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War Savings Bonds

See Financing, Government

White House

See Financing, Government: War Savings Bonds

September 17, 1942
9:05 a.m.

WAR FINANCING

Present: Mr. Bell
Mr. White
Mr. Gaston
Mr. Paul
Mr. Blough
Mr. Haas
Mr. Kuhn
Mr. Stewart
Mr. Friedman
Mr. Shoup
Mr. Shere
Mr. Tickton
Mr. Murphy
Mr. Warren
Mr. Lindow

H.M.JR: Where is Viner?

MR. KUHN: He went back.

H.M.JR: Did Viner go back?

MR. KUHN: I think so.

H.M.JR: Well, Dan, where are we?

MR. BELL: I don't know. I understood yesterday each one of the economic groups was going to prepare a memorandum on the subject and present it to you this morning and get directions as to where we go from there.

H.M.JR: I see.

MR. BELL: They thought they might agree upon, maybe, the first page, and that would be the same for all groups; but from there on, they might take a different approach. Is that what has been done, Roy?

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MR. BLOUGH: Time did not permit getting together even on the first page. I do not think, though, that the figures need concern us. The magnitudes of the figures are so great in any event that a few billion dollars here and there can be easily compromised.

H.M.JR: Just before we get started, Dan, Mr. Forrestal was at the house with Admiral Blandy last night, and it seemed that they had a meeting yesterday of the Manpower Commission, at which, I think he said, a Mr. Hanson in the Army presented a very excellent set of figures on what the Army would need and what it would leave the civilians, based on a ten-million-man Army - working it out very, very carefully. He said he had never seen or heard of the man before. He thought he was from the General Staff. He said it was worked out in great detail and very well presented; so you might get it.

MR. BELL: I will get that.

H.M.JR: It would be very useful.

Well, don't all fall over yourselves. Everybody has got a memorandum? We will start left to right. Read yours out loud, Roy, in your melodious voice. (Laughter) I take it nobody has seen it.

MR. BLOUGH: Just now I passed it around.

H.M.JR: Suppose you read it. I hope Mr. Horowitz didn't disturb you.

MR. BLOUGH: He had a very interesting idea. He said that in his opinion what we should do would be to - that we should give the American people the patriotic incentive of a bargain. Those were his words.

(Mr. Gaston entered the conference.)

H.M.JR: Formerly chairman of Thompson and Starrett Construction Company.

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MR. WHITE: What did he recommend?

MR. BLOUGH: He had a plan to use war bonds to cut down income taxes, but his main argument was that through his program he would give the American public the patriotic incentive of getting a bargain.

MR. WHITE: Give them high interest rates?

H.M.JR: No, low.

MR. BLOUGH: The actual interest rates would be low, but they would be getting a bargain and he said that he thought that the best advantage of his plan was that it gave the American people the patriotic incentive of having a bargain.

H.M.JR: Go ahead, Roy.

MR. BLOUGH: I will act as the mouthpiece, but we all four worked on this.

H.M.JR: What four?

MR. BLOUGH: Shoup, Friedman, Shere, and myself.

H.M.JR: Just in the room here, Admiral Blandy - this is in the room - he is Chief of Ordnance for the Navy, just back from this inspection trip - he figures from six to ten years - that is what he is figuring, from six to ten years. He said if he had to name a year he would say '49.

MR. BLOUGH: We are optimistic here.

H.M.JR: He said six to ten years, and he said he has been saying that for two years. He is making all his estimates on that basis, and he impressed me--

MR. WHITE: Six to ten years from now, or a six-to-ten-year war?

H.M.JR: Six to ten years from now. I think that is what he meant.

MR. BELL: It would be seven years from the beginning because he said '49.

H.M.JR: And he impressed me as a very able officer. I mean he wasn't making a lot of claims for the Navy, and so forth and so on. He made this kind of a statement: "Up to now the ships of the Navy haven't done anything; it has all been air." He was not making a lot of - anyway, I just thought I would throw that in for whatever it is worth.

MR. BELL: You (Blough) will have to revise your figures.

H.M.JR: As I say, he is Chief of Ordnance and impressed me as a very able officer - young.

Another thing that Forrestal said - I wish you would get his figures - he is way low on what he thinks will be spent for armaments this year, way under anything that I have heard.

MR. BELL: Way under?

H.M.JR: Yes. I think it is under sixty - about fifty-five. You might ask him where he gets it. Will you?

MR. BELL: Forrestal told you?

H.M.JR: Forrestal. I mean his figures for this year - he did not think that they could spend for armaments, as I remember - they shot a lot of stuff at me - it was around fifty-six billion.

MR. WHITE: This calendar year?

H.M.JR: Fiscal year.

MR. HAAS: He may be talking about a different thing - just the hard items.

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MR. BELL: You have to add to that the personnel and all of that, which makes your sixty-seven. I will talk with him.

H.M.JR: Check with him. I pick up these things and I want to pass them on.

(Mr. Blough read memorandum entitled "The Problem of Financing the War", dated September 17, 1942.)

MR. BLOUGH: The amounts involved will eventually have to be worked out, but the time was too short to try to do that.

H.M.JR: Well, I think it is an excellent paper and I think, in order to save time - not necessarily to save time, but I would like to get each paper before we get into a discussion. I would like to compliment the four of you. It is an excellent paper.

Now, White.

MR. WHITE: Would you mind going to Mr. Haas, Mr. Secretary. There are a couple of pages they are finishing typing.

(Mr. Murphy read memorandum entitled "War Financing and Inflation", dated September 17, 1942.)

MR. MURPHY: The estimates just given are doubtless subject to errors.

H.M.JR: Dan, I know that General Marshall has a very small group that does his own estimating. He does not rely on Stacy May or anybody else. Now, I do not know whether that group is part of the combined Chiefs of Staffs or the General Staff or the War College, but I think you ought to make contacts through General Marshall's office and find out who is doing his estimating.

MR. BELL: All right.

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H.M.JR: If you have any trouble I will call the General myself, but I know that there is a group. I don't know whether it is Combined Chiefs of Staffs, War College, or the General Staff, but there is this group that does his estimating; and, certainly, if we asked him to give us his estimates as far ahead as they can see - I think we ought to have that.

MR. BELL: General Ayers did that for a while but he used our figures. I do not know what has happened since he left.

H.M.JR: General Marshall does not rely on General Ayers, as I understand it. A couple of hints have dropped.

MR. BELL: He is gone. He retired, and he left on June 30.

H.M.JR: Who is--

MR. BELL: We do not know who took his place.

H.M.JR: I would like to know who General Marshall relies on, and then whoever he relies on I would like to get those rather than - I mean, I am not saying that Stacy May is not all right, but I have got good reason to know that Nelson does not know. If he does not know, how should Stacy May know?

Well, I say about this, too, it is a very good paper.

Now, so far there is one thing which I haven't gotten at all - I do not know whether White has it or not - and that I am missing, is, on the assumption that this goes to a four or five hundred billion dollar debt, no one has given me anything from the standpoint of, can the banks take it. I mean, that is the big - if we continued on the same basis, I mean, what will this do to the banking system?

MR. HAAS: We have a whole table up on that.

MR. WHITE: I have not commented on that. I am sure we could include a paragraph. I suspect, speaking for myself, and probably for the others, the reason they didn't is because there is no doubt in our minds that that is a simple problem. But we can easily devote a paragraph to it.

H.M.JR: From my standpoint it is not at all a simple problem. I am very much worried about that aspect of it, and I am just - I want to throw it out to this group - I mean, what does this do to the banking system?

MR. HAAS: Shields has made up a whole analysis of it that runs for five years.

H.M.JR: Fine. So far that is a blind spot in both of these reports as far as what I am groping for.

MR. WHITE: It will continue to be after mine.

H.M.JR: All right. Well, I just wanted to make that one comment. They are both very good papers. You say that still will be so?

MR. WHITE: It still will be so, but I think that we very easily can add either a paragraph, a page, or a section, depending on who writes it, which will be directed to that point; that if there is some question in your mind, there is bound to be a question in other persons' minds conversant with the problem. Therefore it needs attention.

H.M.JR: You say Shields has done a job on that?

MR. HAAS: Yes. He has taken certain assumptions and projected out for five years what would happen to bank deposits and reserves and the whole business.

H.M.JR: That is what I want.

MR. HAAS: We can bring that in now.

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H.M.JR: Wait until we are through. That is just exactly what I want. Have you done anything on that, Warren?

MR. WARREN: I have done a little.

H.M.JR: Have you seen Shields' report?

MR. WARREN: Yes, I know that very well. It is an excellent statement.

H.M.JR: Is Shields in town today?

MR. HAAS: He was yesterday, but he is not here today.

H.M.JR: Go ahead, Harry.

MR. WHITE: I might say in preface that much of the same ground was covered so it is bound to be boring. I would like to add this, however, that after having listened to two of what I would regard as very excellent papers, that there is a large area of agreement in the three papers, but that there is some area of disagreement which is not wholly apparent on the surface and yet which, in my opinion, represents some very fundamental considerations. But I think that they are subtle in the sense that they need discussion to bring out the differences, and the importance of bringing out the difference is that I think it would modify the conclusions, depending upon which of the sides you agreed with. So I presume that there will be ample time, still, in the next month or two, to discuss those differences and bring them out.

H.M.JR: A month or two?

MR. WHITE: Or two days - whichever you wish to advocate.

H.M.JR: Will it take that long to wear me down?
(Laughter)

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MR. WHITE: I am stuck if I say no--

MR. BELL: You were hoping you would get two months.

MR. WHITE: That is one of these "stop beating your wife" questions. (Laughter)

H.M.JR: Or are you directing it to some other people in the room? (Laughter)

(Mr. White read paper entitled, "Draft of a Suggested Fiscal Program.")

H.M.JR: Harry, let me interrupt. Again from the conversation last night, I think that all the figures that we received - and this is what I think should be explored - as to what is going to be left for the consumers - are much higher than what the Army and Navy have in mind. Forrestal made the statement - he said something about that if this thing went ahead and the Army and Navy got what they needed it would allow two pairs of shoes for a man over a period of five years, and one overcoat in five years, and that is all.

Now, therefore, again I think we ought to find out just what they have in mind because anything on that kind of a basis is so different from everything that we are using that I think we ought to get a fresh view and, as I say, the Combined Chiefs of Staff is where I would go to get it. If there is anything like that which would just - if that is correct it would simply aggravate the situation that much more.

MR. WHITE: In the meeting in Dan's office we all agreed that there would have to be a good deal of work in checking through in all the departments to get the best figure and use one figure; but we did not have time for it. We used figures we customarily used since we figured it did not alter the conclusions.

H.M.JR: It would only aggravate it, but I think we ought to get our figures from the Combined Chiefs of Staffs - I mean ours, and the United Nations.

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(The following interpolation made at Page two, Paragraph four.)

MR. WHITE: The only reason I am introducing it is that, speaking personally, I am not sold on the idea yet that it is impractical, so I am paying my parting respects to it. In other words, I don't believe that we ought to throw it out now.

(The following interpolation made at Page three, Paragraph five.)

MR. WHITE: One other thing I would like to add - I think it is par excellence - a method which can continue control of inflation after the war. In other words, you abandon that control only when the danger of inflation diminishes, whether it is the day war ends or three years later, so that you meet the very major problem, namely, that the type of financing that you have to enter into will inevitably give the basis for inflation unless something is done. And this, in my opinion, would provide the essential controls over that. For these reasons, expenditure rationing is our first choice.

(The following interpolation made at Page four, Paragraph seven.)

This could not be true of the expenditure rationing for reasons which we will be glad to go into, but we do not need to here.

(The following interpolation made at Page six, Paragraph five.)

Parenthetically I might say that is not even a problem. I think the solution of that problem I am indicating is easily within our grasp.

MR. PAUL: Marriner Eccles to the contrary, notwithstanding.

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H.M.JR: This is also a good paper. What I would like to suggest is this, and again, I wrote one thing here, Dan, and I will give you this. How much from the General Staff - how much can we expect that the United Nations will contribute towards the paying and feeding of our armed forces overseas? What will that amount to? Would you ask - I mean on this so-called Lend-Lease in Reverse - how much we can expect that they will contribute towards our expenditures.

MR. BELL: Yes.

H.M.JR: And I think, also, in these estimates, looking forward we also have to take into account - I would think that the Lend-Lease operations would steadily increase rather than decrease. I mean, I think we ought to take into account, for instance, how long can England and Russia and Canada keep up the pace that they are keeping.

MR. BELL: I assume that that would be included in their figures. I should think it would be.

H.M.JR: Well, I do not know. This is what I would like to do. I am going to adjourn in a few minutes. I would like to meet again at twelve o'clock. I think if you people have time I would like to have you get together on the basic figures of how much is going to be spent - I mean these figures will have to be constantly adjusted - let's get the basic figures, how much is going to be spent, how much is going to be left for consumers, how much is there to mop up. Then get together as to how much can be done through taxation, how much should be done through forced loans, how much through the voluntary plan, and through the banks.

I do not want, today, to go into the kind of taxation. I mean, I do not want to go into the discussion - we can't at this stage, I mean whether it should be - I mean let's call it taxation. Also you can put in under the thing alternatives; it could be alternatives, taxes on expenditures, or rationing plan - leave those alternatives at this stage. I do not want to get into the merits of those.

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But we could possibly, between now and twelve, certainly, get our basis - I mean, always saying that the Chiefs of Staff will say that your figure for consumers goods is way high; that it has to be adjusted ten or fifteen billion dollars, and so forth; that your figures on what will go into the war are high or low. It will be up and down, but at least, between these three groups we can get - we could say consumers goods will be between such and such a range; the munitions will be between an upper and lower range. Then I would certainly like to go out five years.

When it comes to what we will do with the gap, you ought to be able to say that so much will be taxation; you have an upper and a lower limit; so much through volunteer lending, and so much through forced savings - using upper and lower limits. In that way, if, possibly, in two hours - if you can't, at least get together as closely as you can. Is it clear what I am saying?

MR. BELL: Yes, I think so.

H.M.JR: I mean, you don't, for instance, want to get into a discussion, today, of whether it should be rationing of money or a tax on expenditures. You can agree that the amount that has to be done is so much. Now, you can put under that - it can be done in any of three different ways, but I want to get upper and lower limits.

Then what I would like to start at twelve o'clock, George, is that I would like to have you - I would like to have it explained to me, plus the others, the work that Shields has done, the effect on the banks, you see.

But I think over night we have made real progress. It is just what I wanted, and each of you working individually, I think there is certain definite agreement. The only thing is that I would like to go out at least five years, and I think the way to accomplish that in each case is to have an upper and lower limit. Certainly among these staffs you can agree on that, and then we can check those with other agencies.

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Does anybody not understand? I do not say you can do this between now and twelve, but I would like to have you work on it because I want to keep working on it. Then at twelve o'clock I would like George to come in with Shields' figures.

Does anybody want to ask me any questions?

MR. WHITE: I would like to say something in the way of an alibi for myself. I do not know if the others feel the same way, that the turning out of a document of the kind that you asked for in the time allocated, obviously leaves much to be desired; and our feeling is that a memorandum of this kind is very preliminary, even setting forth the views that we have ourselves - I mean, without reconciling them with others. I wish this, that they be regarded as very tentative, because there are a lot of points we would like to develop and clarify.

H.M.JR: Everybody had - it is a good start. Now I want to narrow the thing down to certain premises - I want my premises, my foundation, built. In other words, I want a diagnosis and not prescriptions, at this stage. I do not want any prescriptions. I want the disease diagnosed, and then afterwards we can talk about remedies, and anybody - there are a lot of doctors in the room here and I expect to have a lot of remedies suggested. That is where we will take the months. But if you people could, because - if the staffs could spend the next couple of hours on that it would be very helpful, and I can proceed again at twelve.

MR. BLOUGH: May I suggest, Mr. Secretary, that I should think we ought to make very fine progress on the basic figures, but I think you should not expect such immediate progress on how much taxes and how much compulsory lending, and so on. That is a much harder task, and there is much more difference of opinion on that. So we can hardly have that by twelve o'clock.

MR. BELL: You could get ranges, taxes from--

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MR. BLOUGH: I am not sure. I hope we can, but I am not sure.

H.M.JR: Well, look, I am not - I realize that I am asking for a lot, but at least, as I say, I would like you people to concentrate on this from now until twelve and come back in an hour. Then we will keep hitting this thing, and if today and tomorrow we can at least get our foot on the first rung of the ladder, that is one step up, that is all. That is one step up. Do the best you can.

September 17, 1942

MEMORANDUM FOR THE SECRETARY

9 A.M.

From: Mr. Blough

The Problem of Financing the War

1. During the fiscal year 1942 the Federal Government borrowed \$22 billion from the public. It will have to borrow \$54 billion in the fiscal year 1943 if Congress enacts a revenue bill providing additional annual revenues of approximately \$7 billion. The annual borrowing would have to be \$70 billion in fiscal 1944 and subsequent years when the war effort reaches its peak unless taxes are raised still further. At this rate of borrowing, the debt held by the public (including the Federal Reserve Banks) would be \$260 billion by the end of fiscal 1945. The interest charge on this debt, at an average rate of 2 percent, would be over \$5 billion a year, and at 3 percent nearly \$8 billion.
2. Borrowing the amounts indicated in the previous paragraph would increase bank deposits and money in circulation to nearly \$190 billion by June 1945, as compared to \$53 billion on June 30, 1942. The extreme danger of wartime and post-war inflation from such a stock of money can scarcely be overemphasized.
3. During the calendar year 1943 there will be \$65 billion of consumers goods and services available for purchase. In the same year, income payments to consumers will be about \$122 billion. About \$15 billion of these income payments will be used to pay Federal, state and local personal taxes, leaving \$107 billion available for spending and saving. Since only \$65 billion of consumer goods and services will be available, the remaining \$42 billion of disposable income must be kept idle in one way or another if prices are not to rise,
4. Of this \$42 billion, a substantial part will stand idle in the form of voluntary savings. Under present circumstances these savings cannot be expected to exceed by much the annual rate of \$24 billion attained during the second quarter of calendar 1942. Indeed, the

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coming tax increases, and the small amount of consumer credit left on which further restrictions could be imposed, may lead to a somewhat lower level of saving. In any case, a large part of the \$42 billion will have to be immobilized by Government action.

5. Returning to the problem of financing the deficit, it appears that individuals will purchase about \$15 billion of government securities in calendar 1943. Another \$2 billion will be purchased by insurance companies. Corporations will be accumulating liquid reserves for depreciation, post-war reconversion, taxes, and other purposes of perhaps some \$8 to \$10 billion, of which some \$4 billion might be used for the purchase of government securities. This makes a total of \$21 billion of government securities that can be sold outside the banks in calendar 1943 under the existing system of taxation and price control.

6. When these figures are put on a fiscal year basis and are subtracted from the total deficit, they show that about \$36 billion would have to be borrowed from banks in 1943 and \$49 billion in each subsequent year. During the fiscal year 1942, the borrowing from banks was only \$7 billion.

7. During the fiscal year 1942, the measurable rise in retail prices was over 11 percent. The actual rise exceeded this because of substantial deterioration in the quality of goods and in the amount and quality of services. This rise in prices occurred despite the facts that government spending and borrowing were much smaller and supplies of consumers goods were much larger than they will be in subsequent years, and that stocks of durable and semi-durable goods in the hands of consumers were near an all-time high.

8. Prices will not remain stable, as assumed in the above estimates, unless additional action is taken; they will rise, perhaps explosively. Under such circumstances, consumers would draw on capital, as well as income, thus greatly increasing the pressure on prices. Price rises would force an increase in government expenditures and make the whole problem of immobilizing consumer purchasing power continually more serious in successive periods.

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9. In order to prevent price inflation, private spending must be reduced. War finance to be successful must accomplish this result without at the same time having undesirable effects on efficient prosecution of the war and on recovery after the war. It can do so best if major reliance is placed on taking away excess purchasing power. This method avoids the necessity of imposing extensive restrictions on what people may do with money that remains in their possession. To prevent spending during war time by rationing is possible, but it absorbs large amounts of scarce manpower and material. This drain on the community's resources could be largely avoided by using a spendings tax with highly progressive rates. But neither the spendings tax nor rationing would avoid the grave post-war danger of consumers' spending too freely out of the large stock of money they would have accumulated during the war. It will surely be impossible to maintain widespread rationing or a heavy spendings tax for more than a year or two after the war.

10. Of the three methods of taking away purchasing power -- taxes, compulsory lending, and voluntary lending -- the main reliance should be on taxes. Financing by taxes leaves no post-war problem of high tax rates to finance huge interest payments. It also averts the post-war pressure on prices when those who have been compelled to buy government bonds are able to cash them in and spend the proceeds. The taxes should withdraw purchasing power with the least hardship and inequitable effects on the distribution of income. If, in addition, the taxes can provide a positive discouragement to spending, so much the better.

11. Taxes cannot do the whole job. Very high tax rates may interfere with the incentive to work and produce during the war. Moreover, the immediate sacrifice in living standards may be so great for certain classes in the community that such sacrifices, although temporarily necessary, should not be permanent. Compulsory lending meets the latter problem and helps to some extent with the former. Moreover, taxes should not be raised too rapidly since the public must become psychologically adjusted to them. Compulsory lending can fill in while this adjustment is taking place.

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12. Taxes and compulsory lending have the common difficulty of being too uniform in their impact and not sufficiently adjustable to variations in individual situations. If they are not to fall with great hardship on some, they cannot fall on others as heavily as these could bear. Voluntary loans are therefore an important financing element in withdrawing purchasing power which would not be reached by taxes and compulsory loans.

13. For these reasons the following general fiscal program is recommended:

1. Much higher taxes than have yet been proposed, including a progressive spendings tax.

2. A program of compulsory lending, designed principally to avoid undue increase in the tax burden on lower income groups.

3. Continuation of an aggressive voluntary war bond program.

RB

BORROWING FROM BANKING SYSTEM

(Actual, fiscal 1942; Minimum, fiscal 1943, 1944, 1945, under prospective Revenue Act of 1942)

BORROWING
(billions
of dollars)

50

40

30

20

10

0

7

36

49

49

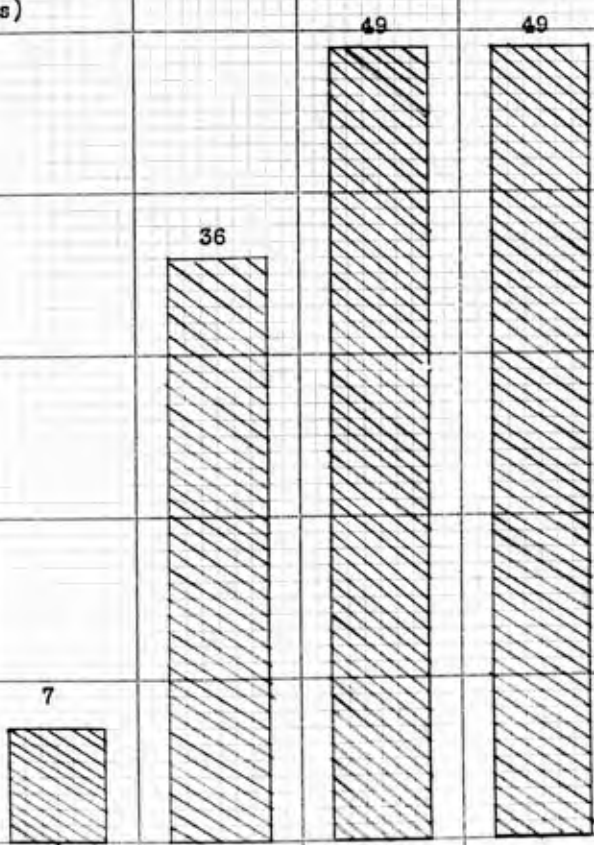
1942

1943

1944

1945

Fiscal year



STOCK OF MONEY

20
20

Demand Deposits (Adjusted) and Coin and Currency Outside Banks
(1929, 1933, 1942, actual; 1945, estimated, assuming prospective Revenue Act of 1942)

STOCK OF MONEY
(billions of dollars)

180

150

120

90

60

30

0

190

27

20

53

1929

1933

1942

1945

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

9 A.M.

DATE September 17,
1942.

