up to 7 A.M., 20th July, 1942.

1. MILITARY

EGYPT. There has been no significant change in the situation. On the 18th Indian troops advanced along the RUWEISAT RIDGE and later repelled an enemy counter attack of infantry and tanks further north, the Australians gained some local successes. Total prisoners through our cages since morning of 14th, 4,269. It is now confirmed that on the 16th 23 German tanks, 2 88 MM. guns, 17 47 MM., 35 Italian 75 MM., 2 81 MM Mortars and 5 German 75 MM guns were definitely destroyed by the R.A.F.

2. AIR OPERATIONS

WESTERN FRONT. 19th. 20 Bostons with fighter cover, were sent to attack power stations in NORTHERN FRANCE. Bombs were dropped from a low altitude on 4 of them and in each case essential buildings were hit and set on fire. 2 of these bombers are missing and also 2 others sent to objectives in GERMANY. 1 F.W. 190 was destroyed.(?)Our bombers escorted by Spitfires hit a 1,000 ton armed merchant vessel off GUERNSEY. 1 Spitfire is missing, pilot safe.

19th to 20th. 124 aircraft were sent out - VEGESACK Naval Shipyards 99, sea-mining 19, intruders 6. 4 aircraft are missing. Preliminary reports indicate that visibility over VEGESACK was bad, but most of the aircraft attacked. Apart from fires seen through heavy clouds results were unobserved.

EGYPT. 18th. Operations restricted by sandstorms.