TO Secretary Morgenthau
FROM Mr. Haas
Subject: War Finance and Inflation

SUMMARY

- (1) War expenditures may reach an ultimate annual level of about \$95 billions sometime in 1943. By this time the gross national product, out of which they will be paid, may amount to about \$170 billions.
- (2) The total supply of goods and services which will be available to the civilian population after war expenditures have reached their peak will be about the same as at the bottom of the depression in 1932. The problem of inflation arises from the fact that individuals will have record incomes, while the goods and services available for purchase will be at depression lows.
- (3) Inflation can conceivably be averted without any further increase in taxes. Such a solution of the problem of inflation control would result in a very high public debt and a bad post-war fiscal situation, however.
- (4) Among the measures suggested for the solution of the combined problems of war finance and inflation are the following:
 - (a) Comprehensive commodity rationing -- perhaps to be followed at a later date by expenditure rationing.
 - (b) Drastic increases in taxation, particularly in the lower income groups. A 10 percent tax on gross individual incomes, deducted at the source, is suggested in this connection.
 - (c) Taxation with post-war rebates -- but only after the possibilities of taxing "for keeps" have been further exploited.
 - (d) An intensified drive for voluntary savings.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE September 17, 1942

TO Secretary Morgenthau
FROM Mr. Haas
Subject: War Finance and Inflation

I. The Magnitude of the War Effort

Winning the war is so important that everything else must be sacrificed to it. If we lose the war, everything else will be sacrificed anyway. The only limit to the amount of the war effort, therefore, should be the maximum amount of the national product which can be converted to forms useful for war purposes and still leave civilians enough to live on.

In practice, the maximum amount of the war effort in the United States will probably be set by our ability to convert the national product into forms useful for war purposes. When all that can be done along this line has been done, there will still be enough left to maintain the civilian population.

According to the estimate of Mr. Stacy May, the maximum amount of conversion to war purposes which will be possible will amount to about \$95 billions a year, at present prices, commencing sometime in the second half of 1943. By that time, according to Mr. May, the gross national product will amount to about \$170 billions.* Assuming no change in prices, each of these amounts may be expected to continue more or less indefinitely until the war is won.

The estimates just given are doubtless subject to a considerable margin of error. Accepting them as benchmarks, however, the ultimate distribution of the annual national product for the war period would be about as follows:

* Mr. May stated that he is working on these figures at the present time. He has more confidence in the \$95 billions figure for war expenditures than he does in the \$170 billions figure for gross national product.

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	(Billions of dollars at present prices)	(Percent)
War expenditures	95	56
Civil Federal Government	6	3.5
State and local government	8	5
Private capital expenditures	6	3.5
Consumers' goods and services	<u>55</u>	<u>32</u>
Total	170	100

The figure of \$55 billions for consumers' goods and services in the above table compares with about \$52 billions, expressed in terms of present prices, available at the bottom of the depression in 1932. The goods and services available during the war period will be much more limited in variety, however, than those available during the depression.

II. The Dimensions of the Inflation Problem

If the figures presented in the previous section are somewhere near correct, the civilian population of the United States, during the war period, will have to revert to a standard of living about equal to that at the bottom of the depression. That this is possible is shown by the fact that it has been done before -- and at a time when the sacrifice was without meaning rather than being the price of future freedom as it is today. Furthermore, the available supply of civilian goods and services will be much more equitably distributed than was the case during the depression and there will be none of the individual insecurity of employment which so aggravated the hardships in 1932-33.

The major problem of inflation, therefore, is not the shortage of goods and services which will prevail during the war period taken in itself, but the fact that this shortage will be accompanied by record incomes.

Of the total ultimate annual gross product of \$170 billions, about \$125 billions will be disbursed as individual

Secretary Morgenthau - 3

incomes, but there will be only \$55 billions of consumers' goods and services to buy with these incomes. Unless the whole difference of \$70 billions is saved or taken in personal taxes* there will be inflation.

Assuming that the pending tax bill passes in about the Senate Committee form, and that no further taxes are voted, the situation when the war effort has reached its peak will be about as follows:

	(Billions of dollars at present prices)	
Individual incomes		125
Less:		
Available consumer goods and services	55	
Personal taxes (present and proposed)	12*	
Personal savings (annual rate second quarter 1942)	<u>24**</u>	<u>91</u>
Necessary additional savings and/or personal taxes		34

* Includes about \$1.5 billions of State and local taxes.

** About one-third of these savings occurred in the relatively unstable form of currency and bank deposits.

-

The above picture is, of course, very approximate and subject to many qualifications. We believe, however, that it serves the purpose of indicating the broad dimensions of the inflation problem.

* "Personal taxes" only can be considered for this purpose since "business taxes" are one of the factors which have been taken into account in stating that only \$125 billions of the national product of \$170 billions will be disbursed as individual incomes.

Secretary Morgenthau - 4

III. The Inflation Problem vs. The Fiscal Problem

It would solve the inflation problem for the war period if individuals could be induced to save the whole \$34 billions, or thereabouts, of "excess consumer purchasing power" referred to in the previous section. This might be done by comprehensive commodity rationing, by expenditure rationing, by forced saving, or by some combination of these. In such a case, no additional taxes would need to be levied during the war period for the purpose of controlling inflation.

Such a solution of the inflation problem, taken by itself, would result in a very bad post-war fiscal situation, however.

If no additional taxes are imposed beyond those now levied or pending, and if the inflation problem is solved in other ways, the "ultimate annual" deficit for the war period will be about \$70 billions.* If the war should continue for 4 years beyond next June, this would result in a total public debt of about \$400 billions. Obviously such an increase in the public debt is more than a change in degree -- it is a change in kind. Interest on this debt at an average rate of 2 percent would amount to \$8 billions, or substantially more than the largest revenue which the Government has ever received in a peacetime year.

The fiscal problem presented by a debt of \$400 billions would be reduced, but not eliminated, if a substantial proportion of the money had been borrowed as forced loans at no interest. A major difficulty here is that the repayment of such forced loans (owed largely to the lower income groups) would probably be required in the immediate post-war period and might create an inflation problem of substantial magnitude at that time.

IV. Conclusions for Policy

If the figures presented in the first two sections of this memorandum are anywhere near correct, the inflation problem is a serious one and will require drastic measures for its solution. Furthermore, as discussed in the preceding section, the fiscal situation is also serious and will require careful attention in its own right, quite apart from the problem of inflation.

* Plus the interest on the new public debt created to finance it.

Secretary Morgenthau - 5

There can be no single solution to the inflation and fiscal problems or either one of them. They must be attacked on many fronts. The more important, although by no means all, of these fronts are as follows:

(1) Rationing. The opinion is sometimes expressed that if universal price ceilings (including farm prices and wages) are established in the near future, OPA will have "shot its bolt", and the remainder of the problem of inflation control will be up to the Treasury. This is by no means the case. Price ceilings are the less potent of the two inflation control mechanisms delegated to OPA. Rationing is much more important and must be utilized to the full. It must not be confined to commodities where specific shortages exist, but must be extended to all commodities, or groups of commodities, for which a price rise is threatened because of an excess of demand over supply at present prices.

Such commodity rationing, as it becomes more widespread and hence more burdensome to the individual, may ultimately be replaced, in large part, by a system of expenditure rationing. There seems little practical possibility, however, that a system of expenditure rationing will be adopted, in actual practice, until commodity rationing has gone much further than it has at the present time.

(2) Taxation. Taxes must be raised drastically. This is necessary both for reasons of inflation control and of fiscal policy.

It is inevitable that a large proportion of the increased taxes must come from the lower income groups, since that is where the new purchasing power is. While it may seem harsh to cut into the incomes of the poor, inflation would be even more harsh. It should be noted, furthermore, that the lower income classes are now in the most favorable relative economic position which they have occupied in many years. Ideally a tax program for total war should begin at the very bottom and end by levelling off the top completely as suggested by the President.

The increase in taxes to the full wartime level will necessarily have to be gradual. It is believed, however, that a 10 percent tax on gross individual incomes, deducted at the source, could probably be secured within the next five or six months, and would be more effective in controlling inflation than anything else within the range of practical possibilities.

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Everything possible should be done to stop up loopholes in the taxation of the higher income classes. These loopholes represent major inequities in our system of progressive income taxation. Stopping them up should not be allowed to delay the use of taxation as an instrument of inflation control, however. It may, in practice, be found easier to stop up the loopholes after a widespread demand for this has been created by heavy taxation of the lower incomes.

A spendings tax is an extremely efficient mode of inflation control. This tax has received a bad name, however -- for no very logical reasons. It should probably be allowed a "cooling-off period". It will probably meet with a much better reception if revived after the imposition of a gross income tax, such as that above suggested.

(3) Forced Savings. High taxation will probably have to be supplemented by forced saving -- i.e., taxes with a post-war rebate. There will be more than enough occasion for post-war rebates, however, and their use should be considered only as a last resort. As large a proportion as possible of wartime taxation should be "for keeps".

(4) Voluntary Savings. All of the above measures will still leave ample room for voluntary savings, including the War bond campaign. Rationing and expenditure taxation will, in fact, yield their fruit in large part through increased "voluntary" subscriptions to Government securities. It may be necessary, in addition, to employ even more strenuous methods in "voluntary" bond sales campaigns than have been employed hitherto. Voluntary means of raising money should be considered as supplementary to compulsory methods, however, rather than vice versa.

9 A.M.
Sept 17, 1942 28

DRAFT OF A SUGGESTED FISCAL PROGRAM

The Situation

Present war plans call for war expenditures during the calendar year 1943 of approximately \$80 - 85 billion. Federal expenditures for non-war activities will add another \$8 billion, making a total of approximately \$90 billion of Federal Government expenditures for the calendar year 1943.

Federal receipts during the calendar year 1943 with House Tax Bill passed will approximate \$30 billion -- \$27 billion in tax receipts and \$3 billion gross receipts of the Federal corporations. Therefore, if the war production program is realized, and if the House Bill stands, the Federal debt will rise by about \$60 billion in 1943.

The situation will not change greatly after 1943. It is possible that a tax program might be attained within the next year or so to yield nearly \$5 billion a year of additional taxes (exclusive of post-war rebates) but it is also possible that the combination of increased war expenditures and price rises that cannot be avoided will offset that \$5 billion increase.

Therefore, it seems that the prospect is for a continued increase in the public debt of about \$60 billion a year as long as the war lasts.

The outstanding debt by the end of a five-years more of war, would be in the neighborhood of \$400 billion. Even if we succeed in raising taxes beyond the House Bill by as much as \$10 billion a year, the outstanding debt would still reach over \$350 billion by that time.

The Two-Fold Problem

Our fiscal program has two major objectives: One is to prevent inflation, and the other is to finance the war with the least strains and after-pains.

Turning first to the problem of inflation.

Next year we anticipate that the value of consumers' goods and services available would total about \$65 billion. During the same year we estimate that consumers will have

left, after paying Federal, State and local taxes, about \$110 billion. With \$110 billion available to spend on \$65 billion of goods and services, it is clear that danger of sustained price rises is great despite existing programs of price control. Of course, a substantial portion of this surplus spendable income of \$45 billion will be saved even if the Government does nothing to induce or force saving. The estimates on this point vary, but figures around \$25^{million} are most commonly accepted. The problem, therefore, is to mop up, one way or another, a further \$20 billion. But a successful mopping-up process must also make up for any reduction in the \$25 billion of voluntary savings caused by the mopping-up measures. In short, we must aim at absorbing the surplus disposable income of \$45 billions.

This is the magnitude of the problem we face for the calendar year 1943. In subsequent years the magnitudes may vary somewhat from that level but the task of further adjustment will not be as great as that of the initial adjustment. It is possible that we may later increase war output at the expense of consumers while at the same time the national income increases. It is possible that after several more years of war an addition of surplus disposable income of \$20 billion will develop, but the increase of surplus disposable income after 1943 is certain to be gradual.

It is clear from the magnitude of the task that no half-way measures are adequate. Measures that are adequate are bound to appear drastic and very apt to be unpopular, but sooner or later adequate measures will have to be adopted.

Proposed Fiscal Program to Prevent Inflation

Our task now is to adopt measures which will assure a reduction in purchasing power available for spending to \$65 billions.

Expenditure rationing, in our opinion, is the best method for attaining this objective:

1. It exercises a direct and effective control over the expenditures of individual incomes, and prevents uncontrolled spending of previous accumulations.

2. It can provide for the most equitable distribution of the limited supply of consumers' goods and services during war time. More than any other proposal, it makes it possible to greatly narrow the spread between the goods and services available to low income groups and those available to high income groups.

3. Expenditure rationing does not operate through the withdrawal of income and therefore does not encounter the opposition which any plan that takes away incomes--either taxation or compulsory saving--encounters.

4. It seems to be the most flexible instrument of inflation control proposed. As consumers' goods available diminish, it is relatively easy to take items out of the ration field or put them in, and it is also relatively easy to alter the totals of rationed expenditures.

5. While the administrative difficulties are admittedly great, they are not so great, in our opinion, as those presented by other equally adequate measures.

6. It permits maximum consumer choice under conditions of war economy. A person can spend his rationed allowance any way he wants, and he can save it in any way he wishes.

For these reasons, expenditure rationing is our first choice of methods to effectively prevent inflation. The Treasury, however, may conclude that neither Congress nor the public are prepared to accept that method and that therefore it is not one of the realistic alternatives before us.

Our second choice of methods for preventing inflation is the adoption of a spending tax similar in principal to the one the Treasury has already proposed, but with some modifications designed to make it yield larger revenue and induce greater savings.

The modifications we would recommend are:

1. Apply the tax on the exemption base instead of the exclusion base and make the exemption \$400 for adults and \$200 for dependents.

2. Raise the normal rate to 15 percent.

Division of Monetary
Research

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3. Apply the surtax to lower rates of expenditure. We suggest that the first bracket subject to the normal tax and free from the surtax, should be the same as the personal exemption; that is to say, the surtax on spendings would begin on expenditure above \$800 for single individuals, above \$1,600 for a family without dependents, and above \$2,400 for a family with two dependents. Surtax rates should begin at 15 percent and rise rapidly to 100 percent on expenditure above \$10,000 for single individuals.

The advantages of the modifications that we suggest above are as follows:

1. The spending power available to the lower and lower middle income groups will be substantially reduced.
2. The deterrent effect of the tax rates approaches more nearly the area which we think is necessary to curtail expenditures to the desired level.
3. As the exemption, instead of the exclusion increases, it simplifies and lightens the burden on the very lowest income groups.

The normal tax would be a post-war rebate as indicated in the Treasury proposal. It is estimated that with these modifications, the Spendings Tax would yield approximately \$5 billion during 1943 on the normal portion of the tax and somewhere between \$1 and \$2 billion on the excess or returnable portion of the tax.

No one can tell how effective the above proposed rates will be in curtailing spending. That is one of the disadvantages of the Spending Tax. Even with the high rates recommended above we are inclined to believe that it would be inadequate. What we fear more than that, however, is that the tax may be accepted but with rates scaled down with the result that the Spending Tax will be wholly inadequate for the purpose designed. This cannot be true of Expenditure Rationing.

If the Spending Tax (together with other measures already in operation) should prove to be inadequate to prevent further rise in prices the public may then be ready for a modification of the Spending Tax in direction of still more drastic rates could be adopted. Experience

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will reveal the weaknesses and strength of the Spending Tax and modifications could be attempted.

If it is felt that expenditure rationing is not acceptable to the people then certainly compulsory saving at drastic rates necessary to attain the same results will be unacceptable. But the rates of savings that would have to be imposed in order to achieve a curtailment in spending equal to that attained by the above recommended Spending Tax would have to be so drastic as to make its political acceptance very doubtful. Therefore, any compulsory saving program that would be accepted would be a partial program. As between partial programs, we prefer tax on spending program because we think it provides a better opportunity for coming closer to the desired goal.

Proposed Fiscal Program

The discussion so far has been directed toward the task of preventing inflation and only indirectly toward the problem of financing the war. This part is concerned with the latter problem.

Any program to finance the war must of course raise enough revenue to pay expenses. It is possible to do this through a number of ways, but fiscal statesmanship calls for a program which will raise the necessary funds in ways that will do the following:

1. Promote an equitable distribution of the consumer goods and services available during the war;
2. Promote a wider diffusion of the savings accompanying war financing;
3. Keep the interest burden low;
4. Supply a flexible instrument for checking post-war inflation and post-war deflation.

In pursuance of these objectives we favor public support of the Treasury tax program as first submitted to the House. That program included the loophole provisions, higher estate taxes, higher rates on the middle income brackets, and a higher rate on corporate profits. We also favor the introduction of

Division of Monetary
Research

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a withdrawal at the source tax which would apply to the tax liability for 1943 in addition to his tax payments for 1942. The tax payments for the current year 1943 shall however be computed on a reduction of 10 percentage points in the rate of income tax with the provision that the reduced tax liability would be paid in two years. By 1945 the income tax payers would be paying on a current basis and there would be no liability due on previous years' income aside from adjustments.

Adoption of the foregoing proposal would mean that a man, wife and two dependents having an income of \$2500 would pay in the neighborhood of \$450. This \$450 would include his income tax on the previous year's income, a portion of the tax on the current year's income, his Social Security at the increased rate of 3 percent, and a spendings tax of approximately \$120. The \$120 Spendings Tax would be returnable after the war. A man, wife and two dependents with \$1500 income would pay a total of about \$100, part of which would be returnable.

Were the above tax proposals adopted there would still remain more than \$50 billion to be raised by borrowing by voluntary means.

Social Security and trust funds will yield \$6 billion savings, providing the increase in the Social Security program is adopted. That would leave about \$45 billion to be raised through other channels of borrowing.

The Treasury should have no difficulty borrowing the remaining \$45 billion from individuals, institutions and banks. It is presumed that the excess reserves of the banking system will be increased at appropriate moments through exercise of powers already available.

The powers we already possess, plus some powers which it should not be difficult to get, can protect us from post-war inflation, despite the greatly increased deposits and cash in the hands of the people.

There is one consideration that must be carefully evaluated in determining the borrowing program. That relates to the interest burden. With the public debt increasing at the rate of \$50 billion or so a year, the interest burden will increase at the rate of almost a billion and a quarter a year. When there is added to that the amortization of

1 percent a year -- which would be the minimum called for by sound finance -- the additions to the fixed charge on the debt are almost \$2 billion a year. If the war is to last only another year, the interest burden will not be a significant thing, but if the war is to last another five years it may well become a major danger in government financing. We will then reach an interest burden of some \$10 billion and an amortization charge of at least four more billion dollars. A fixed charge of \$14 billion before the Government spends a single dollar for current expenses will be the overwhelming consideration in the fiscal policy during the post-war period.

With so large a fixed burden the difficulty of reducing taxes during the post-war period and of the Government undertaking necessary social expenditures will be much increased. The ability of the Government to adapt its fiscal program to the needs of the times will be much restricted. There is even danger that with a down-turn in business there would be a growing demand for drastic measures, such as a partial repudiation of the servicing of the debt, and even of a capital levy.

In view of the rapidly growing interest burden, we believe it is desirable to take advantage of the existing legislation to the extent of offering for sale to the Federal Reserve Banks of non-interest bearing bonds to the maximum amount permitted by law -- about \$5 billion. The reduction in the interest burden which this would bring about is not very significant but the establishment of the precedent would be. It might later be possible to obtain legislation increasing the amount of bonds which can be offered for sale by the Treasury to the Federal Reserve Banks. Finally, it is to be hoped that the proportion of bills to other securities be not permitted to decline.

It seems to us that even if the spendings tax is adopted we will still need a compulsory lending proposal so as to enable the Government to borrow a larger portion of its needed funds at zero rates of interest. It may be possible to obtain as much as \$15 billion from individuals and corporations at zero rates of interest through compulsory lending. One of the additional advantages that expenditure rationing has is that it makes easy the introduction of a compulsory lending scheme which would yield a large volume of savings; but even if the spendings tax is adopted it could later be supplemented by higher and progressive rates on the normal portion of the tax, which is the compulsory saving portion. Whatever plan is adopted it seems imperative to us that if this is to be a long war a compulsory lending scheme yielding \$15 to \$25 billion is essential.

We understand from the Tax Research Division that though the banks are subject to an excess profits tax in practice they avoid this tax by taking advantage of several existing loop-holes. In view of the fact that the banks will absorb a substantial proportion of the government securities issued, and in view of the generous interest which is being paid for such service, we would recommend that the Tax Research Division re-examine the situation and propose such measures as are necessary to block such loop-holes. In this way the people will recover a part of the interest payments made to the banks.

September 17, 1942

This conversation is the result of a call which I made yesterday to Grace Tully. At that time I told her that only 48% of the 60 White House employees had signed up under the Pay Roll Allotment Plan and that they were contributing only between five and six per cent of their salaries. I also told her that the White House was at the bottom of the list of all the government departments, and I asked her if she would please bring this to the attention of the President. She said she would.

September 17, 1942
10:48 a.m.

HMJr: Hello.

Operator: Mr. McIntyre.

HMJr: Hello.

Operator: Go ahead.

HMJr: Hello.

Marvin
McIntyre: Hello, Henry.

HMJr: Hello, Marvin.

M: We're kind of in a mess over here on account
of this drive - this drive, you know.

HMJr: What drive?

M: Oh, you know, your ten per cent.

HMJr: Yeah.

M: And, you see we've only got about - I think
somewhere under fifty, haven't we, of straight White
House employees.

HMJr: Sixty.

M: Yeah.

HMJr: In the neighborhood of sixty.

M: And, all the rest of them are - are classified
under other departments.

HMJr: Yeah - but it's the sixty that have made such
a poor showing.

M: The what?

HMJr: It's the sixty regular White House employees

M: Yes.

HMJr: less than half of them are subscribing to
the War Bonds.

M: You mean, under this new plan?

HMJr: Yeah. But

M: Now, for instance - for instance, anyway, I'm - I personally am buying about twenty per cent all the time, or my wife is.

HMJr: Yeah. But it's on the deduction - the deduction from their pay check - there's sixty employees over there

M: Uh - huh.

HMJr: and less than thirty of them are deducting anything

M: Yeah.

HMJr: and the thirty who are deducting something - it's only running about five or six per cent

M: Uh - huh.

HMJr: which puts the White House at the bottom of a list of all government departments.

M: (Laughs) Well, of course, it makes it doubly difficult for me, because I've been thumbs down on it from the start - individually, I mean.

HMJr: Well - I mean - all the government departments are doing it. Most of them, like the Navy and the Treasury are well over - ninety per cent signed up - ninety-five, and average over ten per cent.

M: Uh - huh.

HMJr: And here's the White House, with the President, at the bottom of the list.

M: Yeah, I know it. I mean

HMJr: And, we've got this Admiral Conard, who's been designated by the President, to be in charge of all departments, and he keeps telling me, "Well, can't you do something with the White House?".

M: Yeah. I know it, Henry.

HMJr: Yeah.

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M: And as I say, it's awfully difficult for me, because I talked to you and the Boss about it way back there, you know.

HMJr: Yeah.

M: Not that it makes any difference - my personal opinion, but I - I - the thing that I just can't quite - well, there's no use in getting in an argument - I just can't quite see - we're all so uncertain about other demands are going to be on us next year, you know.

HMJr: Well, as you say, there's no use arguing. I - I wish the - I think the President ought to say something - I mean, and do something about it.

M: Well, he has. He sent the memorandum on over to me about it, and told me to check up.

HMJr: Yeah.

M: And I don't make much head-way. I - I - personally, I don't - I'd very much prefer to continue the way we've been doing for six years.

HMJr: Well, this is a plan which has got the backing of the President, and we've - and as I say, here's every other department going to town.

M: Yeah.

HMJr: And, you - you personally don't like it.

M: Well

HMJr: And a

M: has the President signed up the list?

HMJr: Has he?

M: Yeah.

HMJr: Not that I know of.

M: Uh - huh.

HMJr: I think it ought to start with him.

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M: Well, that's \$7,500, right out of his salary to start with. And he....

HMJr: Well, why not? I mean....

M: He's going to run in the red next year anyhow, you know.

HMJr: I know, but....

M: Is Mrs. Roosevelt an employee of the White House, or do you so classify her?

HMJr: No.

M: (Laughs) I was kidding.

HMJr: Well, no - she, as a matter of fact, buys a lot of the bonds.

M: I know she does.

HMJr: No.

M: Oh, I know that.

HMJr: No, I mean - I....

M: And I - I know that Rudolph Forster does, for instance - old man Latta does.

HMJr: Yeah.

M: And a lot of us are buying them on - on your old plan, you know, the Treasury sends these....

HMJr: I know.

M:envelopes every month - every pay day.

HMJr: Yeah.

M: Well, I'll see what I can do about it, Henry.

HMJr: Yeah. Well, as I say, it's - it's amongst the government employees - it's generally know that the White House is at the bottom of the list, and....

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M: Yeah, I know it is.

HMJr: And it's - it's - it's damn bad precedent.

M: Yeah.

HMJr: And....

M: It's all right, and I realize that our position is a little untenable, but I hate to be bludgeoned.

HMJr: Well, it's - well, anyway, you say you don't want to argue, but it's like....

M: Oh, hell, no, now the rules have been made and....

HMJr: Why should the White House be the only department in the whole government that doesn't go along?

M: Yeah. I see your point - I see your point perfectly.

HMJr: It ought to - it ought to be - I mean, it's very nice to say the White House contributed five tons of junk, but that - they ought to get on this band wagon.

M: Yeah.

HMJr: You say the President sent you a memo?

M: Yeah.

HMJr: Well, you're a soldier.

M: Okay.

HMJr: All right.

M: Goodbye, Henry.

HMJr: Goodbye.

September 17, 1942
2:15 p.m.

WAR FINANCING

Present: Mr. Bell
Mr. Gaston
Mr. White
Mr. Paul
Mr. Stewart
Mr. Haas
Mr. Blough
Mr. Kuhn
Mr. Murphy
Mr. Shoup
Mr. E. M. Bernstein
Mr. Shere
Mr. Tickton
Mr. Lindow
Mr. Friedman
Mr. Warren

H.M.JR: Who is going to do those figures?

MR. HAAS: Henry is.

(Tables distributed, entitled "Financial Impact of War".)

H.M.JR: Do your stuff. I guess that you were all glad to have the extra time.

MR. MURPHY: I have three rather formidable-looking tables here, which were prepared by Mr. Murray Shields. They are entitled "Financial Impact of War."

As you see on looking at them, this financial impact of the war upon the banking system is examined under three situations. The first, "Assuming no

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change from House Bill tax rates and continuation of present Treasury policies"; the second--

MR. PAUL: Is that House bill or is it--

MR. MURPHY: That is House bill.

MR. BLOUGH: That is table I?

MR. MURPHY: Yes. The second, "Assuming \$20.0 billions of new taxes and sale of \$13.0 billions of new market securities to individuals and non-financial institutions (in addition to War Savings Bonds)"; and third, "Assuming \$30.0 billions of new taxes, reduction in sales of War Savings Bonds to \$6.0 billions p.a., and sale of \$10.0 billions of market securities to individuals and non-financial corporations".

Mr. Shields assumes that when you raise the taxes, get thirty billions in new taxes, it will begin to impinge on savings bonds sales. (Laughter)

H.M.JR: Where are the War Savings boys? (Laughter)

MR. MURPHY: I think it is perhaps most interesting--

H.M.JR: Did Shields do this on his own? Was this his idea?

MR. MURPHY: Yes.

MR. HAAS: He did it down here.

H.M.JR: But it was his idea to do it?

MR. HAAS: Yes, sir. I might explain, Mr. Secretary, that one of the main reasons for putting it together was to show the enormous magnitude of the problem. He told me afterwards he hoped the mere size of the figures would indicate that this type of thing should not happen.

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MR. MURPHY: I think that we can say by way of preface that I believe all three research divisions are in substantial agreement that the technical banking problems of causing the banks to absorb a larger amount of Government debt are not the limiting factor. It can be done; there are plenty of technical devices by which banks can be provided with reserves to do it by which their capital position can be taken care of and the mechanical problem solved.

The question is, is it a good idea to do it and can the economy stand the strain of the larger bank deposits which would be created, and I might say that the--

H.M. JR: Look, do you mind - explain this table first, and then philosophize about it afterwards?
(Laughter)

MR. MURPHY: Fine. I think it is interesting to first look at the ultimate figures as they appear from a continuation of present policies - that is, without seeking any further taxes beyond those in the - I mean without obtaining taxes beyond those in the House bill and continuing very much the borrowing program which has been going on.

By fiscal 1946 to '47 military expenditures would be running at an ultimate annual rate of ninety-five billion, which we discussed this morning. That is Mr. Stacy May's figure. By that time interest on public debt would amount to seven point seven billions if these other things had happened. The expenses of the civil government other than interest on public debt would be six billion, so that we would have a hundred and eight point seven. Of course you recognize that no such accuracy of government expenditures is intended. Tax receipts would be only thirty-one billion. (Laughter)

H.M. JR: Wait a minute, I was laughing so I lost my place. You shouldn't get funny at this stage. A cash deficit of--

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MR. MURPHY: I was just in the line above that. The tax receipts are thirty-one billion. The excess of thirty-one over the yield of the present tax structure is merely because of the increase in national income, which it is assumed will remain; the rates are those of the House bill. That would leave a cash deficit of seventy-seven point seven billions, and there are certain sources that he assumes that you can finance it from.

First is the six billion of Social Security funds. By that time there will have been another statutory step-up in Social Security rates, one at the end of this year and another by that time. He assumes twelve billions for savings bonds. That is the old program. That leaves about sixty billions to be raised by market issues.

You will observe that he assumes that market issues of securities other than Government securities will decrease slightly so that the market will altogether be called upon to take about fifty-nine billion dollars worth of issues.

On the effective demand for these securities, he assumes a billion in savings banks. That is based on the assumption that accumulations in savings banks will turn around and commence to go up. As you know, savings deposits so far have shown very little increase, but the supposition is--

H.M.JR: They have gone down.

MR. MURPHY: That is correct. The supposition is that they will turn around and go up some. He assumes two billion for life insurance companies. That is about the firmest figure we have; the life insurance business is a pretty rigid business, and the aggregate figures will go up and down very slowly as new policies are written or old ones dropped. He assumes two-tenths of a billion from Government agencies, but

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you will notice that is market securities only and it is just merely an arbitrary figure. He assumes five point five billion from the Federal Reserve banks. The reason for the five point five appears lower down in the table. The five point five billion purchased by the Federal Reserve banks are the purchases which would be necessary to provide the commercial banks with the reserves requisite to purchase the residue of securities which the commercial banks will have to purchase in order to finance the deficit.

He assumes seven billion of securities from individuals, corporations and other institutions. That represents for the most part the investment of depreciation and depletion reserves of corporations which cannot be currently put back into the business. That leaves forty-three billions of securities to be absorbed by the commercial banks in that year.

You will notice if you look back along the table that the security absorption by commercial banks has been running forty-seven, forty-seven, forty-five, forty-three. The reason for the slight decrease is that the tax yield, presumptive tax yield, has been slightly increased in line with an assumed rise in the national income, effecting a slight price rise.

He next investigates the effect of this on bank credit. He assumes that all banks would absorb forty-three billions of United States securities. He assumes that ninety percent of those will be absorbed by member banks and that member banks will have certain other changes in their assets, which will result in a net increase in the deposits of the member banks of forty-one billions. This will bring the deposits of the banks at that point up to two hundred and fifty-four billions.

To get the significance of that figure we cast our eye back to the left and notice that the estimated figure on June 30 last was sixty-four billions, and on June 30 next, eighty-five billions.

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I think another way of realizing the volume of that magnitude of bank deposits is to compare it with the national income. The gross national product is now running between a hundred and a hundred and fifty billions. Bank deposits are now about sixty-five billions, which means that they are less than half of the gross product.

The gross product is assumed by Mr. Shields to be up to about one hundred and ninety-two billions when bank deposits are up to two hundred and fifty-four, at which time the bank deposits will be substantially in excess of a year's gross product. It will naturally become increasingly difficult to get people to hold that many deposits quietly. They will want to turn around.

Mr. Shields turns next to the purely banking problem since this is concentrating here on banking problems, and he gives the assumed capital funds of the banks; that is seven point four billions. The supposition is that the banks will not have been able to raise any substantial amount of capital by the sales of their securities. They will have built up their capital from an estimated six billion on June 30 last to seven point four, purely by the reinvestment of profits. They will then have a ratio of capital to deposits of two point nine percent. Two point nine percent is a ratio of about thirty deposits to one of capital. The ratio on June 30 is nine point four percent of capital to deposits.

He next turns to the bank reserve situation. He assumes that there will be no additions to monetary gold stock. That is merely following out the experience of last year. It is somewhat of a mystery to me what happens to the gold mined in South Africa, but we will not go into it. (Laughter)

He assumes that money in circulation will continue to increase by two billion a year. It is more or less an arbitrary assumption.

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Federal Reserve portfolio securities will go up five point five billion, which is a figure that is assumed to make it come out even. That is the figure I mentioned before as the amount of United States securities the Federal Reserve banks will have to purchase in order to furnish reserves to the member banks to purchase their quota of securities. During this year he assumes a net increase of bank reserves of five point five billions.

His next block of figures deals with reserve requirements.

Now, during the length of the period covered by the table as the banks are being required to purchase more and more securities, he assumes that they are placed in funds to purchase these securities partly by a reduction in reserve requirements and partly by Federal Reserve purchases of Government securities. By the end of the fiscal year 1945 he has reached the end of the road on reductions in reserve requirements. They are down to the statutory minimum.

Of course there could be further legislation, but he has gone as far as is possible under existing law. From then on he provides all of these reserves by Federal Reserve purchases of the United States securities. The way that he determines the amount of reserve requirement reductions which would be necessary and the amount of United States securities which would have to be purchased is the amount necessary to leave the member banks with excess reserves of about one and a half billion. You will notice the constancy of the excess reserves figure that he has, one point four; one point seven; one point eight; one point four. The fluctuations are not according to any plan but merely as close as you can make them come out without carrying the table in a larger number of decimal points than he has.

He assumes that by this time we will have a gross national product of one hundred and ninety-two billion.

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You will notice that compares with a gross product of one hundred and seventy that we were speaking of this morning. Mr. Shields has assumed some increase in prices here, although not very much; whereas we were assuming constant rises.

He has fifty percent military expenditures to gross national product. That is a lower percentage than in the table we presented this morning because military expenditures are the same, with the gross national product higher. He has Federal taxes thirty-one billion; Social Security taxes, six point four. I mentioned that there will have been two step-ups in the law in the meantime. He has State and municipal taxes, eight; and total taxes of forty-five billion, which will amount to about forty-five percent of the gross national product.

He then takes the taxes plus new issues as a percentage of gross national product, since new issues of securities are as much of a burden, really, on the economy as taxes. In each case you have to forego consumption in order to take them up. The difference is that the taxes we get is money for keeps, and in the securities we agree to pay it back; but the effect of the current period is the same, we have the money and they have not.

So the thirty-five percent of the gross national product which is taken in taxes and new issues is the proportion which the Government is taking over.

He next makes some assumptions with respect to the distribution of the debt. The next section of the table is merely a consequence of the earlier sections.

At the end of this period the debt would be four hundred and fifty billion, of which three hundred and forty-one billion would consist of market issues. Of these, three point six would be in the hands of

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Government agencies; twenty-two in the hands of Federal Reserve banks; two hundred and thirty-eight in the hands of commercial banks; and seventy-eight in the hands of others.

There would be thirty-three billion of special issues and seventy-six billion of demand issues, that is, savings bonds and tax notes.

He then assumes the maturity distribution of market issues. It seems rather arbitrary here, but all it is is an assumption that twenty percent of the market debt will be in bills; twenty percent in certificates; twenty-five percent in one-to-five year notes; twenty-five percent in five-to-ten-year bonds; and ten percent in over-ten-year bonds.

I think the bill figure is rather intriguing. If those consisted of ninety-day bills the weekly turn would be a little over five billion dollars. (Laughter)

H.M.JR: I suppose we might as well laugh as cry.

MR. MURPHY: I think you will get rather sick of turning them and have to adopt some deposit receipt mechanism like they have in Great Britain. However, that figure serves to dramatize the problem.

The interest on Federal debt figure has appeared earlier in the table, seven point seven; and you will observe that he reaches that by an assumed rate of one point seven. That is the picture as Mr. Shields points it out.

Under the supposition of present taxes, more or less the present borrowing programs, the war lasting that long, at ninety-five billion dollars a year, and assuming that prices could be held,

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actually you could not have this kind of a picture unless you had expenditure rationing or something holding the fort and permitting the prices to stay constant while the debt to the banks increased this much.

H.M.JR: I would like you to tell Mr. Shields - I would like to tell it to him myself next week - that I think he has done a very fine piece of work here. While some of his assumptions, naturally, like his military expenditures, he has had to make a guess on, this is the thing that I looked for.

Incidentally, Dan, this is the kind of thing that the Comptroller of the Currency ought to be doing on his own if he is looking after protection to the banks.

MR. BELL: He is thinking about it. I don't think he has gotten anything like - of course he has not the data.

H.M.JR: That is a beautiful job.

MR. BELL: He has done a lot of thinking about the ratio of deposits to capital, and that sort of thing.

H.M.JR: Is it worth studying the other things, the other two - we can study those by ourselves, can't we?

MR. MURPHY: They give you, naturally, a more optimistic picture. There is only one thing I need to remark on before each of you study them at your leisure, and that is to explain why Mr. Shields has assumed an average rate of two percent on debt in the second two tables while he only assumes a rate of one point seven in the first table. The reason is that a much smaller proportion of the debt is assumed to be held by banks in the second and third tables

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than in the first; and he is assuming that you can borrow from banks more cheaply than you can borrow from other holders.

MR. GASTON: It is extremely interesting that Shields assumes in one case twenty billion of additional revenue over and above the House bill, and then thirty billions. It is sort of an indication of the way he is thinking about tremendously heavy taxation.

MR. PAUL: That is new taxes, isn't it?

MR. MURPHY: Those are new taxes over and above the yield in the tax bill.

MR. GASTON: He does not even figure on ten billion additional over and above the House bill. His first assumption is twenty billion above.

H.M.JR: Well, I want to say again that this is the first piece of original thinking I have seen on this subject. George, this is the first piece of really original work on this thing I have seen.

MR. HAAS: As I said before, before he started on this we were trying to work out some base for dramatizing the problem, pointing out the necessity of very drastic measures taking place - that these results should never take place is Shields' point.

H.M.JR: I compliment you, George, on having a man like that working in your shop.

You didn't have time to contact Forrestal, did you?

MR. BELL: No, I didn't.

H.M.JR: He has done what is so rarely done. He remembered to do what he said he would do. The man's name is Colonel Sanders, who is chief of the

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Re-employment Division of Selective Service. Then he adds that Dr. Barker has known Colonel Sanders for the past twenty years and thinks he is the type of fellow who rides a hobby or an idea and finds it difficult to see that other factors might seriously affect the carrying out of the idea.

MR. BELL: Sanders instead of Hanson, I see. They are working on the problem, too.

H.M.JR: Well, this thing here, there would be an awful lot of changes if we had a new set of figures, but it is the method of approach that I like. It is the method of approach.

MR. HAAS: He is working on another problem that would interest the Comptroller - the whole banking picture.

H.M.JR: That would be interesting. Does anybody want to question Murphy or Haas about this?

Somebody made the statement this morning - I don't know, maybe this afternoon - that you don't have to worry about what this does to the banks, but I differ with him.

MR. WHITE: Well, I think all of us knew - this obviously is very helpful, and more helpful to some people than others, but I think all of us knew the approximate magnitude that would be involved in the final year. The statement that you are referring to now was the one that Henry started to describe by saying that we do not have to worry about it. I think it is a little misleading, probably. What I had in mind in referring to that particular point was that there are instruments of control available to handle the situation.

MR. GASTON: It can be done.

MR. WHITE: It can be done. It is a problem, of course, but it is neither insuperable nor a very

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difficult political one, in my opinion.

H.M.JR: Well, Harry, with all due respect to you I think you are grossly minimizing the problem - grossly minimizing it. I would like to see something in writing, and you said this morning one paragraph - I think you are grossly minimizing. I mean I don't see how you can brush off a thing like this.

But where I don't think you and I would differ, though, is to try to find a way for keeping this thing from happening.

MR. WHITE: Well, we all directed our comments to that matter. The differences of opinion that will occur lie in a much more narrow range. The differences, I am sure, will not be such that you are going to get any kind of taxes like this suggested in tables two or three - three, anyway. I think it is preposterous, but it is interesting academic exercise. So the difference of range of policy relates to - still leaves you with a large problem.

H.M.JR: Harry, don't do that to me. We had a nice meeting. If you are going to get sarcastic, and so forth - what is the use of entering that spirit into the thing? Everything has been going fine.

MR. WHITE: Why do you misunderstand what I say?

H.M.JR: It is the way you say it. It is disagreeable, sarcastic. What is the use of starting on that level, brushing off everybody else as though you had the last word on everything? Now, we have a serious problem here, and what is the use - we have been getting along fine - in saying this thing, that everything done in anybody's shop but yours there is something the matter with.

MR. WHITE: The only answer to that is, "nuts." That is not my position - never has been.

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H.M.JR: Now I ask you to apologize.

MR. WHITE: Oh, I don't think I am in a frame of mind, and I don't think you are, in which we can each be mutually beneficial. If you don't mind, I think I will leave.

(Mr. White left the conference.)

H.M.JR: I mean, there is no sense of always being sarcastic, saying everybody else in the Treasury doesn't know what he is talking about, or anything else. I am sick and tired of it. This is a good job, and it is the first time anybody has approached it. I mean you can't think or work in an atmosphere where there is constant sarcasm, and wisecracks, and everything else. I can't work like that. Nobody else in the whole staff approaches it in that way.

What did you do in your office, Bell, this morning?

MR. BELL: Before the groups of the three staffs came in to discuss the matter, representatives of those staffs had gotten together on figures; and I think there is pretty fair agreement on them.

But there is not agreement, altogether, on the way to handle the over-all problem, and what they have done is to submit a table showing the figures and then the rest of it is a progress report suggesting steps to be taken from there on.

H.M.JR: Will you explain it?

MR. BELL: I think it might be read. That is a better way.

H.M.JR: Will you read it?

MR. BELL: Yes.

(Memorandum entitled "Progress Report on War Financing Programs" read by Mr. Bell, copy attached.)

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MR. BELL: In other words, each of the three staffs should prepare their programs and then get together, say, on Tuesday, and discuss the differences and try to narrow them down to as few points as possible; and then discuss them with you on Thursday, the 24th. It is really quite a problem.

MR. PAUL: That last thing would be very useful.

H.M.JR: Let me, before we do that, because one of the troubles is that unless I get the three staffs in the room here they don't get together, - I will come to that afterwards - I mean, I have got to sit here as a schoolteacher.

Let's watch these war expenditures and--

MR. BELL: Somebody can explain these tables to you. Carl, do you want to do that?

MR. SHOUP: Yes. The war expenditures table shows for fiscal 1943, the current year, in the first line, seventy billion. That includes the Budget figure of sixty-seven and the Government corporation figure of three.

Then for the next fiscal year, '44, we assumed the ninety-five limit that was, I understand, more or less set by Mr. May. We did not assume any increase in later years, partly because we felt that at this stage it was not worth that refinement, although there was a general recognition that in later years it might go higher than ninety-five.

The second line is simply Federal non-war expenditures, which rises a billion because of increased interest charge. That, of course, is an assumption, but, at any rate, it is very likely that we will not get it down below six or seven, anyway. Total Federal expenditures, then, is on the third line, the sum of the first two.

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The fourth item, receipts from taxes, is on the assumption of a revenue act of '42 that is approximately as it now goes before the Senate. The figure for '43 is actual collections that we would expect under those circumstances, rising to twenty-eight in the fiscal year '44, partly because there would be time for the revenue act to be effective for a full year and partly because there would be increased income for it to bite into - the general level would be higher. Subtracting the receipts from taxes from the total expenditures gives us item five, the balance to be borrowed.

Now, item six is merely the special issues to the old-age fund and the unemployment insurance fund, leaving us with item seven, fifty-two billions in fiscal '43 and seventy billions in fiscal '44, to be borrowed by the sales of savings bonds, by the sales of bonds to insurance companies, sales to banks, to individuals, and so on.

We stopped at that point and did not try to reach any agreement on just how that would be divided.

MR. BELL: We did not carry it on year by year. They just assumed it would be a picture just about like this for each year thereafter, not varying enough to make any difference, at this stage at least, to try to determine differentials.

MR. SHOUP: Would you like to go to the second sheet now?

H.M. JR: Please.

MR. SHOUP: It is income flow and supply of goods and services. The first line is an estimate of the amount of money that would be paid to individuals in the form of salaries, wages, dividends, interest, rentals, and so forth.

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During the fiscal year 1943 it was estimated that a hundred and eighteen billion dollars - these figures are all in billions of dollars - and for fiscal '44 we assume it will be somewhat higher because, of course, there will be an expansion in the war program as it has not reached its peak at ninety-five.

Then the individuals have to pay out of that hundred and eighteen or hundred and twenty-five personal taxes to the Federal Government and to the State and local governments, income tax, that part of the property tax which is direct personal tax, and so on, which would leave the individuals with a hundred and eight billion dollars. That is what we call "disposable income" - that is, income after taxes. It is a hundred and eleven billion in fiscal '44.

You will notice that item two, the direct personal taxes, goes up somewhat, of course, in fiscal '44, partly as a result of the new revenue act - very largely.

Then the question is how much of that disposable income will consumers be able to use in buying goods and services at current prices - that is, without forcing up price level.

It appeared that during the fiscal year '43 there would be available for consumers to buy about sixty-eight billion dollars' worth of goods and services at current prices; and that in the next fiscal year there would only be about sixty billion dollars' worth of goods and services available to buy. Consequently, they would have to keep the remainder of their disposable income idle if they were not to force up prices.

So simply by subtracting the sixty-eight from the one hundred and eight we get forty as the amount

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of personal income that must be kept idle to avoid price rises. The next year fifty-one billion out of their hundred and eleven must be kept idle. Some of that forty and some of that fifty-one will stay idle without any trouble through normal, voluntary savings. We are sure that not all of it will stay that way unless we do something about it.

That, of course, is as far as we have gotten at this stage. The question then arises, what to do about it.

H.M.JR: Carl, that forty and fifty-one - is that the so-called gap?

MR. SHOUP: No, I think not, Mr. Secretary, as it is usually understood. We ought to subtract from that forty the amount we would expect them to save normally without any particular compulsion or special measures.

Let's suppose that out of that disposable income of a hundred and eight they spend sixty-eight, and then let us say they save twenty-five. Now, let's take the twenty-five out of the forty because out of the forty they are saving twenty-five, you see, just normally, without any particular effort on our part. The remaining fifteen would in that case be the gap, as it is commonly called. But that figure fifteen is a dangerous figure because it does not tell us what we have to do. It does not mean that the fifteen billions of taxes, for example, will do the job. You can't draw any ready conclusion from that.

H.M.JR: But, on the other hand, Carl, isn't the forty in a sense misleading? Doesn't it seem to make the proposal so much bigger?

MR. SHOUP: It is true that to stop right there--

H.M.JR: I mean to stop right there isn't it distorted?

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MR. SHOUP: It is distorted in the sense that the story is incomplete. I should add that we simply tried to agree on all the figures we could agree on in the space of an hour, and we got this far.

The amount of savings that would take place anyway, just normally, without any pressure - that figure is a fairly controversial one and is something we did not want to quite agree on in the course of just a few minutes.

H.M.JR: Well, I think this - I appreciate that you people did a lot in a short time, but I think that you ought to go on with a couple more - six or seven - whatever is necessary - I don't think you can just stop with a figure of forty billion.

MR. BELL: I am wondering if that really is not a problem because if you have fifteen billion dollars in gap and you undertake to mop up that fifteen billion dollars you do it by using savings, don't you, and thereby, unless you control that twenty-five, you will be right back there.

MR. GASTON: You will probably reduce your voluntary savings.

MR. SHOUP: That is a tricky point. Anyway, Mr. Secretary, it is almost as well to stop here, and the reason for stopping this way can be argued this way. Suppose we say twenty-five billions would be saved normally, leaving us fifteen to do something about; then the moment we try to do something about fifteen we are going to be also hammering down - cutting into that twenty-five. So the two things are inter-dependent. You cannot touch the one without affecting the other.

MR. BELL: You have got to lock them both up. If one is voluntary, you have to keep it locked up.

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MR. SHOUP: There is something to be said for stopping at forty. I, myself, have always felt that these published figures of the spending gap are apt to be misleading to the public. When Mr. Henderson says a twenty billion gap I think the public might seem to feel that all you have to do is take twenty billions in taxes; all you have to do is have compulsory savings.

MR. GASTON: In other words, ten billion of compulsory savings against twenty billion gap on that basis might not reduce it more than five billion. It would cut into the voluntary savings.

MR. SHOUP: We are on treacherous - not treacherous but extremely difficult ground beyond the forty and fifty-one.

H.M.JR: On the next page where it says it is necessary to borrow from the public fifty-two - I again come back - fifty-two from the public and the present income kept idle is forty - couldn't those two figures be gotten somewhere or shouldn't they be any closer than that?

MR. SHOUP: The necessary borrowing from the public is a question of raising enough money to cover the Government expenditures. Now, shall I say, the Government expenditures are not addable, in this sense, to the income payments to individuals.

These two sets of figures cannot be integrated as they stand - integrated completely without a good deal of further work. In other words, we did not try to fit the one into the framework of the other. It can be done, but it takes some three or four more steps. I would simply say we cannot compare the two.

MR. BLOUGH: Are there some sources of income which are not income to individuals involved here?

MR. SHOUP: Yes. Corporate income is involved, and, for that matter, business taxes, and so on.

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H.M.JR: The way I look at this thing is this: using this table of Shields' as a sort of a formula - the idea that we must try to do the things to keep them from happening the way he indicates that they might, if we didn't get more taxes than we have in prospect right now. I do not think just higher taxes alone is the answer to this thing. I mean, there has not been any discussion, I would like to point out, on the question of interest rates. That, again, would be very much a study of bank earnings, wouldn't it?

MR. HAAS: That would be involved, yes.

H.M.JR: But I would like something on interest rates. Now I realize that what I am going to say now, if it got out, is full of danger, but I had hoped that somebody would take the approach, what can you do, possibly, through either reduction in interest rates or non-interest rate bearing. I mean, I realize that if it is spoken outside of the room it might really completely upset the financial community. And I also gather that we would be going into a kind of head-on clash with Mr. Eccles. But that does not mean that the question should not be raised. You say Bob Warren is - I mean, I am just trying to reach for the things that have not been supplied me.

MR. PAUL: It was mentioned in one of the memoranda this morning.

MR. HAAS: We mentioned some in ours.

H.M.JR: I am trying to go over what has been fed to me so far, and I think, in further studies, that thing should be studied. I mean, what can we do to borrow for less money?

MR. HAAS: The whole question is, if the banks are going to buy large amounts, is it necessary to pay the rate of interest which they are now being paid?

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MR. GASTON: And what is the effect of different rates on the commercial bank structure?

MR. HAAS: That is right. The earnings, Shields' study shows, will probably be tremendous if the rates are not reduced; it will even be bad for the banks.

MR. BELL: He has not assumed very large earnings for the amount of money he has thrown into the capital structure. (Laughter)

H.M. JR: Another criticism - not that, but I think everybody in the room agrees that we should have higher taxes, because we have tried terribly hard to get higher taxes and - what was that phrase you used, Henry Murphy, about getting the taxes instead of borrowing?

MR. MURPHY: Taxing for keeps.

H.M. JR: I think everybody agrees that if we could raise - go back to my old formula - if we could finance the war with two-thirds taxes and one-third borrowing, it would be lovely, but the way we are going now with this House formula, it is about a quarter.

MR. BELL: About thirty percent, I think.

MR. GASTON: Less than a third.

MR. PAUL: It is about thirty percent.

H.M. JR: So the thing that I would like to say is, I think that it ought to be studied; this group ought to study it more on the assumption that the Congress will continue to stay a year or two years behind what we need. I mean that they will continue to drag their feet to that extent. What can we do here in the Treasury, on the assumption that Congress will not give us what we want until a year or two years after we ask for it? What can we do to combat the situation during that period? I do not think

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there is anything here, that has been prepared here this morning, that would answer that. If I am wrong, just say so.

MR. HAAS: Yes.

H.M.JR: I mean, I am just - George, I want to stress more - as Shields says, twenty billion more, thirty billion more. This book says practically the same thing. (Indicating) All right, let's say we don't get it, and say that we do not get more than twenty-four billion dollars in revenue this year, and maybe next year we might get twenty-six or twenty-seven, and so forth and so on. Well, how is the Treasury going to meet this borrowing program?

MR. BELL: That is the problem.

H.M.JR: Isn't that it? In other words, I would approach the thing - I would like you gentlemen to approach it on the assumption that we do not get more than what is right now in the cards, and then maybe next year we get two or three billion more, and the year after that two or three billion more. Well, if it is that, and they spend what they are going to spend - and Bell will check those spending figures, that is his responsibility - and check the figures on the amount of money that is going to be left for the consumers. I think in each case we ought to figure the worst, that is, that we are going to spend the maximum and have the least amount left for the consumer, and figure the worst on the taxes. How are we going to handle this thing which is laid here? Well, I guess Chart One would do that, wouldn't it?

MR. PAUL: Chart One is based on no--

MR. HAAS: Projection of the present situation.

H.M.JR: He takes tax receipts up to thirty-one billion.

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MR. PAUL: That is right. That is full collection of the present bill.

MR. MURPHY: That assumes that the price front is being held. So the other way, if you just followed the figures of Table One without doing something in addition, it would not hold, because the prices will break through.

H.M.JR: Well, then, Henry, what I am suggesting is, let's distort all of this thing and figure that the prices won't hold. In other words, I would like to see this table done over, doing everything - looking at everything from the bluest possible standpoint.

I mean, in other words, treating the Congress as though they just were human beings, which they are, and a lot of politicians. (Laughter) Assume we would get the bad breaks all along the line; that the President does not get the kind of bill he wants now, and farm prices and labor - everything would go just as badly in the next couple of years as it has for the last year, then where would the Treasury be?

MR. HAAS: That would leave out the possibility of operations under Executive order. There are things you could do under Executive order.

H.M.JR: No, but all I am asking is, figure the worst, and then from that figure back - you can figure back.

MR. PAUL: That would be valuable because it could be used, at least secretly, with Congressional leaders as a weapon to keep from that result.

H.M.JR: Taking what--

MR. GASTON: We have got to show them this picture. They just do not understand it.

H.M.JR: Then I would be willing to take that and show it to the people. I am not asking for something fantastic, because certainly nothing has happened in the last six months to make you think that they are going to behave any differently.

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MR. KUHN: I think this table would be more impressive to them than the kind of recommendations that were made this morning in the memoranda. That was what Herbert had in mind.

MR. PAUL: This table is entirely theoretical. It assumes no rise in prices. We have got to show how much worse the picture is if the prices rise - which they will if--

MR. BLOUGH: What you want is a history of the next three or four years, if Congress does not do anything, as it would have to be written thereafter.

H.M. JR: I do not mean that, quite. I mean, if they do not move any faster on inflation legislation the next three years than they have in the past three years--

MR. BLOUGH: Putting yourself at the end of their term and looking back and saying - now assuming Congress acts the way it has been acting, what would the situation have actually been during those two or three years? Where would we be on prices? Where would we be on bank credit?

H.M. JR: You know how fast Congress moves and just project it ahead, that they will move just as slowly for the next three years as they have the last year or two. Now, where would that leave you? Then the question comes up, if they are going to do that, what can the Treasury do? We have got to raise the money. We have got to pay for the war, and what can we do in the way of controls? What kind of legislation would we need? I am just guessing - maybe I am entirely wrong, but I think you would use up your - all your excess reserves. Maybe you would not.

MR. PAUL: One figure would be the amount of the debt in terms of the price rise, and the service charge on that debt.

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MR. BLOUGH: The price rises would be the big thing, and the war expenditures then would go up.

MR. HAAS: You would be financing the war by inflation, that is all.

MR. BLOUGH: That is right.

H.M. JR: Well, if it went along, could we here in the Treasury - is there anything that we could do to control the banking situation; and, if so, what. I do not know, but I do not think we have approached that.

MR. HAAS: There was some talk when this expenditure rationing was up before that it could be accomplished under presidential Executive order. Whether a person liked it or not, that is an instrument that could be used.

H.M. JR: I do not see - all I am asking you gentlemen to do is to study the picture on the assumption that the Congress will continue to act for the next year or two the way they have for the last year or two. Now, where will that leave the Treasury?

Let me just go around the room. Bell?

MR. BELL: In a much worse position than that table shows, certainly.

H.M. JR: Dan, let's look at it from the worst, and then if we have something like that, that is something that some of us could take and show the Congress and say, "Now, gentlemen, if you act the way you have, this is what you are going to do to the Treasury. Instead of just keeping it on the basis - well, you are going to have to borrow thirty billion dollars from the banks." Then we would have an answer to Senator Taft.

Let me just go around the room a minute, and

everybody please talk perfectly freely. Bell, do you want to say anything?

MR. BELL: No.

MR. BLOUGH: It is going to be a hard thing to do with any degree of accuracy, but I think it is an excellent idea and should be in here.

H.M.JR: Bernstein?

MR. BERNSTEIN: It would be a very difficult thing to do because one of the problems you would have to decide is this: When you do let prices rise, what portion of it would automatically be drained off in taxes through profits taxes; what part would remain with the profit receivers as profits which they will not distribute but save, and so on.

You may have a picture that is completely different on the assumption of the multiplicative effect of this income being paid again and again, and also the possibility that the total effect is merely the first effect of not borrowing enough from the public or taxing them enough. There is such a big range; it may be anything from twenty to fifty or sixty billion dollars.

H.M.JR: Well, I know I am repeating myself, but all I am trying - I think what I am asking is the more realistic viewpoint. All I am saying is - I know I am repeating - is to assume that Congress will not be any more intelligent about it than they have been, then where does it leave us, you see. What could we do if they continued on the same track, at the same speed - what could we do, if anything, on the banking situation? You see? Let's take a look at it. Maybe it won't lead us anywhere. So if your people would - you know, whoever is working with you - take a look at it from that angle and come back to Bell. I want a fresh look at these Army expenditures - Army and Navy - and also estimates as to what that leaves us for civilians.

MR. BELL: What was that?

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H.M.JR: I would like a fresh look - a fresh estimate from the General Staff as to what they think they are going to spend.

Tickton?

MR. TICKTON: I want to work on it before I say anything about it.

H.M.JR: That is O.K.

Henry Murphy?

MR. MURPHY: I by. (Laughter)

H.M.JR: What?

MR. MURPHY: I said I by.

H.M.JR: How do you spell "by"? (Laughter)

MR. BELL: I "pass" - that is the Secretary's word.

H.M.JR: I know.

Friedman?

MR. FRIEDMAN: I think what you are asking for is realistic, even though I shudder at the thought of trying to make the forecasts involved. I think what we can do, though, is to take a shot at it and perhaps present it to you with very broad ranges, to indicate the extreme margin of error under such uncertain forecasts.

H.M.JR: That is all right. I mean that is all I am asking for.

MR. FRIEDMAN: I realize that, Mr. Secretary.

H.M.JR: George?

MR. HAAS: I think it is very important that they have some sort of a graphic picture to use for educational purposes. As you pointed out, I think there is

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going to be a lot of difficulty, but we probably can work out something that, even if it is not exactly what you had in mind, it may fill the purpose you had in mind. The real difficulty is the thing that Milton points out.

MR. LINDOW: I agree with Friedman that we can do it, but it is going to be a proposition that will have to be kept within the broad ranges, but I do not think that that will make it any more difficult to draw the right conclusions because the magnitude is so large that the conclusions are fairly obvious, I think.

MR. SHERE: I think it will be useful, Mr. Secretary.

MR. SHOUP: I think we must do it. We have to make some stab at it - get something like that down.

H.M.JR: Carl, let me ask you this, you are up there in Columbia. Do you know of any group in the United States that is working along this line, making these kinds of studies - any other group?

MR. SHOUP: I do not know of any that is currently dealing in these quantitative terms as closely as we have to deal with them, now that the National Bureau's work is out. I do not recall any other group.

H.M.JR: There is no group that is subsidized or encouraged by the American Bankers doing anything like this in their own behalf?

MR. SHOUP: I am pretty sure not, Mr. Secretary.

H.M.JR: I mean, you would expect that the American Bankers would be doing this sort of thing, but--

MR. SHOUP: There are doubtless some individuals working here and there who are making their own stabs at it, but I do not know of any well-subsidized, well-organized group.

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MR. HAAS: There is the Reserve City Bankers Association and some people from the National Bureau, but I don't think - it was just an outline - it didn't cover any of this material.

MR. BELL: Probably individuals have done it just like Murray has - maybe not in as much detail.

MR. HASS: I don't think so.

H.M.JR: Warren?

MR. STEWART: Before they get that far they get scared to death. (Laughter)

MR. WARREN: I agree. I will be glad to do what I can in this effort of reducing this problem to figures, but I believe that at the end we will come to the conclusion that when an effort reaches this magnitude it passes beyond the scope of the money economy and enters into that area which is properly described as total war. In limited war the operations of the Treasury can remain more or less distinct from those of other agencies of Government. In total war, I believe it is impossible for the Treasury to perform its function except in much closer integration with other agencies than has yet been evidenced, and I would not say that the principal difficulty would necessarily be the tardiness of Congress. I think that, for example, the influence of pressure groups, the daily fifteen percent in wages authorized by the National Labor Relations Board, and so on, illustrated the problems of total war, and the limitations of autonomous action open to the Treasury or to the banking system - I should think that this undertaking would emphasize that problem. Some of these agencies don't seem to me to have at all the view of total war.

H.M.JR: I don't know just what you mean. I don't quite follow you. I know what total war is, but under total war, how are we going to raise this money? I mean, that is the thing.

MR. WARREN: Again, I would carry on with what Mr. Murphy, I believe, started to say, that the difficulty, as it seems to us, is not the raising of the money but the consequence of the operation which is left open to the Treasury as a consequence of the closing of other options by other agencies of the Government. Does that express your view, Mr. Murphy?

MR. MURPHY: Would you enlarge on that a little, Professor Warren?

MR. WARREN: Well, what you began to say, I believe, was that a public debt rising at the rate of sixty odd billion a year is quite within the capacity of the banking system to absorb. It might be more and more reluctant to absorb it, and it might be necessary to impose more and more pressure upon them, but that has ample precedent. But the capacity of the Treasury to meet bills as they are presented will never be limited by the availability of legal tender. The source of the legal tender which the Treasury employs to meet its bills is only partly optional with the Treasury itself, especially the amounts required.

H.M.JR: Are you through?

MR. WARREN: Yes, I could not add any more now.

H.M.JR: Walter?

MR. STEWART: I think you have stated the real problem. I think you will get quite an abstract answer to it. It can only be abstract on the series of assumptions. You have got to assume that because of a lag in the Congress, that the economical consequences will be a price level advance of so much; and by a series of these assumptions you can alter your picture year by year - which can be done. But it would not look quite as real to you as the problem is real - the problem is very real. The answer has to be fairly abstract.

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H.M.JR: It may be useful, though, with Congress.

MR. STEWART: I think it is useful here in this group. I think it puts the problem before us.

H.M.JR: I do not think that we would be studying it from all angles if we did not look at it from the very worst, and then try to work from that upward or downward - whichever way you call it. I think it ought to be looked at from the very worst; and then what, if anything, that we can do here to offset that through getting special regulations, or adjustments, or changing our methods.

Paul?

MR. PAUL: Of course I am not able to comment on the economic side of this. I think of it as a mechanism for getting as much of the job done as can be done. What you have projected can be used. I think it can be used very effectively. The character of the use, though, must be very carefully scrutinized, because if we said some of this outside of the room which we are saying in the room, we would produce some psychological effects which might be very serious. It can be used, however, among some of the Senate and House leaders, I think, very effectively.

H.M.JR: We can see what we can do. Anything else?

MR. KUHN: I am learning.

H.M.JR: Me, too. (Laughter)

MR. GASTON: I hope I am learning a little, too. I have some fairly definite ideas that I am stubborn about. That is, I think we have two fairly distinct problems here. One is the problem of the education of Congress and the country to the need, the imperative need, for great additional taxation. I think we have got enough material here that has been brought out today so that we could put it in form to be used with all the people in Congress who deal with the fiscal problem - try to get them to understand, which they

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have not tried to do so far. People look at these sums we have to spend, say, "Just astronomical - somebody else will take care of that; we won't think about it." We have got to try to carry Congress along a little more on the dimensions of this fiscal problem, and the country, and I think we have got to go ahead with a real program of education. I hope we can get some people whose names will be recognized as fairly authoritative to write articles to be printed in magazines, even if they scare people a little bit, and push this stuff out through every channel we can get.

I think the other thing which you have appropriately suggested, examination of this whole question of rates and the effect on the banking structure - what you are going to have to do on various assumptions, including the worst assumptions - is extremely important. The assumption is that it can be done, that there is a way to do it; still we want to look and see what the effects are going to be.

H.M.JR: George, did you say somebody is studying bank profits?

MR. HAAS: Murray Shields is.

H.M.JR: Well, I personally feel today has been distinctly worth while. I mean, I think we are making real progress. Dan, I would like you to ride herd on this group, see, and keep them moving.

MR. BELL: O.K.

H.M.JR: I just want to say that you cannot approach a thing like this unless everybody has a spirit of cooperation. I do not think anybody in this room, starting with myself, has got the answer. We have got to be both kind and generous with each other as we go along. I am certainly not taking the attitude I have got the answer, and I cannot work in an atmosphere unless it is one of a cooperative and helpful spirit. I like to have my jokes, and I like to have a little laughter. You cannot keep on going

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during a war and always be emotional about this thing. But we have got to be both friendly and cooperative, and I do not think that - it certainly has been demonstrated, starting this morning, that nobody has the answer. I don't think anybody claimed they had the answer, but the thing has been pooled here on my desk. I think we have made real progress for one day.

I am going to continue to give this a great deal of time - more time than anything else - until I can see some daylight. I do not know how long it will take, but I think after we come to some kind of agreement as the basis of what the problem is, then we can begin to show it to other people in the Government. But, as I said before, I think that some of these figures that bother me are the expenditure figures. I know you get them every month from these departments, but I just think - I do not think the General Staff has been talking - and, rightly, they should not be talking.

MR. BELL: They probably have figures entirely different from the Budget, and they have always been a little higher than the Budget, but not a lot. For the current year they do not give the Budget anything beyond what the Budget wants to send to Congress. They do not go into '45, '46, and '47. They probably have those figures.

H.M. JR: But, Dan, what is our Army today, two million?

MR. BELL: That is the understanding - between two and two and a half.

MR. PAUL: A little over four.

MR. KUHN: The Army and Navy and Air Force combined is between three and four.

MR. BELL: That is supposed to be a military secret.

MR. KUHN: Isn't this just the same kind of procedure that the Army has been doing in planning ahead:

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Suppose things come to the worst and it is a long war, what do we have to do.

H.M.JR: It is the kind of thing I hope the Army is planning.

MR. KUHN: If they are talking in terms of ten million men, obviously they are.

H.M.JR: If the figure is four million and they are talking ten, and I saw a figure this week of thirteen--

MR. KUHN: That was by a Swedish journalist who wanted us to see what it would be like here if we were in Sweden's shoes and had ten percent of our men under arms.

MR. BELL: General Hershey made a speech and said thirteen million.

H.M.JR: If the figure is four and they are talking ten and they are talking thirteen, this whole thing has to be changed. That is the only point I am making.

MR. BELL: Of course they could talk men and equipment without even talking dollars. That is probably what they do in many of the groups over there.

H.M.JR: Well, it is perfectly possible they can have more men in the Army than they have the equipment or food to give them.

MR. BELL: That was the case, I believe, a year or a year and a half ago.

H.M.JR: Dan, if you would keep pushing this thing - and let's make it number one project. I think you ought to see these men every day, once - not Saturdays and Sundays (laughter) - but tomorrow, and see them again Monday. Will you?

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MR. BELL: All right.

H.M.JR: And I will be here tomorrow.

MR. BELL: Is this a pretty good program - this memorandum?

H.M.JR: Yes, I think so. I mean I just think that they stress too much on taxes because I don't think we can get them.

MR. BELL: But if you are going out to educate the people it seems to me that that is the first thing you should go after.

H.M.JR: I agree with you. O.K.

September 17, 1942

MEMORANDUM FOR THE SECRETARY

Progress Report on War Financing Programs

1. Pursuant to your instructions, members of the three staffs met after the meeting this morning and arrived at mutually acceptable figures for Government borrowing, income paid out, available goods and services, and amount of income which must be kept idle to avoid price rises. These figures are shown on the attached sheets.

2. Figures representing borrowings outside the banking system and from the banks have yet to be arrived at but no difficulty is anticipated in reaching mutually acceptable figures.

3. A long discussion was held in Mr. Bell's office on the relative merits of the various programs. There was agreement on many points, including the following:

- (a) Much higher taxes are necessary.
- (b) A program of voluntary lending will continue to be necessary throughout the war.
- (c) Compulsory lending should be relied on to some extent.

4. Differences of opinion arose on a number of points, including the following:

- (a) The degree of post-war danger of a vast stock of money and a vast public debt.
- (b) The feasibility of imposing enough taxes and compulsory lending to stop inflation during the war.

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- (c) The feasibility of imposing expenditure rationing during the war and of maintaining expenditure rationing in a democracy after the war.
- (d) The desirability and feasibility of greatly expanded commodity rationing.
- (e) The effects of expenditure rationing on the size of the tax program.
- (f) Types of taxes that would be preferable to borrowing.

5. The above issues and others should be thoroughly analyzed and discussed with you before a Treasury program is decided upon.

6. To serve as the basis for a discussion of these points, the next step should be the specification of the different programs. These programs should list the measures to be followed and the quantitative magnitudes of each. This will take some time. It is suggested that these programs be prepared and available for discussion by the three Divisions, by next Tuesday, September 22, with a report to you by Thursday, September 24.

Attachments

Federal Budget Position
(In billions of dollars)

	<u>Fiscal 1943</u>	<u>Fiscal 1944</u> (and later years)
1. War expenditures	70	95
2. Federal non-war expenditures	<u>6</u>	<u>7</u>
3. Total Federal expenditures	76	102
4. Receipts from taxes	<u>21</u>	<u>28</u>
5. Balance to be borrowed	55	74
6. Available from special issues	<u>3</u>	<u>4</u>
7. Necessary borrowing from public	52	70

Individual Income Flow and Supply of Goods and Services

	<u>Fiscal 1943</u>	<u>Fiscal 1944 (and later years)</u>
1. Income payments to individuals	118	125
2. Direct personal taxes (Federal, state and local)	<u>10</u>	<u>14</u>
3. Disposable income	108	111
4. Supply of goods and services available at Sept., 1942 prices	<u>68</u>	<u>60</u>
5. Personal income that must be kept idle to avoid price rises	40	51

TABLE I

FINANCIAL IMPACT OF WAR

Assuming no change from House Bill tax rates and continuation of present Treasury policies.

(Dollar figures are billions)

		Actual 1940-41	Actual 1941-42	Estimate 1942-43	Estimate 1943-44	Estimate 1944-45	Estimate 1945-46	Estimate 1946-47
QUARTERLY FISCAL POSITION								
Cash Expenditures	Fiscal Years	\$6.3	\$26.0	\$69.7	\$95.0	\$95.0	\$95.0	\$95.0
Military	" "	1.4	1.7	3.1	4.3	5.5	6.8	7.7
Interest	" "	1.4	1.7	3.1	4.3	5.5	6.8	7.7
Other	" "	3.5	12.6	35.5	47.4	44.0	41.4	49.6
Total	" "	6.3	26.0	69.7	95.0	95.0	95.0	95.0
Tax Receipts	" "	7.6	13.3	21.0	29.0	27.0	29.0	31.0
Cash Deficit	" "	6.1	21.1	57.8	66.3	79.6	78.8	77.7
Sources of Cash to Meet Deficit								
Withdrawals from Balance	" "	- 0.6	- 0.6	-	-	-	-	-
Sales of Securities	" "	1.2	1.8	3.8	4.8	5.2	5.6	6.0
Special Security Funds - Special Issues	" "	1.4	1.9	12.0	12.0	12.0	12.0	12.0
Savings Bonds	" "	-	-	1.8	1.2	-	-	-
Tax Notes	" "	-	1.0	1.8	62.3	62.4	61.2	59.7
Market Issues (Direct and Guaranteed)	" "	4.1	11.0	40.8	62.3	62.4	61.2	59.7
SECURITY SUPPLY AND DEMAND								
Supply New Issues (Market Issues for New Money)	" "	\$4.1	\$11.0	\$40.8	\$62.3	\$62.4	\$61.2	\$59.7
U. S. Government (Direct and Guaranteed)	" "	0.8	1.2	-	- 0.5	- 0.5	- 0.5	- 0.5
Corporate	" "	0.8	0.4	-	- 0.5	- 0.5	- 0.5	- 0.5
Municipal and Foreign	" "	2.5	9.4	40.8	62.3	62.4	61.2	59.7
Total	" "	4.1	11.0	40.8	62.3	62.4	61.2	59.7
Effective Demand	" "	0.1	0.28	0.0	1.0	1.0	1.0	1.0
Savings Banks	" "	1.3	1.48	2.0	2.0	2.0	2.0	2.0
Life Insurance Companies	" "	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Government Agencies	" "	- 0.3	0.5	2.0	3.5	3.5	5.0	5.5
Federal Reserve Banks	" "	0.9	4.28	7.0	7.0	7.0	7.0	7.0
Individuals, Corporations and Other Institutions	" "	3.6	5.58	29.3	47.6	47.7	49.0	43.0
Commercial Banks	" "	-	-	-	-	-	-	-
BANK CREDIT - MEMBER BANKS								
Increase in Holdings of U.S. Securities (50% of C.B.)	" "	\$1.3	\$5.78	\$26.3	\$42.8	\$42.9	\$40.5	\$38.7
Increase in Holdings of Other Securities	" "	0.1	0.28	-	-	-	-	-
Increase in Loans	" "	2.8	0.68	- 5.0	- 2.0	- 2.0	- 1.0	- 1.0
Increase in Reserves (Excluding Money in Circulation)	" "	1.0	1.68	2.0	3.5	3.5	5.0	5.5
Less Increase in Money in Circulation	" "	1.8	2.78	2.0	2.0	2.0	2.0	2.0
Increase in Other Factors	" "	1.4	-	-	-	-	-	-
Increase in Deposits	" "	4.8	5.68	21.3	42.3	42.4	42.5	41.2
Total Deposits	End of Period	58.5	64.18	85.4	127.7	170.1	212.6	251.4
Capital Funds	" "	5.8	6.08	6.2	6.5	6.8	7.1	7.4
Ratio Capital Funds to Deposits	" "	9.9%	9.48%	7.3%	5.10%	4.0%	3.36%	2.96%
CHANGES IN BANK RESERVES (MEMBER BANKS) DUE TO:								
Additions to Monetary Gold Stock	Fiscal Years	+82.6	+80.1	-	-	-	-	-
Outflow of Money in Circulation	" "	- 1.8	- 2.7	- 2.0	- 2.0	- 2.0	- 2.0	- 2.0
Changes in F.R. Portfolio of U.S. Securities	" "	- 0.3	+ 0.5	+ 2.0	+ 3.5	+ 3.5	+ 5.0	+ 5.5
Changes in Non-Member Deposits	" "	- 0.6	+ 0.5	-	-	-	-	-
Changes in Other Factors	" "	- 0.7	- 0.7	-	-	-	-	-
Net Change in Reserves	" "	- 0.8	- 0.9	0	+ 1.5	+ 1.5	+ 3.0	+ 3.5
Total Reserves	End of Period	13.1	12.2	12.2	13.7	15.2	18.2	21.7
Reserve Requirements - Assumptions as to Date	" "	28 3/4 %	26 %	17 1/2 %	12 1/2 %	10 %	10 %	10 %
Central Reserve City Banks	" "	17 1/2 %	20 %	17 1/2 %	12 1/2 %	10 %	10 %	10 %
Reserve City Banks	" "	12 1/2 %	14 %	12 %	8 %	7 1/2 %	7 1/2 %	7 1/2 %
Country Banks	" "	19 3/4 %	21.7 %	16.1 %	11.4 %	9.3 %	9.3 %	9.3 %
Average - All Banks	" "	87.9	89.9	810.8	813.4	816.8	820.2	822.0
Required Reserves	" "	5.2	2.3	1.4	1.7	1.8	1.4	1.5
Excess Reserves	" "	-	-	-	-	-	-	-
NATIONAL INCOME COMPARISONS								
Gross National Product	Fiscal Years	\$108.3	\$133.5	\$150.0	\$167.0	\$176.0	\$183.0	\$192.0
Per Cent Military Expenditures to Gross National Product	" "	5.0%	12.5%	16.5%	16.9%	14.0%	11.9%	10.9%
Federal Taxes	" "	\$7.6	\$13.3	\$21.0	\$29.0	\$27.0	\$29.0	\$31.0
Social Security Taxes	" "	1.8	2.3	4.2	5.2	5.7	6.0	6.4
State and Municipal Taxes	" "	5.8	11.0	16.8	23.8	21.3	23.0	24.6
Total Taxes	" "	17.6	24.68	32.9	38.2	40.7	43.0	45.4
Per Cent Total Tax Load to Gross National Product	" "	16.3%	18.4%	22.0%	22.9%	23.1%	23.5%	23.7%
Total New Issues Absorbed by Others than Commercial Banks, Government Agencies and Special Funds	" "	\$1.7	\$15.58	\$22.5	\$22.2	\$22.0	\$22.0	\$22.0
Total Taxes and New Issues	" "	21.3	39.68	55.4	60.4	62.7	65.0	67.4
Per Cent Taxes and New Issues to Gross National Product	" "	19.6%	29.8%	36.9%	36.2%	35.6%	35.5%	35.1%
FEDERAL DEBT								
Total Direct and Guaranteed	End of Period	\$54.8	\$76.5	\$134.3	\$214.5	\$294.1	\$372.9	\$450.6
Market Issues	" "	44.1	55.1	95.9	158.2	220.6	281.8	341.9
In Hands of Government Agencies (Other Than F.R. Banks)	" "	2.4	2.6	2.8	3.0	3.2	3.4	3.6
In Hands of Federal Reserve Banks	" "	2.2	2.7	4.7	8.2	11.7	16.7	22.2
In Hands of Commercial Banks	" "	20.2	25.68	54.9	102.5	150.2	199.2	248.2
In Hands of Others	" "	19.3	24.28	33.5	44.5	55.5	66.5	77.5
Special Issues	" "	6.1	7.9	11.7	16.5	21.7	27.5	33.3
Demand Issues (Including Tax Notes)	" "	4.6	13.5	26.7	39.9	51.9	63.9	75.9
Maturity Distributions of Market Issues	" "	1.6	2.5	19.2	31.6	44.1	56.4	68.3
Bills	" "	-	1.1	19.2	31.6	44.1	56.4	68.3
Certificates	" "	12.8	13.5	24.0	39.6	50.9	70.4	85.4
Under 5-year Notes and Bonds	" "	9.6	11.1	24.0	39.6	50.9	70.4	85.4
5- to 10-year Bonds	" "	20.1	24.9	9.5	15.8	22.0	28.2	34.1
Over 10-year Bonds	" "	-	-	-	-	-	-	-
Interest on Federal Debt	" "	1.4	1.7	3.1	4.3	5.6	6.8	7.7
Interest Rate on Federal Debt	" "	2.5%	2.3%	2.3%	2.6%	3.1%	3.7%	4.1%

TABLE II
FINANCIAL IMPACT OF WAR

Assuming \$20.0 billions of new taxes and sale of \$13.0 billions of new market securities to individuals and non-financial institutions (in addition to War Savings Bonds).

(Dollar figures are billions)

TREASURY FISCAL POSITION	Fiscal Years	Actual	Actual	Estimate	Estimate	Estimate	Estimate	Estimate
		1940-41	1941-42	1942-43	1943-44	1944-45	1945-46	1946-47
Cash Expenditures		\$6.3	\$26.0	\$69.7	\$95.0	\$95.0	\$95.0	\$95.0
Military		1.4	1.7	3.0	3.9	5.1	6.2	7.4
Interest		1.0	1.0	1.0	1.0	1.0	1.0	1.0
Other		3.9	13.3	65.7	89.9	88.9	87.8	86.6
Total		6.3	26.0	69.7	95.0	95.0	95.0	95.0
Tax Receipts		7.6	13.3	21.0	45.0	47.0	49.0	51.0
Cash Deficit		6.1	21.1	57.7	99.9	99.1	98.2	97.4
Sources of Cash to Meet Deficit								
Withdrawals from Balance		- 0.6	- 0.6	-	-	-	-	-
Sales of Securities								
Social Security Funds - Special Issues		1.2	1.8	3.8	4.8	5.2	5.6	6.0
Savings Bonds		1.4	5.9	12.0	12.0	12.0	12.0	12.0
Tax Sales		-	3.0	1.2	4.0	3.0	2.0	1.0
Market Issues (Direct and Guaranteed)		4.1	11.0	40.7	39.1	38.9	36.6	38.4
SECURITY SUPPLY AND DEMAND								
Supply New Issues (Market Issues for New Money)		\$4.1	\$11.0	\$40.7	\$39.1	\$38.9	\$36.6	\$38.4
U.S. Government (Direct and Guaranteed)		0.8	1.2	-	- 0.5	- 0.5	- 0.5	- 0.5
Corporate		0.8	0.4	-	- 0.3	- 0.3	- 0.3	- 0.3
Municipal and Foreign		2.5	9.4	40.7	39.1	38.9	36.6	38.4
Total		4.1	11.0	40.7	39.1	38.9	36.6	38.4
Effective Demand								
Savings Banks		0.1	0.28	0.0	1.0	1.0	1.0	1.0
Life Insurance Companies		1.3	2.0	2.0	2.0	2.0	2.0	2.0
Government Agencies		0.1	0.2	0.2	0.2	0.2	0.2	0.2
Federal Reserve Banks		- 0.3	0.5	2.0	2.5	2.5	2.0	1.5
Individuals, Corporations and Other Institutions		0.9	4.08	7.3	13.0	13.0	13.0	13.0
Commercial Banks		3.6	5.98	29.2	19.4	19.2	19.4	19.7
BASE CREDIT - MEMBER BANKS								
Increase in Holdings of U.S. Securities (90% of U.S.)		\$3.3	\$5.78	\$26.3	\$17.5	\$17.3	\$17.5	\$17.7
Increase in Holdings of Other Securities		0.1	0.28	-	-	-	-	-
Increase in Loans		2.8	0.68	- 5.0	- 2.0	- 2.0	- 1.0	- 1.0
Increase in Reserves (Excluding Money in Circulation)		1.0	1.68	2.0	2.5	2.5	2.0	1.5
Less Increase in Money in Circulation		1.8	2.78	2.0	2.0	2.0	2.0	2.0
Increase in Other Factors		1.4	5.58	21.3	15.0	15.2	16.5	16.2
Increase in Deposits		5.8	5.58	21.3	15.0	15.2	16.5	16.2
Total Deposits	End of Period	58.5	64.18	89.4	101.4	117.2	133.7	149.9
Capital Funds		5.8	6.08	6.2	6.5	6.8	7.1	7.4
Ratio Capital Funds to Deposits		9.9%	9.48%	7.3%	6.4%	5.8%	5.3%	4.9%
CHANGES IN BASE RESERVES (MEMBER BANKS) DUE TO:								
Additions to Monetary Gold Stock	Fiscal Years	+\$2.6	+\$0.1	-	-	-	-	-
Outflow of Money in Circulation		- 1.8	- 2.7	-	- 2.0	- 2.0	- 2.0	- 2.0
Changes in F.R. Portfolio of U.S. Securities		- 0.3	- 0.5	2.0	2.5	2.5	2.0	1.5
Changes in Non-Member Deposits		- 0.5	- 0.5	-	-	-	-	-
Changes in Other Factors		- 0.7	- 0.7	-	-	-	-	-
Net Change in Reserves		- 0.8	- 0.9	0	+ 0.5	+ 0.5	0	- 0.5
Total Reserves	End of Period	13.1	12.2	12.2	12.7	13.2	13.2	12.7
Reserve Requirements - Assumptions as to Rate								
Central Reserve City Banks		22 3/4 %	26 %	17 1/2 %	14 %	13 %	12 %	10 %
Reserve City Banks		17 1/2 %	20 %	17 1/2 %	14 %	13 %	12 %	10 %
Country Banks		12 1/2 %	14 %	12 %	10 %	9 %	8 %	7 %
Average - All Banks		19.3 %	21.7 %	16.1 %	13.0 %	12.0 %	11.0 %	9.3 %
Required Reserves		\$7.3	\$10.8	\$10.8	\$11.4	\$11.4	\$12.0	\$11.5
Excess Reserves		5.2	2.3	1.4	1.3	1.8	1.2	1.2
NATIONAL INCOME COMPARISONS								
Gross National Product	Fiscal Years	\$108.3	\$133.5	\$150.0	\$167.0	\$176.0	\$183.0	\$192.0
Per Cent Military Expenditures to Gross National Product		5.6%	19.5%	46.5%	56.9%	54.0%	51.9%	49.5%
Federal Taxes		\$7.6	\$13.3	\$21.0	\$45.0	\$47.0	\$49.0	\$51.0
Social Security Taxes		1.8	2.3	4.2	5.2	5.7	6.0	6.4
State and Municipal Taxes		8.2	8.58	7.7	8.0	8.0	8.0	8.0
Total Taxes		17.6	24.58	32.9	58.2	60.7	63.0	65.4
Per Cent Total Tax Load to Gross National Product		16.3%	18.4%	22.0%	34.9%	34.5%	34.4%	34.1%
Total New Issues Absorbed by Others than Commercial Banks, Government Agencies and Special Funds		\$1.7	\$15.38	\$22.5	\$32.0	\$31.0	\$30.0	\$29.0
Total Taxes and New Issues		21.3	39.88	55.4	90.2	91.7	93.0	94.4
Per Cent Taxes and New Issues to Gross National Product		19.6%	29.9%	36.9%	54.0%	52.1%	50.8%	49.2%
FEDERAL DEBT								
Total Direct and Guaranteed	End of Period	\$54.8	\$76.5	\$134.2	\$194.1	\$253.2	\$311.4	\$366.8
Market Issues		44.1	55.1	95.8	154.9	173.8	212.4	250.8
In Hands of Government Agencies (Other Than F.R. Banks)		2.4	2.6	2.8	3.0	3.2	3.4	3.6
In Hands of Federal Reserve Banks		2.2	2.7	4.7	7.2	9.7	11.7	13.2
In Hands of Commercial Banks		20.2	29.68	54.8	74.2	93.4	112.8	132.5
In Hands of Others		19.3	24.28	33.5	50.5	67.5	84.5	101.5
Special Issues		5.1	7.9	11.7	15.5	21.7	27.3	33.3
Demand Issues (Including Tax Sales)		4.6	13.5	26.7	42.7	57.7	71.7	84.7
Maturity Distribution of Market Issues								
Bills		3.6	2.5	19.2	27.0	34.8	42.5	50.2
Certificates		-	3.1	19.2	27.0	34.8	42.5	50.2
Under 5-year Notes and Bonds		12.8	13.5	24.0	33.7	43.5	53.1	62.7
5- to 10-year Bonds		9.8	11.1	24.0	33.7	43.5	53.1	62.7
Over 10-year Bonds		20.1	24.9	9.5	13.6	17.3	21.3	25.1
Interest on Federal Debt		1.4	1.7	3.0	3.9	5.1	6.2	7.4
Interest Rate on Federal Debt		2.5%	2.3%	2.3%	2.0%	2.0%	2.0%	2.0%

TABLE III

FINANCIAL IMPACT OF WAR

Assuming \$30.0 billions of new loans, reduction in sales of War Savings Bonds to \$6.0 billions P.M. and sale of \$10.0 billions of market securities to individuals and non-financial corporations.

(Dollar figures are billions)

		Actual 1940-41	Actual 1941-42	Estimate 1942-43	Estimate 1943-44	Estimate 1944-45	Estimate 1945-46	Estimate 1946-47	
PRESENT FISCAL POSITION									
Cash Expenditures	Fiscal Years	\$6.3	\$26.0	\$69.7	\$95.0	\$95.0	\$95.0	\$95.0	
Military	" "	1.4	1.7	3.0	3.7	4.7	5.6	6.5	
Interest	" "	6.0	6.7	6.0	6.0	6.0	6.0	6.0	
Other	" "	13.7	14.4	14.7	14.7	14.7	14.7	14.7	
Total	" "	7.6	13.3	21.0	21.0	21.0	21.0	21.0	
Tax Receipts	" "	"	"	"	"	"	"	"	
Cash Deficit	" "	6.1	21.1	57.7	49.7	48.7	47.6	46.5	
SOURCES OF CASH TO MEET DEFICIT									
Withdrawals from Balance	" "	- 0.6	- 0.6	-	-	-	-	-	
Sales of Securities	" "	1.8	1.8	3.8	4.8	5.8	5.6	6.0	
Social Security Funds - Special Issues	" "	1.4	5.9	12.0	6.0	6.0	6.0	6.0	
Savings Bonds	" "	3.0	3.0	1.2	3.0	4.0	3.0	1.0	
Tax Notes	" "	-	-	-	-	-	-	-	
Market Issues (Direct and Guaranteed)	" "	4.1	11.0	40.7	33.9	33.9	33.0	33.9	
SECURITY SUPPLY AND DEMAND									
Supply New Issues (Market Issues for New Money)	" "	\$4.1	\$11.0	\$40.7	\$31.9	\$33.9	\$33.0	\$33.9	
U.S. Government (Direct and Guaranteed)	" "	0.8	1.2	-	- 0.5	- 0.5	- 0.5	- 0.5	
Corporate	" "	0.8	0.4	-	- 0.5	- 0.5	- 0.5	- 0.5	
Municipal and Foreign	" "	3.7	12.6	40.7	32.9	32.9	32.0	32.9	
Total	" "	0.1	0.28	0.0	1.0	1.0	1.0	1.0	
Effective Demand	" "	1.3	1.48	2.0	2.0	2.0	2.0	2.0	
Savings Banks	" "	0.1	0.2	0.2	0.2	0.2	0.2	0.2	
Life Insurance Companies	" "	0.1	0.5	2.0	2.0	2.0	2.5	1.8	
Government Agencies	" "	- 0.3	0.5	2.0	2.0	2.0	10.0	10.0	
Federal Reserve Banks	" "	0.9	4.88	7.3	10.0	10.0	17.3	16.3	
Individuals, Corporations and Other Institutions	" "	3.6	5.58	29.2	17.7	17.3	16.3	17.8	
Commercial Banks	" "	"	"	"	"	"	"	"	
BANK CREDIT - MEMBER BANKS									
Increase in Holdings of U.S. Securities (90% of U.S.)	" "	\$5.3	\$5.78	\$26.3	\$15.9	\$15.6	\$14.7	\$16.0	
Increase in Holdings of Other Securities	" "	0.1	0.28	-	-	-	-	-	
Increase in Loans	" "	2.8	0.28	- 5.0	- 2.0	- 2.0	- 1.0	- 1.0	
Increase in Reserves (Excluding Money in Circulation)	" "	1.0	1.68	2.0	2.0	2.0	2.0	2.0	
Less Increase in Money in Circulation	" "	1.8	2.78	2.0	2.0	2.0	2.0	2.0	
Increase in Other Factors	" "	- 1.4	- 0.58	-	-	-	-	-	
Increase in Deposits	" "	6.6	5.58	21.3	13.9	13.6	14.2	15.0	
Total Deposits	End of Period	58.5	64.18	85.4	99.3	112.9	127.1	142.1	
Capital Funds	" "	3.8	6.08	6.2	6.5	6.8	7.1	7.4	
Ratio Capital Funds to Deposits	" "	9.9%	9.48%	7.3%	6.5%	6.0%	5.6%	5.2%	
CHANGES IN BANK RESERVES (MEMBER BANKS) DUE TO:									
Additions to Monetary Gold Stock	Fiscal Years	+22.6	+40.1	-	-	-	-	-	
Outflow of Money in Circulation	" "	- 1.8	- 2.7	- 22.0	- 22.0	- 22.0	- 22.0	- 22.0	
Changes in F.R. Portfolios of U.S. Securities	" "	- 0.3	+ 0.5	+ 2.0	+ 2.0	+ 2.0	+ 2.5	+ 1.5	
Changes in Non-Member Deposits	" "	- 0.6	+ 0.5	-	-	-	-	-	
Changes in Other Factors	" "	+ 0.7	-	0	0	0	+ 0.5	- 0.5	
Net Change in Reserves	" "	- 0.8	- 0.9	0	0	0	0	0	
Total Reserves	End of Period	13.1	12.2	12.2	12.2	12.2	12.7	12.2	
Reserve Requirements - Assumptions as to Rate	" "	22 3/4 %	26 %	17 1/2 %	14 %	13 %	12 %	10 %	
Central Reserve City Banks	" "	17 1/2 %	20 %	17 1/2 %	14 %	13 %	12 %	10 %	
Reserve City Banks	" "	12 1/2 %	14 %	12 %	10 %	9 %	8 %	7 %	
Country Banks	" "	19 1/2 %	21.7 %	16.1 %	13.0 %	12.0 %	11.0%	9.3%	
Average - All Banks	" "	17.9	19.9	16.0	13.0	12.0	11.3	10.2	
Required Reserves	" "	9.2	2.3	1.4	1.6	1.2	1.4	1.4	
Excess Reserves	" "	"	"	"	"	"	"	"	
NATIONAL INCOME COMPANISHES									
Gross National Product	Fiscal Years	\$104.3	\$133.5	\$190.0	\$167.0	\$176.0	\$183.0	\$192.0	
Per Cent Military Expenditures to Gross National Product	" "	5.8%	19.5%	46.5%	56.5%	54.0%	51.5%	49.5%	
Federal Taxes	" "	\$7.6	\$13.3	\$21.0	\$25.0	\$27.0	\$29.0	\$31.0	
Social Security Taxes	" "	1.8	2.3	4.2	5.2	5.7	6.0	6.4	
State and Municipal Taxes	" "	8.2	8.98	7.7	8.0	8.0	8.0	8.0	
Total Taxes	" "	17.6	24.5	32.9	38.2	40.7	43.0	45.4	
Per Cent Total Tax Load to Gross National Product	" "	16.3%	18.4%	29.0%	40.8%	40.2%	39.5%	39.5%	
Total New Issues Absorbed by Others than Commercial Banks	" "	\$3.7	\$15.38	\$22.5	\$24.0	\$23.0	\$22.0	\$20.0	
Government Agencies and Special Funds	" "	21.3	39.88	55.4	52.2	53.7	55.0	55.4	
Total Taxes and New Issues	" "	19.6%	25.8%	36.5%	55.2%	53.2%	51.5%	49.7%	
FEDERAL DEBT									
Total Direct and Guaranteed	End of Period	\$54.8	\$76.5	\$134.2	\$183.9	\$232.6	\$280.2	\$326.7	
Market Issues	" "	44.1	55.1	95.4	129.7	163.2	196.7	229.7	
In Hands of Government Agencies (Other than F.R. Banks)	" "	2.4	2.6	2.6	3.0	3.2	3.4	3.6	
In Hands of Federal Reserve Banks	" "	2.7	2.7	4.7	6.7	6.7	11.2	12.7	
In Hands of Commercial Banks	" "	20.2	25.68	54.8	72.5	85.8	106.1	123.9	
In Hands of Others	" "	19.3	24.28	33.5	47.5	61.5	75.5	89.5	
Special Issues	" "	6.1	7.9	11.7	16.5	21.7	27.3	33.3	
Demand Issues (Including Tax Notes)	" "	4.6	13.5	26.7	37.7	47.7	56.7	63.7	
Maturity Distribution of Market Issues	" "	1.6	2.5	19.8	26.0	32.7	39.2	46.9	
Bills	" "	-	1.1	19.2	26.0	32.7	39.2	46.9	
Certificates	" "	12.8	13.5	24.0	32.4	40.8	49.1	57.4	
Under 5-year Notes and Bonds	" "	9.6	11.1	24.0	32.4	40.8	49.1	57.4	
5- to 10-year Bonds	" "	20.1	24.9	9.9	13.0	16.3	19.6	23.1	
Over 10-year Bonds	" "	"	"	"	"	"	"	"	
Interest on Federal Debt	" "	1.4	1.7	3.0	3.7	4.7	5.6	6.5	
Interest Rate on Federal Debt	" "	2.5%	2.3%	2.3%	2.0%	2.0%	2.0%	2.0%	

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OFFICE OF
THE UNDER SECRETARY OF THE NAVY

17 September 1942

TO MR. FORRESTAL:

Re: Col. Lewis Sanders

Col. Sanders is Chief of the Re-employment Division of Selective Service and can be reached on Extension 96, 97 or 271 at Selective Service.

Dr. Barker has known Col. Sanders for the past 20 years and thinks he is the type of fellow who rides a hobby or an idea and finds it difficult to see that other factors might seriously effect the carrying out of the idea.


F.D.O.

September 17, 1942
3:54 p.m.

HMJr: Hello.

Operator: Mr. Currie.

HMJr: All right.

Operator: Go ahead.

HMJr: Hello.

Lauchlin
Currie: Hello.

HMJr: Lauch....

C: Yes.

HMJr: We've missed each other a couple of times.

C: Yes. I just wanted to - it just occurred to me,
I was writing up some letters for the President,
thanking - to be taken back by Owen Lattimore, who's
leaving the first of the week for China.

HMJr: Oh, yes.

C: And it occurred to me that you might want to send
some acknowledgment back to Dr. Kung....

HMJr: Ah....

C:for the tea which you are illegally holding now,
I believe.

HMJr: Oh, well, we have already thanked him.

C: Oh, you have.

HMJr: Yes.

C: Oh, well, fine.

HMJr: Mrs. Morgenthau wrote a letter to Dr. Kung - to
Mrs. Kung or Dr. Kung.

C: Oh, yeah.

HMJr: Do you think I should send one of greetings?

C: No, not particularly. It's just - I didn't know you had, and....

HMJr: No, we thanked him....

C:I thought this was an opportunity. See, Lattimore will be going right through, and he'll get through in about two weeks, I should say, or a week after he leaves here.

HMJr: No, we thanked the - the next day.

C: Oh, you're much better than I am.

HMJr: No. Well, I'm not but my wife is.

C: Fine.

HMJr: What else?

C: That's all. About the - the new chairman of the Joint Production Committee to get his sub-committee to give him a full report on this aircraft deal - for you.

HMJr: Good. Who is the new chairman?

C: Knowlson.

HMJr: Knowlson.

C: Stewart-Warner, you know.

HMJr: Oh, yeah. What do you know about Guy Holcombe? I saw him written up today by Pearson.

C: I don't know. Just that story that Nelson had him fired - from Justice. He talked to the press apparently.

HMJr: What's that?

C: He talked to the press.

HMJr: Uh - yeah.

C: Yeah.

HMJr: Well....

C: And a....

HMJr: okay.
C: that's the main crime.
HMJr: Well, it seems to be all with Nelson's office.
C: That's right.
HMJr: Yeah.
C: Okay.
HMJr: Thank you.
C: Good-bye.

September 17, 1942

MEMORANDUM TO THE PRESIDENT:

Transmitted herewith for your signature is a letter to Hon. Bernard M. Baruch. This is in compliance with your request under date of September 15.

Respectfully,

(Signed) H. Morgenthau, Jr.

Orig. file to Thompson
Photostat File - Diary

Sent over by Secret Service 9/17
(afternoon)

My dear Mr. Baruch:

Your telegram of September 15 concerning the use of Government Bonds to purchase military and other equipment by civilians after the war is most interesting.

I have taken this up with Secretary Morgenthau and he assures me that the Treasury Department has been giving considerable attention to similar proposals for some kind of post-war deferred installment purchasing as an inducement for the sale of War Bonds. At the present time, however, the Treasury is exerting its utmost to induce the American people to purchase Government securities for the purpose of making available to our armed forces the equipment which is indispensable to the prosecution of the war. To introduce a note such as your suggestion embodies might very well lead to confusion and misunderstanding at this time.

The Treasury is not, therefore, disposed to embark upon such a program until some later date when the victorious conclusion of the war is within sight. I need not say how much I appreciate any suggestion coming from you. Your counsel is always welcome and invariably wise.

With all good wishes for your continued health, I am

Cordially yours,

Hon. Bernard M. Baruch
Port Washington
New York

91
THE WHITE HOUSE
WASHINGTON

September 15, 1942.

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

FOR PREPARATION OF REPLY FOR MY
SIGNATURE.

F.D.R.

WB29 67 XC

PORTWASHINGTON NY SEP 15

THE PRESIDENT

WHITE HOUSE WASHDC

NAVAL OFFICER GILMORE IN PHILADELPHIA NAVY YARD SUGGESTED FOLLOWING WHICH I THINK HAS GREAT MERIT BECAUSE IT WILL ENCOURAGE BOND SALES AND MAKE BROADER MARKET PUTTING FLOW UNDER THEM FOR YEARS TO COME. ALL VICTORY BONDS AND FUTURE BOND ISSUES HAVE PRIVILEGE OF USING BONDS AT PAR TO PURCHASE ANYTHING GOVERNMENT SELLS SUCH AS JEEPS, AUTOMOBILES, TRACTORS, MACHINERY, HOUSES, AIRPLANES, PLANTS, HORSES, MULES, SHIPS AND SO ON

BERNARD M BARUCH.

10/8/42

9

Secretary said not to send.

September 17, 1942

MEMORANDUM FOR THE SECRETARY:

The attached memorandum prepared for transmission from you to the President answers the following question posed by the President:

"Why can't a person go to the post office and buy, say, \$600 worth of stamps with which to buy goods? The first \$600 worth would be exempt from taxes; then you buy \$600 more and on that you would pay 10%, and for each additional \$600 you would pay a higher tax."

REP

Attachment



THE SECRETARY OF THE TREASURY
WASHINGTON

MEMORANDUM FOR THE PRESIDENT:

You requested an answer to the following question:

"Why can't a person go to the post office and buy, say, \$600 worth of stamps with which to buy goods? The first \$600 worth would be exempt from taxes; then you buy \$600 more and on that you would pay 10%, and for each additional \$600 you would pay a higher tax."

This plan, if it could be made effective, would remove two of the principal objections to a sales tax. It would be imposed at progressive rates and would provide the equivalent of personal exemptions.

The effective operation of the plan would encounter serious difficulties:

1. Careful and costly registration would be required to prevent persons from obtaining more than one tax-free set of stamps. Some multiple registration could not be prevented.
2. It would be extremely difficult to prevent trafficking in unused stamps. Persons with large incomes and relatively large expenditures would benefit by purchasing stamps from those with lower incomes and lower expenditures, who could obtain stamps at relatively lower prices.
3. Retail purchases made by business concerns would have to be exempted, to prevent the tax from exerting a pressure against price ceilings. This would complicate tax administration and would create opportunities for evasion.

- 2 -

4. A continuous check would be required on retailers to insure the collection of the stamps and to prevent retailers from selling stamps collected from purchasers instead of turning them over to the tax-collecting agency.

5. The necessity that they have on hand at all times sufficient stamps to cover their purchases, including purchases made on credit, would be an inconvenience to taxpayers.

6. Responsibility for the distribution of stamps would impose a further burden on an already overburdened postal system.

If it could be administered effectively, a progressive tax on purchases utilizing the stamp system would have distinct advantages over the usual type of sales tax, and in time of war would provide a desirable progressive addition to the tax system. However, so long as these administrative problems remain unsurmounted, its objectives can be obtained more effectively by a graduated spendings tax.

TREASURY DEPARTMENT

87

INTER OFFICE COMMUNICATION

SEP 17 1942
PAID

TO Secretary Morgenthau
FROM Randolph Paul

Feeling encouraged by the President's attitude the other day that we should kick to the press about misrepresentations, I had in the "Time" man with reference to the story in the attached photostat. The story is completely wrong, in that the figure 50,000 should be 2900, and in that we did not worry a great deal about what private employers would do. In fact, we interviewed over 400 employers and a lot of employees to boot.

"Time" is looking into the matter and I will report later on what has been accomplished.

RSP

✓

Advertisement

WALL STREET

Custodian Service (cont'd)

That there is a genuine need for the Custodian Service offered by the well-known investment and brokerage firm of Merrill Lynch, Pierce, Fenner & Beane is proved by the hearty response to the firm's recent column on the subject. Of the numerous investors who sent for the explanatory booklet, a goodly number have already opened accounts. Typical case histories:

Mr. A., who was about to depart from New York for the Pacific Coast on an extended business trip, realized that the usefulness of his bank vault was nullified to some extent by its inaccessibility in case he had long-distance instructions. He came into Merrill Lynch's New York office carrying a bag full of securities worth well over \$200,000. This procedure was not as unorthodox as it seems, since the investor knew Merrill Lynch's reputation and had no need to be convinced of the firm's financial responsibility.

Lieut. F., who had a hunch he would soon be bound for parts unknown, was mighty pleased to learn that a reputable firm like Merrill Lynch would safeguard his investments *without charge** for as long as he wished to leave them in the firm's custody.

While his investments were being catalogued, Lieut. F. indicated that he was open to suggestions. Merrill Lynch's Research Dept. soon saw that his securities, accumulated over a period of years, had been bought without rhyme or reason, did not have proper balance for income and growth. A new, well-integrated program was built around certain fundamentally sound securities already in Lieut. F.'s portfolio, met with the investor's enthusiastic approval. With power of attorney in his wife's hands enabling her to act on his instructions, with his securities safe and in a portfolio planned by skilled security analysts, the Lieutenant's financial affairs were for the first time in apple pie order.

Booklet. Providing as it does without cost* the three important factors of safety, availability and periodic analysis, a Merrill Lynch Custodian Account is especially valuable for men about to enter the armed forces, as well as any investor who is frequently away from home or otherwise too busy to keep an eagle eye on news which affects his securities. Merrill Lynch does not expect any investor to entrust his securities to the firm without thorough investigation; has therefore prepared a special brochure to answer questions about Custodian Accounts and invites *TIME* readers to write at once for a free copy. Requests should be addressed to Merrill Lynch, Pierce, Fenner & Beane's headquarters at 70 Pine Street, New York, N. Y.

*Market value of securities must be at least \$70,000 to warrant this free service.

throughout U.S. power output has declined since 1939, utility common stocks are still below the 1939 peaks, are 37% under the 1939 depression level. Some utility preferred shares sell at two times earnings, yield 20-25% at present dividend rates.

Point No. 2 is a speculator's bank of dream. Nobody knows how long it will take to break up the utility holding companies, who will buy the underlying operating companies or how much they will pay. An example of the dream possibilities is Electric Bond & Share (with five associate companies and over 40 subsidiaries) which the SEC wants to break up. But before E.B. & S. can do so, it must collect \$27,925,000 due from its affiliate Electric Power & Light (which has nine subsidiaries); and E.P. & L. must collect the money from its subsidiary United Gas (which has seven subsidiaries). And before either of these sub-holding companies can pay up—combined cash on June 30: \$10,314,000—they must acquire cash by selling some of their subsidiaries to somebody. This particular 2-dimensional dream whirls so fast that even top-notch utility experts are dizzy.

Black market gasoline rationing coupons were quoted by the *Wall Street Journal* at of a gallon. Lively trading was reported.

Paper Convention

In spite of the wartime ban on conventions the venerable 67-year-old American Bankers Association last week held its annual conclave almost as usual. No transportation was wasted, however. The meeting was by mail and through the industry's magazine, *Banking*.

Conspicuously missing were cut-throat card games, tomfoolery, cocktail parties, hangovers. Even so, A.B.A.'s "Convention in Print" had nearly everything else: a long program, scores of speakers, round-table confabs, introductions to important delegates.

President Roosevelt opened the convention, praised the bankers for their "distinguished role" in the fight against inflation and in financing war production. Secretary Morgenthau thanked members for their crackerjack job of war-bond selling: "[You] have given the equivalent of 25,000 full-time employees and have made 85% of all sales. . . ."

Most important speech-by-mail came from smart, hard-hitting National City Bank Vice Chairman W. Randolph Burgess. Banker Burgess said that the Government's unprecedented need for cash would force the banks to buy at least \$24 billion in Government bonds before June 30, 1943. This would boost bank investments in Government bonds to a titanic \$49 billion (\$17 billion, 1939), far & away the highest ever and almost 70% of all loans and investments.

This means that the bulk of bank earnings must henceforth come from investments in Government bonds. This is not a happy prospect. Government bonds yield around 2% annually, v. 3 to 4% on choice industrial loans, up to 12% on real-estate operations. To offset this revenue drop

the banks want to reduce interest rates they pay, are already considering a flock of special service charges. They may even have to close some of their small, low-earning branch banks.

Said Banker Burgess: "Earnings are between the upper millstone of low money rates and the nether millstone of high taxes. . . banks need to husband their capital. . . It is no bed of roses."

RAILROADS

New Traffic, New Needs

Last week ODT and WPB were studying the carriers' carefully pruned minimum new equipment needs for the year commencing in October. If WPB sees fit, the railroads intend to order:

► 80,000 new freight cars. Of these 25,000 will be coal cars to meet the greater demand for overland transportation of coal and coke; 35,000 will be low-sided gondolas, 10,000 will be flat cars, both of which types are ideal for carrying tanks, artillery, other heavy pieces peculiar to war production. These cars, purchased at the railroads' own expense, are an outright contribution to the war effort; the carriers already have a surplus of such equipment for their expected peacetime needs. New boxcars, which the railroads can always use, are limited to about 3,000.

► 900 new locomotives. Though passenger-miles next year by conservative estimates are expected to increase 14% over this year's record, few, if any, of the new locomotives will be for passenger service. War freight needs come first.

If, and when, the railroads are permitted to purchase this new equipment, the cost to them will be about \$350 million, the steel required will be close to 2 million tons. But this year the railroads will turn back to the steel mills well over 3½ million tons of high-grade scrap, enough when mixed with ore to turn out more than three times as much new steel as the railroads are asking for next year's equipment needs.

TAXES

Double Trouble

The U.S. Treasury ran smack into a serious shortage problem last week when Internal Revenue Commissioner Guy Tresillian Helvering estimated that to collect the proposed 5% withholding tax on salaries his bureau would need 50,000 new machines and pieces of office equipment, plus 11,000 new employees. Private businesses would likewise need thousands of machines and payroll clerks.

This is a huge order: the 50,000 machines needed by Helvering's bureau alone total 30% of a normal year's output of all business machines (excluding typewriters). Worse still, WPB has already cut most office equipment companies to 70% of 1941 production, has ordered a dead stop by year's end.

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Secretary Morgenthau
Randolph Paul

SEP 17 1942

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(Initialed) R.E.P.

REP/kfa

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Sept. 17, 1942.

TO THE SECRETARY
FROM PETER H. ODEGARD

The Schools at War Program has been definitely set for Friday, September 25, from 12:30 to 1 P.M., on the south steps of the Treasury.

Dr. John Studebaker, Commissioner of Education will speak very briefly.

Mayor Bernard Samuel of Philadelphia and Mrs. Bruce Gould will make formal presentation to you of the Schools at War award.

Mrs. Roosevelt will speak immediately following the presentation of the award. X

The program will be broadcast.

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE
Thursday, September 17, 1942

Press Service
No. 33-32

Secretary Morgenthau said today that the Treasury is making arrangements for the sale of approximately 5,000,000 ounces of silver to industrial users certified by the War Production Board as in urgent need of silver for immediate use in war production.

The silver which the Treasury is arranging to sell is free silver, classified as "silver ordinary". This class of silver has been accumulating over a long period and is composed in part of silver purchased for coinage prior to the Silver Purchase Act of 1934, in part of silver contained in gold deposits, in part of recovered bullion which was lost in the melting and coining processes, and the balance of silver in excess of the amount estimated to be contained in mutilated coins. For many years prior to the passage of the Silver Purchase Act of 1934, small quantities of this class of silver were sold and used in medals which the Mints manufactured for private organizations. The Treasury has legal authority to sell the amount now on hand. The Silver Purchase Act of 1934 imposes no limitations on this type of sale.

This silver has been put aside for use in the event of an emergency. The Treasury has been informed by the War Production Board that there is at present an acute shortage of silver available for the manufacture of essential war materials. The War Production Board has requested that the 5,000,000 ounces of "silver ordinary" be used to alleviate this shortage.

The Treasury plans to sell this silver at the price of 45 cents an ounce to those industrial users with high priority ratings who are recommended by the War Production Board.

As previously announced, approximately 1,350,000,000 ounces of free silver have already been made available by the Treasury for use in war plants, under arrangements whereby the silver will be returned after the war. The remaining 1,550,000,000 ounces of silver held by the Treasury have been monetized and are a reserve against silver certificates.

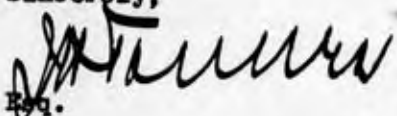
BUREAU OF AERONAUTICS
NAVY DEPARTMENT
WASHINGTON
17 September, 1942

Dear Mr. Morgenthau,

I appreciate deeply the very nice note I received from you this morning regarding my new appointment; and I want to take this opportunity to say that it was a pleasure and an inspiration to me to work with you and for you during those early troublous days, when there was not a great deal of coordination of the efforts to step up production and supply our friends overseas with the equipment they needed so sorely, and you stepped in and took charge.

Naturally, I am delighted to get a very responsible job at sea, but I must confess I am leaving Washington with regrets because of the many things that I would have liked to do but could not always accomplish, and with special regrets over severing, at least temporarily, my many friendly relations with those in high positions in the Government.

Sincerely,


Henry Morgenthau, Jr., Esq.
Treasury Department
Washington, D. C.

September 16, 1942

Dear Admiral Towers:

It gave me a great deal of pleasure to learn of your most recent appointment and the promotion in rank that went with it. I want to congratulate you upon this recognition of the brilliant and loyal service you have rendered, and I know that the country is also to be congratulated upon having a man of your caliber in this important post.

My best wishes go with you as you take up your new and heavy responsibilities.

Sincerely,

(Signed) H. Morgenthau, Jr.

Vice Admiral John H. Towers,
Navy Department,
Washington, D. C.

GEF/lk

SEP 16 1942

New Pacific Fleet Air Command Created; Post Goes To Towers

Navy Aeronautics Chief
Promoted By Knox To
Vice-Admiral

Secretary Told By Blandy
That We Are Now Able
To Hold The Japs

[By the Associated Press]

Washington, Sept. 15—Frank Knox, Secretary of the Navy, announced today the creation of a new air command for the Pacific fleet and the appointment of Rear Admiral John H. Towers, chief of naval aeronautics, to the position with the rank of vice-admiral.

The Towers appointment came after Rear Admiral W. H. P. Blandy, chief of naval operations, had reported on his 26,000-mile inspection trip of western Pacific forces.

In Line With New Policy

This change in fleet organization apparently was in line with the navy's recently announced policy of giving air officers greater responsibility for actual battle operations.

Towers, 57, has been in naval aviation since 1910. He will be the principal air adviser to Admiral Chester W. Nimitz, commander of the Pacific fleet.

He will be succeeded as aeronautics chief by Rear Admiral John S. McCain, 58, of Carrollton, Miss., who now has an air command in the Pacific. An official statement said that Towers' new assignment "is the most important air command afloat in the navy."



VICE-ADMIRAL JOHN H. TOWERS

SEP 16 1942

Blandy's Conviction

Admiral Blandy at a press conference held by Secretary Knox expressed a firm conviction that United States forces are now capable of meeting any thrust the Japanese may make—in fact, that they hold the balance of striking power in the western Pacific.

Blandy said that "we are in position to hold the Japs" against anything they might throw into a new effort to crack the line of America's island bastions, but added that "we can't do the job by merely holding — we've got to keep pushing."

True "For Time Being"

Asked whether he meant by this that American forces held the balance of striking power in the western Pacific, he said that was true, "for the time being, most certainly, although I'm not bold enough to do any forecasting about the future."

Blandy, in discussing aerial and anti-aircraft developments in the fleet, cited an engagement between American surface ships and Japanese aircraft during the early stages of the Solomon Islands invasion as evidence of the effectiveness of American anti-aircraft fire.

The Japanese, he said, attacked with twenty-seven torpedo bombers and eight to ten horizontal bombers. The torpedo planes came in fast and low to launch their missiles. They were met by a deadly blast from the guns of the fleet. More than half of the twenty-seven were shot down. In addition, American fighter planes "got a few others."

Knox described as "utterly impractical" proposals to send November election ballots to sailors and marines outside continental United States under a new law. He said ships were too slow to make the deliveries in time and air cargo space was too crowded.

Admiral Towers Only Survivor Of First Three Naval Pilots

For nearly fifteen years the navy's senior aviator, Vice-Admiral John H. Towers, who yesterday was appointed to head a new air command for the Pacific, has been the only survivor of the first three naval officers assigned to aviation over thirty years ago.

His application for naval aviation training along with those of Commander John Rodgers and Commander T. G. Ellyson, was granted in 1911.

Commander Rodgers was killed in 1926 and Commander Ellyson two years later.

"Keeps One Foot Wet"
Meantime, Admiral Towers, a native of Rome, Ga., has remained a flyer "who always keeps one foot wet," his way of saying that he always has been a sailor as well as an aviator.

In October, 1912, less than two years after Glen H. Curtis had

taught him to fly, he set the world's endurance flying record of 6 hours and 10 minutes, which stood until 1915.

In 1919 he gained world fame when his flagship, the NC-4, made a transatlantic flight to the Azores.

Aviation Observer

During the last war Admiral Towers served as an aviation observer in Europe and as an attaché at the American Embassy in London.

Subsequently he commanded the Langley, the navy's first aircraft carrier, and served as assistant chief of the Navy Bureau of Aeronautics and commander of the giant carrier Saratoga.

Three years ago he was appointed chief of the Navy Bureau of Aeronautics and promoted to the rank of rear admiral.

A member of the military mission to England this spring, Admiral Towers is a vigorous advocate of continuing aviation as part of the navy instead of combining it with army aviation in a separate branch of service.

FEDERAL RESERVE BANK
OF NEW YORK

September 17, 1942

CONFIDENTIALDear Mr. Secretary: Attention: Mr. H. D. White

I am enclosing our compilation for the week ended September 9, 1942, showing dollar disbursements out of the British Empire and French accounts at this bank and the means by which these expenditures were financed.

Faithfully yours,

/s/ Robert G. Rouse

R. G. Rouse,
Vice President.

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

Enclosure

Copy:lc:9/22/42

ANALYSIS OF BRITISH AND FRENCH ACCOUNTS
(In Millions of Dollars)

Week Ended Sept. 9, 1942

Strictly
Confidential

PERIOD	BANK OF ENGLAND (BRITISH GOVERNMENT)								BANK OF FRANCE							
	DEBITS				CREDITS				Net Incr. (+) or Decr. (-) in Balance	DEBITS			CREDITS			
	Total Debits	Gov't Expendi- tures (a)	Other Debits	Total Credits	Proceeds of Sales of Gold	SECURITIES (Official) (b)	Other Credits (c)	Total Debits		Gov't Expendi- tures (d)	Other Debits	Total Credits	Proceeds of Gold Sales	Other Credits	Net Incr. (+) or Decr. (-) in Balance	
First year of war (8/29/39-8/28/40)*	1,793.2	605.6	1,187.6	1,828.2	1,356.1	52.0	420.1	+ 35.0	866.3(e)	416.6(e)	449.7	1,095.3	900.2	195.1(e)	+229.0	
War period through December, 1940	2,792.3	1,425.6	1,356.7	2,793.1	2,109.5	108.0	575.6	+ 10.8	878.3	421.4	456.9	1,098.4	900.2	198.2	+220.1	
Second year of war (8/29/40-8/27/41)**	2,203.0	1,792.2	410.8	2,189.8	1,193.7	274.0	722.1	- 13.2	38.9	4.8	34.1	8.8	-	8.8	- 30.1	
1941																
Aug. 28 - Oct. 1	140.9	105.9	35.0	176.2	20.1	2.0	154.1	+ 35.3	0.3	-	0.3	0.5	-	0.5	+ 0.2	
Oct. 2 - Oct. 29	109.0	77.3	31.7	150.9	0.8	-	150.1	+ 41.9	0.3	-	0.3	0.3	-	0.3	-	
Oct. 30 - Dec. 3	156.1	111.6	44.5	134.6	-	1.0	133.6	- 21.5	16.1	-	16.1	0.4	-	0.4	- 15.7	
Dec. 4 - Dec. 31	88.4	69.6	18.8	51.5	-	-	51.5	- 36.9	0.8	-	0.8	0.4	-	0.4	- 0.4	
1942																
Jan. 1 - Jan. 28	102.3	73.2	29.1	69.3	-	0.5	68.8	- 33.0	0.2	-	0.2	0.4	-	0.4	+ 0.2	
Jan. 29 - Feb. 25	87.2	63.8	23.4	57.2	-	1.0	56.2	- 30.0	-	-	-	0.3	-	0.3	+ 0.3	
Feb. 26 - Apr. 1	121.4	86.4	35.0	171.4	-	-	171.4	+ 50.0	0.1	-	0.1	0.4	-	0.4	+ 0.3	
Apr. 2 - Apr. 29	98.1	64.2	33.9	70.6	-	0.5	70.1	- 27.5	0.2	-	0.2	0.4	-	0.4	+ 0.2	
Apr. 30 - June 3	104.0	81.4	22.6	165.7	-	-	165.7	+ 61.7	-	-	-	0.3	-	0.3	+ 0.3	
June 4 - July 1	89.9	72.6	17.3	113.6	-	0.5	113.1	+ 23.7	-	-	-	0.3	-	0.3	+ 0.3	
July 2 - July 29	66.1	45.9	20.2	84.4	-	-	84.4	+ 18.3	0.1	-	0.1	0.3	-	0.3	+ 0.2	
July 30 - Sept. 2	74.2	52.9	19.3	114.1	0.9	-	115.2	+ 43.9	0.4	-	0.4	0.4	-	0.4	-	
WEEK ENDED:																
Aug. 19	13.0	10.8	2.2	26.5	-	-	26.5	+ 13.5	0.1	-	0.1	-	-	-	- 0.1	
26	10.2	7.1	3.1	17.5	-	-	13.6	+ 3.4	-	-	-	0.1	-	0.1	+ 0.1	
Sept. 2	13.7	6.1	7.6	43.1	-	-	43.1	+ 29.4	0.1	-	0.1	-	-	0.1	-	
9	19.5	17.7	1.8	26.9	-	0.5	26.4(f)	+ 7.4	-	-	-	0.1	-	0.1	+ 0.1	

Average Weekly Expenditures Since Outbreak of War
 France (through June 19, 1940) \$19.6 million
 England (through June 19, 1940) 27.6 million
 England (since June 19, 1940) 35.2 million

Transfers from British Purchasing Commission to
Bank of Canada for French Account

Week ended Sept. 9, 1942

Cumulative from July 6, 1940 \$ 162.7

million
million

*For monthly breakdown see tabulations prior to April 23, 1941.
 **For monthly breakdown see tabulations prior to October 8, 1941.
 (See attached sheet for other footnotes)

- (a) Includes payments for account of British Purchasing Commission, British Air Ministry, British Supply Board, Ministry of Supply, Timber Control, and Ministry of Shipping.
- (b) Estimated figures based on transfers from the New York Agency of the Bank of Montreal, which apparently represent the proceeds of official British sales of American securities, including those effected through direct negotiation. In addition to the official selling, substantial liquidation of securities for private British account occurred, particularly during the early months of the war, although the receipt of the proceeds at this Bank cannot be identified with any accuracy. According to data supplied by the British Treasury and released by Secretary Morgenthau, total official and private British liquidation of our securities through December, 1940 amounted to \$334 million.
- (c) Includes about \$85 million received during October, 1939 from the accounts of British authorized banks with New York banks, presumably reflecting the requisitioning of private dollar balances. Other large transfers from such accounts since October, 1939 apparently represent the acquisition of proceeds of exports from the sterling area and other currently accruing dollar receipts.
- (d) Includes payments for account of French Air Commission and French Purchasing Commission.
- (e) Adjusted to eliminate the effect of \$20 million paid out on June 26, 1940 and returned the following day.
- (f) Includes: \$10.0 million for credit of U. S. Army
\$10.0 million transferred from Commonwealth Bank of Australia account here.
\$ 4.3 million deposited by British Ministry of Supply, of which \$3.6 million was deposited by British Ministry of Supply Mission.

ANALYSIS OF CANADIAN AND AUSTRALIAN ACCOUNTS
(In Millions of Dollars)

Week Ended Sept. 9, 1942

Strictly
Confidential

PERIOD	BANK OF CANADA (and Canadian Government)								COMMONWEALTH BANK OF AUSTRALIA (and Australian Government)							
	DEBITS				CREDITS				DEBITS				CREDITS			
	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Transfers from Official British A/C	For Own A/C	For French A/C	Other Credits	Net Incr. (+) or Decr. (-) in Balance	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Other Credits
First year of war (8/29/39-8/28/40)*	323.0	16.6	306.4	504.7	412.7	20.9	38.7	32.4	+181.7	31.2	3.9	27.3	36.1	30.0	6.1	+ 4.9
War period through December, 1940	477.2	16.6	460.6	707.4	534.8	20.9	110.7	41.0	+230.2	57.9	14.5	43.4	62.4	50.1	12.3	+ 4.5
Second year of war (8/29/40-8/27/41)**	460.4	-	460.4	462.0	246.2	3.4	123.9	88.5	+ 1.6	72.2	16.7	55.5	81.2	62.9	18.3	+ 9.0
Aug. 28 - Oct. 1 1941	23.1	-	23.1	52.2	21.2	-	-	31.0	+ 29.1	10.7	0.5	10.2	2.8	2.1	0.7	- 7.9
Oct. 2 - Oct. 29	37.4	-	37.4	19.7	11.9	-	-	7.8	- 17.7	8.2	5.5	2.7	8.0	5.9	2.1	+ 0.2
Oct. 30 - Dec. 3	52.8	0.1	52.7	32.5	19.3	-	-	13.2	- 20.3	10.3	6.9	3.4	11.6	9.0	2.6	+ 1.3
Dec. 4 - Dec. 31 1942	47.7	-	47.7	22.2	17.3	-	-	4.9	- 25.5	3.9	1.8	2.1	2.8	0.2	2.6	- 1.1
Jan. 1 - Jan. 28	39.5	-	39.5	33.0	27.6	-	-	6.0	- 6.5	4.5	-	4.5	10.8	-	10.8	+ 6.3
Jan. 29 - Feb. 25	34.1	-	34.1	35.7	12.4	-	-	23.3	+ 1.6	8.4	5.3	3.1	1.6	-	1.6	- 6.8
Feb. 26 - Apr. 1	46.3	-	46.3	99.3	20.5	7.7	-	71.1	+ 52.8	7.8	1.3	6.5	3.6	-	3.6	- 4.2
Apr. 2 - Apr. 29	37.4	-	37.4	35.9	14.2	-	-	21.7	- 1.5	10.9	8.0	2.9	16.8	-	16.8	+ 5.9
Apr. 30 - June 3	54.4	-	54.4	47.9	15.7	-	-	32.2	- 6.3	13.2	9.5	3.7	14.6	-	14.6	+ 1.4
June 4 - July 1	47.2	-	47.2	72.9	14.7	-	-	58.2	+ 25.7	2.5	0.5	2.0	3.0	-	3.0	+ 0.5
July 2 - July 29	40.8	-	40.8	37.7	9.0	-	-	28.7	- 3.1	19.1	15.0	4.1	19.5	-	19.5	+ 0.4
July 30 - Sept. 2	65.1	0.2	64.9	77.3	15.4	-	-	61.9	+ 12.2	7.7	3.1	4.6	17.1	-	17.1	+ 9.4
WEEK ENDED:																
Aug. 19	9.4	-	9.4	17.5	3.3	-	-	14.2	+ 8.1	-	-	-	3.2	-	3.2	+ 3.2
26	17.8	-	17.8	3.4	0.1	-	-	3.3	- 14.4	2.1	2.1	-	1.0	-	1.0	- 1.1
Sept. 2	11.5	-	11.5	14.7	1.6	3.2	-	9.9	+ 3.2	2.3	-	2.3	11.8	-	11.8	+ 9.5
9	6.3(a)	-	6.3	12.9(a)	2.8	-	-	10.1(b)	+ 6.6	13.8	10.0	3.8	2.6	-	2.6	- 11.2

Weekly Average of Total Debits Since Outbreak of War

through Sept. 2, 1942 \$ 8.2 million

* For monthly breakdown see tabulations prior to April 23, 1941.

** For monthly breakdown see tabulations prior to October 8, 1941.

(a) Does not reflect U. S. Treasury bill transaction.

(b) Includes \$2.4 million representing proceeds of U. S. Government checks deposited by War Supplies, Ltd.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE Sept. 17, 1942

TO Secretary Morgenthau

FROM Mr. White

Subject: Value of U. S. dollar currency bills rises in Europe and declines in Latin America.

The attached memorandum discusses the value of United States dollar currency abroad as affected by recent Treasury regulations restricting the importation of currency from Latin America. The most important points are:

- (a) Dollar currency bills are selling at a 57 percent discount in Portugal and Switzerland, although the value of currency bills has appreciated in both these countries during the past three months. In Latin American countries the dollar bill is at a discount of about 45 percent, and in most of the South American countries it is extremely difficult to dispose of any Axis-tainted currency.
- (b) Dollar currency bills have declined ~~so~~ sharply in Latin America because of the cooperation Treasury has received from most of the Latin American countries, resulting in the more effective enforcement of our regulations.
- (c) An active black market exists in Argentina and Chile, as a result of the failure of these Governments to institute prompt and adequate dollar currency controls. Tainted dollar bills are also seeking an outlet on the Brazilian market.
- (d) Dollar currency bills have had a higher price recently in Europe because hoarders are purchasing large amounts of U. S. dollars. These hoarders are influenced by military developments, inflationary trends, with an eye to unloading these dollars in the post-war period. The demand for dollar currency bills in Europe appears to stem in part from the Near East, where persons are reported anxious to buy U. S. dollars as a good investment.

The amount of the discount on the currency bill is an indication of the effectiveness of our controls. The lower the value of the dollar currency bills, the less will the Axis receive from the currency which they have looted in Europe, and the more difficult it is for them to dispose of such currency in neutral markets.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Sept. 16, 1942.

TO Mr. White
FROM Mr. Leonard

Subject: Value of U.S. dollar currency bills rises in Europe and declines in Latin America.

1. Dollar currency appreciated in value in Portugal and Switzerland by 8 and 37 percent, respectively, during the past three months, as compared with the rate which prevailed soon after the issuance of Amended General Ruling No. 5 on May 19, 1942. In Latin America, however, the value has been declining--in Peru and Ecuador by as much as 45 percent (see attached tables). Tightening the dollar controls in the United States, with the cooperation of Latin American countries, has dried up the market for dollars considerably although Axis tainted dollars are yet available on some black markets, particularly in Argentina and Brazil. In addition, an active demand for U.S. dollar bills exists in neutral European centers where hoarders influenced by military developments and inflationary trends, are buying dollars with an eye to unloading these in the post-war period.

2. The value of the United States dollar bill has declined since May 19 by at least 25 percent in each of the Latin American countries from which reports were received. In Brazil the value declined by 39 percent when compared with the draft rate. The rate has risen slightly in recent weeks in the few transactions reported, although approximately \$1 million were known to be on the market and several exchange houses were operating in contravention of Brazilian law. French sources at one time were reported to be offering \$80,000 and Polish sources \$50,000 on the black market. Argentina, having failed to institute adequate controls, practically nourished a black market in tainted currency with dealers prepared to purchase up to \$50,000 in U.S. currency. In fact up to September 3 applications involving 29 percent of the \$425,000 imported from Argentina and held by Federal Reserve Banks under Amended General Ruling 5 were denied because of suspected enemy taint. Currency is believed to be leaving Argentina in substantial amounts through diplomatic channels. Chile did not establish control over U.S. currency until September 1, and although no reports have been received on the situation there, a flourishing dollar market probably exists. Among the Latin American countries reported on, only 16 percent of the \$2,168 thousand imported into the United States was released under the currency control system.

3. The rise in the value of currency in Lisbon reflects the strength of the Swiss dollar market. In Tangier, the value of the dollar bill has declined in terms of pesetas but has increased in terms of Moroccan francs. The details of currency developments in these countries are indicated below:

Division of Monetary
Research

- 2 -

(a) Switzerland since June 25 has regularly reported a small volume of sales in United States dollar bills. Since July 9, however, the value of the dollar has risen steadily and on July 15 the volume was reported larger and a firm tendency on the market was noted. Although no strong Swiss demand for dollars exists travelers from the Balkan states, Rumania and Turkey, make frequent purchases. These travelers were believed to be diplomats, and the dollars purchased are eventually sold in the Near East to persons who are anxious to buy them as a "good investment."

(b) Portugal reported dollar transactions from June to August totalling \$700,000. The market on the whole was quiet up to July 5; from that date up to the end of August the value of the dollar rose and early in September the dollar market was quite steady, reflecting increased demand from Switzerland. In addition, Greek ships at Lisbon chartered by Switzerland were reported to be paying their seamen in dollars.

(c) At Tangier the value of the dollar bill in terms of pesetas has been fairly stable but in terms of Moroccan francs has appreciated by 51 percent. This rise in value in terms of Moroccan francs is explained by the tremendous depreciation which is taking place in the value of the Moroccan franc. Sales of dollar bills on the Moroccan market range from \$5,000 to \$10,000 daily. On July 25 dollars were reported to be coming from Lisbon largely for hoarding purposes. On July 24 the dollar jumped in value to 16 pesetas or 110 Moroccan francs and between \$45,000 and \$55,000 was sold on the market. Since that date the value of the dollar has declined by 8 percent in terms of pesetas on the Tangier market.

(d) There is a lack of information on the situation in Turkey. The black market rate of 174 piastres for notes of large denominations is more than double the Central Bank rate. The black market rate has fluctuated very little.

(e) There is equally little news from Spain other than that the black market rate on July 16 was 15 pesetas and that deals ranging from \$20,000 to \$50,000 were recently put through by industrialists in the Bilbao area at from 25 to 30 pesetas. This was interpreted as a hedge against the inflation of the peseta. In addition, it was reported that seamen sailing for Latin America from Bilbao were purchasing from \$1,000 to \$5,000 in U.S. currency.

Table I

VALUE OF UNITED STATES CURRENCY IN LATIN AMERICA*

(With reference to Foreign Funds Amended
General Ruling No. 5, May 19, 1942)

Country	Unit	Quotations for U.S. Currency					Central Bank Shipments to U. S.
		Bank Rate a/ Issuance	Rate Soon After (1)	Recent Rate (2)	Percentage : (+)Increase : (-)Decrease : Between (1) and (2) (3)		
Argentina	Paper Peso	4.24	3.20	2.42	- 25	\$ 424,600	
Bolivia	Boliviano	46.00	40	26	- 30	16,900	
Brazil	Milreis	19.45	10	12	+ 20	108,900	
Ecuador	Sucre	13.70	13.7	7	- 49	14,900	
Paraguay	Paper Peso	317	275 b/	300	+ 27	25,000	
Peru	Sol	6.49	6.34	3.5	- 36	392,300	
Uruguay	Colon	1.90	1.52	1.03	- 32	131,500	
Venezuela	Boliver	3.32	3.3	3.3	-	1,054,200	

* Rates shown are in units of foreign currency per dollar.

a/ Buying rate for dollar drafts, May 15, 1942. Most financial or non-trade business is transacted at these rates which have remained relatively unchanged since May. Free market rates are shown for Argentina, Brazil and Uruguay; for other countries, the official rate is given.

b/ The fixed rate for doubtful dollars was 190, but this rate was subsequently discontinued.

TABLE II

VALUE OF UNITED STATES CURRENCY IN PORTUGAL,
SWITZERLAND AND MOROCCO*

(With reference to Foreign Funds Amended
General Ruling No. 5, May 19, 1942)

Country	Unit	Rate	Rate	Inter- mediate Rate	Present Rate	Percentage
		Prior to Issuance	Soon After Issuance			(+) Increase (-) Decrease between (4) and (2)
		(1)	(2)	(3)	(4)	(5)
Portugal	Escudos	12.90	14.30	14.7	15.4	+ 7.7
Switzerland	Francs	2.33	2.00	2.6	2.73	+36.5
Tangier	Moroccan Francs	68	76	90	115	+51.3
	Pesetas	-	14	15.2	12.5	-10.7

* Rates shown are in units of foreign currency per dollar.

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HEL
This telegram must be
paraphrased before being
communicated to anyone
other than a Governmental
agency. (RR)

Bern

Dated September 17, 1942

Rec'd 9:07 a.m.

Secretary of State,

Washington.

4242, September 17, 10 a.m.

German authorities have for some time been expressing openly in the press and through speeches by authorized officials concern with inflationary tendencies in the satellite countries particularly those of southeastern Europe where prices have soared on a scarcity and black market basis despite official measures to control them. There is now evidence that Berlin is preparing to take action against those countries on the grounds that economic stability is as important as military security to German controlled Europe. Sanctions to be used in forcing revision of the criticized economic and financial methods will apparently be the refusal to furnish offending countries with raw materials and manufactured goods still available to Germany for export. There is likewise talk of modifying the parity of exchange between the Reichmark and the currency of the country concerned or adjusting German and Italian export prices sufficiently upward to take care of inflationary prices.

German plans now apparently envisage placing all controlled countries on a Nazi war economy basis requiring of them (1) maximum agricultural and industrial production (2) strict regulation in all fields of consumption and (3) maintenance of an equitable relationship between value of production destined for consumption and the amount of money in circulation. Success to this end would obviously result as it already has in Germany in an excess purchasing power which would have to be sterilized to prevent inflation. Such sterilization could be obtained in Berlin's view by increasing taxes or the emission of new loans or possibly a combination of both these methods. A new and very significant development in this connection is the recent hinting that it might be possible to emit mark loans which allegedly would be popular with investing public in satellite countries in view of the fact that German money is now the chief currency in Europe. This hint is carried one step further in suggesting that the same solution might, under certain conditions, be linked up with the balances owed by Germany in the clearing accounts. Thus a device would be found to force the subordinate countries to finance on a long term basis the furnishing of supplies to Germany. The course of developments along these lines indicates the initiative and resourcefulness of German financial leaders in exploiting to Berlin's advantage the totality of the economic and financial means

-2-

of those countries which have become enmeshed in the so-called new order.

HARRISON

RR

Copy:lc:9/19/42

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE Sept. 17, 1942

TO Secretary Morgenthau
FROM Mr. Hoflich

Subject: Shipping Situation in August, 1942.
(Charts ~~attached~~
returned)

1. August losses of Allied and neutral shipping totalled 111 ships of 601,904 gross tons, as compared to 132 ships with a gross tonnage of 613,851 lost in July.

August losses were divided as follows:

	<u>Number of ships</u>	<u>Gross tons</u>
Belligerent action:		
United States	16	93,465
British Empire	46	281,362
Other United and neutral nations	43	199,378
Ordinary perils of the sea	<u>6</u>	<u>27,699</u>
TOTAL	111	601,904

2. For the second successive month, British and American launchings exceeded Allied and neutral merchant marine losses as indicated below:

	<u>Gross tonnage</u>	
	<u>July</u>	<u>August</u>
Launchings	735,944	772,772
Losses	<u>613,851</u>	<u>601,904</u>
Excess of launchings over losses	122,093	170,868

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Sept. 17, 1942

TO Secretary Morgenthau
FROM Mr. Hoflich

Subject: Shipment of Planes and Tanks to the U.S.S.R.

1. Shipments of planes and tanks to Russia during August were at an all-time high level.

2. A total of 328 planes (202 fighters, 126 light and medium bombers) and 560 tanks (299 light, 261 medium) left the United States for Russia during the month of August.

- 2 -

Table AShipments of Planes and Tanks from the
United States to the U.S.S.R. *

	Shipments during <u>August 22 - 31, 1942</u>	Cumulative Total January 1, 1942 to <u>August 31, 1942</u>
<u>Planes</u>		
Fighters	148	871
Bombers	<u>108</u>	<u>749</u>
Total	256	1,620
 <u>Tanks</u>		
Light	299	1,325
Medium	<u>209</u>	<u>1,203</u>
Total	508	2,528

* Based on export declarations received.

Table B

Shipments of Planes and Tanks to the
U.S.S.R. by Months *

	<u>Fighters</u>	<u>Bombers</u>	<u>Total Planes</u>	<u>Light Tanks</u>	<u>Medium Tanks</u>	<u>Total Tanks</u>
January, 1942	56	4	60	20	22	42
February	123	115	238	172	38	210
March	68	170	238	159	258	417
April	120	54	174	287	216	503
May	52	42	94	94	45	139
June	127	104	231	143	206	349
July	123	134	257	151	157	308
August	<u>202</u>	<u>126</u>	<u>328</u>	<u>299</u>	<u>261</u>	<u>560</u>
Total 1942 to August 31	871	749	1,620	1,325	1,203	2,528

* Based on export declarations Received.

NOT TO BE RE-TRANSMITTEDBRITISH MOST SECRET
U.S. SECRETCOPY NO. 13OPTEL No. 323

MADAGASCAR. Combined with a further successful landing in the MAROMANDIA area and pressure by our columns moving south from AMBANJA the remaining French forces between these two places surrendered on the 15th. No further details have been received of the progress of the column advancing South on TANANARIVE. During the 16th, a request was received from the French Governor-General regarding the cessation of hostilities and arrangements are in hand to receive his Plenipotentiaries today.

OPTEL No. 324

Information received up to 7 A.M., 17th September, 1942.

1. NAVAL

Up to 7 A.M. this morning no further attack on the convoy to RUSSIA has been reported. Reference OPTEL No. 320 one of H.M. cruisers and 5 destroyers bombarded the EL DABA area on 13th/14th. One of H.M. Submarines probably sank a 4,000 ton merchant ship, escorted by a destroyer and aircraft south of CRETE on the 10th. Another of H.M. submarines shelled and hit 2 bridges on the East Calabrian Coast on the 7th and 8th.

Attacks on shipping. From 12th to 15th September inclusive, 13 ships were reported torpedoed, 12 of them during this month. One Soviet and one U.S. ship were sunk in convoy to RUSSIA on 13th. 2 British and 2 Norwegian ships were torpedoed in outward bound convoy in Northwestern Approaches, total torpedoed in this convoy is now 9, of which one British and two Norwegian are able to proceed, 2 other ships are missing. One British ship and a Dutch tanker sunk in WEST INDIES and 1 Norwegian tanker torpedoed but still afloat. 1 British ship sunk in Caribbean Sea, another in FREETOWN area and a Faroese trawler off GIBRALTAR. 1 British ship sunk in West Atlantic in August. 1 British ship reported overdue at TRINIDAD.

2. AIR OPERATIONS

WESTERN FRONT. 16th. 5 Mosquitoes bombed two factories at BREITENBURG, one of which was the Biebrich Chemical Factory. 11 enemy aircraft crossed our coasts, 3 were damaged by Spitfires.

- 2 -

16th/17th. 369 bombers were sent to ESSEN. 39 are missing. Visibility was moderate and there was much fighter activity.

EGYPT. 15th. A Kittyhawk Wing (probably 36 aircraft) engaged about 50 enemy fighters, destroying 1 and probably destroying 4.

3. HOME SECURITY.

EASTBOURNE. 16th. Bombs damaged the railway station and killed 6 persons.

NOT TO BE RE-TRANSMITTEDCOPY NO. 13BRITISH MOST SECRET
U.S. SECRETOPTCL No. 330

Following is supplementary resume of operational events covering period 10th to 17th September, 1942.

1. NAVAL

Convoy P.Q. 18 to NORTH RUSSIA, consisting of 40 ships and 1 rescue ship, was on passage from the end of the first week of September. Over 70 H.M. ships, including oilers, minesweepers, etc., were employed in covering and escorting. On 13th the convoy lost 2 ships probably by submarine and 10 by torpedo aircraft, but although subjected to several further attacks only one other ship was lost at the entrance to the WHITE SEA and the remainder of the convoy arrived safely at ARCHANGEL on evening 19th. Convoy Q.P. 14 from RUSSIA consisting of 18 ships left ARCHANGEL on 13th and crossed over with P.Q. 18 on 16th. It is estimated that about a dozen U-boats were employed against P.Q. 18 convoy and may be available to attack Q.P. 14. The outward Atlantic convoy in which the Germans claim sinking 19 ships, 1 destroyer, and 1 corvette, actually lost 6 ships and 1 Canadian destroyer. One ship is still missing and 4 torpedoed ships have reached port. During the week ending 13th a total of 17 ships were sunk by U-boats, of which 16 in the Atlantic. Apart from attacks on convoys already mentioned and on 6 independently routed ships sunk in TRINIDAD area, chief U-boat activity is in Southern North Atlantic. It is expected that activity will extend towards the Southern West African coast in the near future. During the week ending 17th, 5 attacks on enemy submarines were made by British surface forces, one was considered promising, 11 attacks were carried out by British aircraft, one was considered promising. During the week ending 13th, there were 40 attacks by air and surface forces, but details are not yet available. 3 convoys, totalling 149 ships arrived in the U.K. without loss. 6 outward bound convoys, totalling 134 ships, reached their destinations without loss. 2 convoys were attacked, but all details are not yet available. During August 2,382 ships were conveyed in the Western Atlantic and Caribbean of which 18 were lost through enemy action. The Japanese landed on KURIA ISLAND (GILBERT GROUP) on 13th. Imports in convoy into the U.K. for the week ending 12th - 829,000 tons of which 307,000 tons oil.

2. MILITARY

FAR EAST. CHINA. Fighting is continuing around KIN WA but there are no indications of any Chinese progress towards reoccupying the town or of the Japanese adopting other than a purely defensive role.

3. AIR OPERATIONS

WESTERN FRONT. Six towns in GERMANY were bombed daylight by Mosquitoes. Our night bombing operations against land targets involved 1,493 aircraft which dropped about 1,165 tons of H.E. and 1,720 tons of incendiaries. DUSSELDORF, BREMEN and ESSEN received the main weight of the attack, but WILHELMSHAVEN was also heavily bombed. Coastal Command sent out 285 sorties on anti-submarine operations in addition to 42 aircraft from Bomber Command on BISCAY patrols; photographs confirm heavy damage to the whale oil factory ship at CHERBOURG.

MEDITERRANEAN. TOBRUK. In support of the combined operation on 13th/14th 35 heavy bombers, including 21 U.S. and 68 Wellingtons attacked. At the same time 19 Liberators bombed BENGHAZI and 36 RAF and U.S. medium bombers attacked a landing ground near MATRUH.

RUSSIA. It appears that the Russian Air Force in the STALINGRAD area may have been hampered by attacks on their aerodromes, but details of operations have not been received. The principal enemy activity continued against STALINGRAD and was mainly in support of the Army, though communications over a fairly wide area were also attacked.

4. EXTRACTS FROM PHOTOGRAPHIC AND INTELLIGENCE REPORTS ON RESULTS OF AIR ATTACKS ON ENEMY TERRITORY IN EUROPE.

DUSSELDORF Attack. 10th/11th. Photographs largely obscured by fires still burning. 6 extensive areas of damage in centre of town, largest approximately three quarters mile long and from 90 yards to one quarter mile wide. Severe damage to residential and industrial property on both banks of the RHINE and to main railway station which received a direct hit. KARLSRUHE attacked 2nd/3rd - photographed 9th and 11th. 60 acres of industrial buildings near harbour devastated. 260 acres of residential and commercial property destroyed. Serious damage to textile factory.

- 2 -

print works, power station, saw mills, railway repair shops, permanent way and rolling stock, barracks and 11 public buildings; a briquette storage depot was still burning after 9 days. Reports state that 5 days after the raid three quarters of the town was still without electricity, silos were burnt out and cranes destroyed in the harbour. 500 coal trucks were destroyed and 12 locomotives. There was some evidence of panic and a desire to leave the town.

RUSSELSHKIM. Photographs on 11th show only part of the Opel Works, but at the same time reveal considerable damage by both fire and H.E.

NUREMBERG. Recent photographs covering a part of the city missed on a former occasion show considerable further damage to residential property including a burnt out area of about 10 acres.

MEAULTE-POTEZ FACTORY. Photographs taken after the daylight attack by U.S. Fortresses show a direct hit on a ten bay hangar, another on the wire-drawing shop, another on some camouflaged hangars, roof damage throughout the entire length of the 2 main assembly shops, damage by blast to garage and 12 additional hangers on the landing ground.

HAVRE. Photographs taken during a daylight attack show 2 bombs actually bursting upon 2 minesweepers.

SLUISKIL. Important damage to a chemical works and an ammonia plant are confirmed by photographs.

5. OPERATIONAL AIRCRAFT BATTLE CASUALTIES

METROPOLITAN AREA

<u>British and Allied</u>		<u>Enemy</u>			
		<u>Dest.</u>	<u>Prob. Dest.</u>	<u>Damaged</u>	
Bombers	100				
Fighters	2				
Coastal	5				
Total	107				
		Bombers	6	1	6
		Fighters	1		6
		Total	7	1	12

MIDDLE EAST (including MALTA)

<u>British and Allied</u>			<u>Enemy</u>		
	<u>In the Air</u>	<u>On the Ground</u>	<u>Dest.</u>	<u>Prob. Dest.</u>	<u>Damaged</u>
Bombers (including 4 U.S.)	11	2	4	6	12
Fighters	14		8	15	18
Total	25	2	12	21	30

One crew and 4 pilots are safe.

NOTE: No account is taken of enemy aircraft destroyed on the ground in any theatre or of British naval aircraft casualties.

6. HOME SECURITY

Estimated civilian casualties for week ending 6 a.m. 16th - Killed 5, seriously wounded 2.

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NUMBER 49

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OFFICE OF STRATEGIC SERVICES

THE WAR THIS WEEK

September 10-17, 1942

Printed for the Board of Analysts

Copy No. 6

The Secretary Of The Treasury

SEPTEMBER 10-17, 1942

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Office of Strategic Services

THE WAR THIS WEEK

At inordinate cost to the attackers, the Russians have to date beaten off terrific German assaults on beleaguered Stalingrad, but observers fear that the city may fall in the next few days. They believe, however, that the prolongation of the siege may well already have affected the course of the war. Meanwhile in the desert Rommel has dug in behind a tank screen to pose a riddle: will the Nazi High Command divert adequate strength to Egypt for a full scale offensive this fall, or will it prefer at relatively low cost to oblige the Allies themselves to continue a large diversion of forces and shipping to this area?

As a logical development of their earlier seizure of Diégo-Suarez, the British this week struck into the interior of Madagascar. Little further French resistance is anticipated. Conquest of the island will give the British control of Mozambique Channel, vital supply lane to Egypt, Russia, and the Far East. The situation in Madagascar has also offered a key to the solution of the Anglo-French impasse in the Levant: De Gaulle has been advised by the British that the Fighting French could hardly be permitted to administer civil affairs in Madagascar unless the Syrian imbroglio were settled. De Gaulle has apparently yielded and is reported to be returning to London.

While Turkish leaders have once more declared their determination to fight if attacked (this time to Mr. Willkie), Laval has yielded to German pressure in a decree making labor compulsory in France, and reports from French North and West Africa indicate further developments there favorable to the Nazis.

The battle for the Solomons entered a new phase this week when Japanese infiltrations by night on Guadalcanal Island were followed by more ambitious enemy operations whose outcome is not yet known. Meanwhile the Japanese have renewed their land advance on Port Moresby, and military observers expect a fresh enemy attempt to seize Milne Bay. These recent Japanese successes, emphasizing the techniques of infiltration, come at a time when Japan's air strength has very notably declined as compared with her position at the beginning of the war.

The independent Indian press has castigated Churchill's speech on Britain's policy toward India, and cautious observers in that country believe that the speech has rendered more difficult the course of compromise. Such a course is now being undertaken by a prominent group of non-Congress leaders.

In China, the Generalissimo is reported to be attempting to extend Kuomintang authority in Sinkiang and generally among the Communists of the northwest, while speculation continues as to the reasons for the somewhat enigmatic Japanese withdrawal in Chekiang, Kiangsi, and Kwangtung.

In Argentina President Castillo is continuing maneuvers which aim to undermine the influence of the United States in South America, while President Vargas of Brazil is reported to be seeking wider support for his administration from all anti-Axis political groups.

Stalingrad's Eleventh Hour

With the Soviet communiqués almost daily announcing further withdrawals around Stalingrad, there seems little hope that the city will be able to hold out much longer. Throwing every available resource into the current effort, the two enemies have been locked in a struggle of unparalleled severity. The Germans, with forces estimated at 30 divisions

encircling the city, have been bombing communications along the Volga as far south as Astrakhan, and have destroyed the Russians' pontoon bridges south of the besieged city. The defenders have made every effort to reconstruct these bridges, while the Red Air Force has sent reinforcements to the city. Now, however, with street fighting already in progress, the attackers are advancing through the ruins created by more than three weeks of air and artillery bombardment. The press anticipates that Hitler's announced broadcast may proclaim the fall of the city, and in addition may explain the strategic decisions dictated by Stalingrad's prolonged resistance.

To the south, after almost two weeks of comparatively slight changes, the Nazis are again threatening several strategic Soviet outposts. On the lower Volga a German mechanized column has apparently reached the river near Seroglazka, about 70 miles north of Astrakhan. The latter, however, would probably prove indefensible were Stalingrad to fall, and the fate of the Volga delta city is probably dependent on the outcome of the struggle to the north.

In the Groznyi theater, the Germans seem again to have enlarged their bridgehead across the Terek River near Mozdok. On the Black Sea Shore, the Nazis, after completing the reduction of Novorossiisk, have evidently decided to pause for reinforcements before launching an attack on the next port, Tuapse. The mountains near this port, moreover, offer far better defensive possibilities than those protecting Novorossiisk.

The Peril of the Passes

Far more serious, however, is the report that the small German mountain groups that have been infiltrating the west Caucasus passes now command Tsagerker (7,626 feet), Naur

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(9,506 feet), and Marukh (10,594 feet) passes, west of the Klukhor. Some of these units have probably renewed contact with each other on the Trans-Caucasus side of the mountains, while the group that negotiated the Tsagerker is now reported to be within 25 miles of the Black Sea port of Sukhumi, south of the Caucasus.

Military observers point out that this advance represents a direct threat to the Black Sea highway—the Russians' only line of retreat from the northern littoral—and an indirect threat to the ports still available to the Soviet Black Sea fleet. On the other hand, there is no evidence that the German units that have crossed the mountains are of any considerable size, and with reports of snow already falling in at least one of the Caucasus passes, their reinforcement may soon become increasingly difficult.

To the north, the Germans have counterattacked in the Rzhev sector. Meantime both here and around Leningrad the Russians have resumed the offensive—apparently in an effort to relieve Leningrad by establishing a bridgehead across the Neva River, and to reduce the enemy's threat to Moscow by eliminating his spearhead at Rzhev.

Finland's Grain Supplies

Reports from Helsinki now concur in stating that the Germans are constructing permanent fortifications in Northern Finland—apparently in anticipation of another winter of comparative inactivity in this sector. Such a prospect makes the Finnish grain situation a matter of crucial importance.

According to data gathered by the Economics Division of the Office of Strategic Services, Finland's crop prospects—despite the pessimistic forecasts of mid-summer—have now materially improved. Apparently Finnish farmers will be able to meet without difficulty their seed requirements for fall sowing. Furthermore, a new German-Finnish grain agree-

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ment provides for the delivery by Germany of 230,000 tons of breadgrains in the 12 months following September 1, 1942. Even if the Finnish breadgrain crop this coming year falls as low as 390,000 tons (the lowest estimate presented), the delivery of the grain promised by Germany would make the total supplies for 1942-43 620,000 tons—only slightly lower than the estimated minimum total of 641,000 tons for 1941-42. This latter total (169,000 tons Finnish wheat, 272,000 tons Finnish rye, about 200,000 tons of imports from Germany) should have sufficed for Finland's wartime consumption.

Rommel Digs In

In Egypt Rommel has dug in behind the anti-tank screen he established after his recent withdrawal, and there are no indications that he plans any early renewal of his offensive. Nor is there any evidence that he will withdraw any farther. His supply situation is probably adequate to sustain him where he is. The question of whether a large scale effort will be made to drive the British out of Egypt this fall probably hinges on whether the High Command in Berlin considers this theater of sufficient importance, on balance, to divert considerable strength to it from other fronts. Meanwhile the British are receiving significant reinforcements.

The constant effort of Allied planes and British submarines to disrupt Axis supply lines was supplemented this week by a land, sea, and air attack on Tobruk. In the face of heavy opposition, light naval forces and a small army detachment attacked the base, while powerful Allied air forces continued their extremely heavy pounding of Tobruk's shipping and port facilities.

British Advance in Madagascar

The British advance into the interior of Madagascar is the logical sequel to the four months old occupation of Diégo-

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Suarez. The original occupation, ostensibly undertaken to prevent France's major Indian Ocean naval base from falling to the Japanese, could not by itself protect the vital Allied supply routes to the Middle and Far East; and it was always doubtful how long the British could confine themselves to holding this single limited objective. Reports of continued sinkings in the Mozambique Channel indicated that the Axis threat to United Nations shipping still persisted, and evidences of connivance on the part of the Vichy-controlled Madagascar government continued to accumulate.

The Military Operations

The naval and air bombardments of September 10, followed by troop landings at west coast ports—notably Majunga and Morondava—signalized Britain's determination to end this dangerous state of affairs by taking control over the entire colony and occupying Tananarive, the capital, high on the central plateau. Imperial forces, following the route of the French conquerors of 1895, are directing their main effort southeast along the main Majunga-Tananarive highway and have successfully crossed the Betsiboka River despite damage to bridges and light opposition. Ahead of this column at Ankazoba there is believed to be a minor concentration of opposing forces. A second British column is making its way eastward along the unpaved road from Morondava and has reached Ambositra, on the southern approaches to the capitol. Meanwhile from Diégo-Suarez British forces have advanced down the east and west coast to occupy Vohemar and Ambanja.

French strength in Madagascar probably totals about 6,000 men, of whom most are reservists, with only a handful of whites. The British are apparently mopping up as they go. Terrain difficulty increases as Tananarive is approached, but no major military opposition is expected. Latest reports from

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Vichy assert that the French Governor-General has already opened negotiations with the British commander.

The mere policing of an island nearly three times the size of Great Britain will not be easy. Active opposition by the inhabitants is not probable, but the Malagasy are notoriously uncooperative, and the native intellectual minority will doubtless try to exploit any discrepancies between the Atlantic Charter and the British undertaking to restore the colony to France. Most of the French population, though sorely tried by the vicissitudes of recent months, should be reconcilable if the British are able to alleviate the present deplorable economic situation. In Vichy France the general reaction appears to be apathetic, despite Laval's "indignation" over this "new aggression".

Tension Eased in Syria

In the Levant a crisis in Anglo-French relations appears to have been averted, at least for the present. Shortly before the current British offensive in Madagascar the Fighting French in London were informed that, despite earlier plans, the British could hardly allow the De Gaullists to administer civil affairs in Madagascar, unless De Gaulle returned to London and settled the Syrian impasse. The French National Committee in a telegram to De Gaulle urged that the civil administration of Madagascar was infinitely more important than the Syrian settlement, which involves merely mandated territory.

De Gaulle apparently followed the same line of reasoning. He has notified the British that he is hopeful of a settlement, and is reported to have informed the French National Committee that he will return to London next week, following a trip to Equatorial Africa, where depressed morale makes his presence badly needed. Among other factors which probably contributed to De Gaulle's decision may have been

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the difficulties he has experienced in asserting his position in the Levant. He was, moreover, gratified that the British gave him advance notice of their plans in Madagascar. He also had a conversation with Mr. Willkie on September 10, in which the latter presumably stated that the United States wanted to see a crisis avoided in Anglo-French relations in the Levant.

Ample causes for controversy appear to be ahead, however. The French National Committee, eager to have De Gaulle return to London, may have overstated British remarks with regard to Madagascar. De Gaulle as a soldier may not easily agree to leaving military control there entirely in British hands, especially if the Fighting French are anxious to make of Madagascar a precedent for future use. De Gaulle's departure from Syria in the coming week would mean that he has lost at least the first round of his struggle to maintain his position in the Levant; but for the United Nations it would mean that—regardless of the merits of the case—a critical situation threatening the rear of the British position in Egypt has been averted.

Turkey Reaffirms Her Determination to Defend Her Integrity

In lengthy conversations with Mr. Willkie, the Turkish Prime Minister and Foreign Minister reviewed the policy of their country and repeated their determination to fight if attacked. They cited, as an indication of their policy, Turkey's earlier refusal of a German request to transport war matériel across Turkey at the time of the coup d'état in Iraq—a moment when the military outlook for Britain was extremely dark. Expressing their hope for an Allied Victory, the Turkish spokesmen renewed their appeals for grain, oil, and war matériel. Saracoglu evinced particular concern over the wheat problem for the coming year.

Mr. Willkie apparently was very favorably received. He

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enjoyed a good press, and the Turks were impressed by his mission as an indication of American unity.

British sources appear to show more concern about the increasing German pressure on Turkey which is shortly expected, perhaps in the form of demands for transit privileges or the use of airdromes in Asia Minor. German deliveries of rolling stock and German installation of a telephone line from Istanbul to Ankara are taken as straws in the wind that bear careful watching.

Meanwhile the Turks themselves are believed to have completed the large movement of troops and matériel from the Istanbul area to northeast Turkey that has been going on since July.

Laval Decrees Compulsory Labor

Having failed in every attempt to meet Germany's demand for French industrial workers, Laval has now apparently decided to maintain himself in power by decreeing compulsory labor for all Frenchmen from 18 to 50 and for unmarried women from 21 to 35 years of age. In addition to rationalizing industry and increasing working hours, the new law, which bears the signature of Pétain as well as Laval, is admittedly designed to provide labor for Germany or to execute German economic orders—a fact which the German press flatly asserts. It is also stipulated that foreigners residing in France may be subjected to similar measures.

Secretary of State Hull has delivered a strong protest, warning that the consignment of French labor into Nazi hands "would be wholly inconsistent with France's obligations under international law." Mr. Hull also condemned the Vichy government's mass deportation of helpless refugees, and indicated that America's patience with Vichy was wearing thin. Contrary to the press announcement of

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Propaganda Minister Marion, Laval has never asked the United States to receive these Jewish refugees.

Personnel in French Northwest Africa

From North Africa it is reported that at some future date, Laval intends to remove all the important French officials now in that area. Meanwhile the replacement of M. Pierre Pagès as the Prefect of the Department of Algiers has been announced. Pagès, who had encountered the opposition of the younger members of the *Légion des Anciens Combattants*, the *Service d'Ordre de la Légion*, and Doriot's followers, will be succeeded by M. Emmanuel Temple, a close associate of Laval whom he publicly supported when the latter was ousted from power in 1940.

From Dakar reports indicate a general expectation of some major impending development. The fact that the Germans are so anxious to have Stuka planes stationed there is taken as an indication of their intense interest in the territory. Although the Germans are now reported to have sent only one observer to Dakar, Governor-General Boisson apparently withdrew his resignation only on the assurance that this observer will remain for a temporary stay, and "in principle" for not longer than twenty-one days. The new commander of the land forces in French West Africa is General Falvy, who is reported to be a collaborationist, ambitious to become Supreme Military Commander in place of Barreau, and possibly Resident-General in place of Boisson.

The New Spanish Foreign Minister

Shortly after succeeding to office, Foreign Minister Jordans notified all Spain's envoys that no change in foreign policy was to be expected. Nevertheless, he has indicated that Spain will henceforth try to maintain a more correct neutrality.

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He is understood to have stiffened the Spanish committee engaged in economic negotiations with the Nazis, and to have promised to watch strictly any belligerent submarines that come into Spanish ports. Apparently he also intends to feel his way cautiously toward curbing the influence of the Party; but it should be remembered that the Falangists are still strongly represented in the Government.

From several sources rumors suggest that General Orgaz may be removed from his post in North Africa. Orgaz himself, however, has stated that he will stay where he is.

Third Round in the Solomons

Allied positions on Guadalcanal Island, site of our chief air bases in the southeastern Solomons, are once more under heavy attack. While details are unavailable, it is apparent that persistent enemy attempts to land small detachments at night at unprotected coastal points have been successful, and that these points have been reinforced. This process of infiltration has proceeded quietly for some time, with the Japanese apparently aiming not only to secure intelligence but to harass and scatter Allied defenders.

Larger operations in support of these units began on September 11, when a force of 3,000 Japanese succeeded in reaching Tasimboko Bay, on the north central coast about 20 miles east of our airfield at Kukum. During the night of September 13-14, United Nations' forces repelled an enemy ground attack designed to capture the airfield. The Japanese meanwhile have stepped up their own attacks, both by air and surface craft bombardment.

Japanese Naval Concentration

Japanese naval activity has been notable recently, both in the lower Solomons, where their main base appears to have been established at Gizo Island in the Georgia group, and in

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the upper Solomons in the Buin-Faisi area (at the southern extremity of Bougainville Island). In this latter area, 4 cruisers, 12 destroyers, 2 tankers, and 4 large transports were sighted September 13. At least one aircraft carrier has been observed in this general vicinity very recently, and there are probably more. Numerous destroyers are in use, as many as 26 having been sighted in one concentration off Bougainville Island, September 6. Probably a task force including both battleships and cruisers is being used in the current battle. In addition, large naval forces apparently are still on call farther north in the Marshall and Caroline Islands.

Action at Efogi

In New Guinea, the Japanese troops which forced a passage through the Owen Stanley Range have, after a week's lull, resumed their advance toward Port Moresby. Heavy fighting is reported in the rugged country around Efogi. Japanese bases across the mountains at Buna have been attacked repeatedly by United Nations' aircraft, but apparently this has not halted the movement of supplies and reinforcements. Japanese forces in this area were estimated some days ago at two regiments, one in a forward position and one in reserve, and it is believed the forward elements now have been reinforced. (A Japanese regiment normally includes about 3,400 troops.) In the face of superior Allied airpower, the supply problem facing the Japanese troops is extremely difficult. Nevertheless military observers believe the drive on Port Moresby will be pressed, and they add that a further attempt to seize Milne Bay is to be expected.

Japanese Air Strength

During the fighting in the Southwest Pacific, Allied fliers have increasingly had the upper hand. In consequence, the Japanese have apparently come to rely more heavily upon

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the slower methods of infiltration which have characterized their operations recently, both in New Guinea and in the Solomons. This is strikingly the case if these operations are compared with the earlier Japanese advances in Malaya and the South Pacific generally.

This situation may indicate an increasing inclination on the part of the Japanese to husband aircraft, which they are undoubtedly less willing to "waste" than manpower. The total strength of the Japanese air force, as of August 31, is estimated by military and naval observers at 3,688 planes. Japanese first-line strength at the beginning of the war was estimated at 2,600 planes, with 100 percent reserves—a total of some 5,200 aircraft available for operations. If the two estimates are based on comparable data, this situation represents a reduction to date in combat strength of some 1,500 planes. Present estimates do not allow for reserves, since it is now assumed that initial establishments, immediate, and stored reserves have been completely merged—an indication in itself of the thinning out of Japanese air strength.

Estimates of Japanese aircraft production are by no means in agreement, but the consensus would indicate a possible average monthly output of 525 planes of combat types. If this estimate is correct, the Japanese produced some 4,725 combat planes from December through August. Total Japanese losses would include this number, plus the 1,500 planes by which total strength has been reduced. The Japanese thus would have used up about 6,225 planes since December 7. Aircraft required to maintain the training program may be estimated at 1,175, leaving operational losses of 5,050, or 560 planes per month. These losses include, of course, not only planes shot down by the Allies, but those which are destroyed in operational accidents and damaged beyond repair either in combat or accidentally.

India: Postscript on the Prime Minister's Speech

From India a chorus of protest has greeted Mr. Churchill's statement to the House of Commons declaring the British Government's support of the Viceroy and Government of India and reaffirming the Cripps offer of last spring as the basis of Britain's India policy. Apart from the Government-dominated *Delhi Statesman*, the Indian press has castigated the Prime Minister in unmeasured terms. To the *Bombay Chronicle*, the speech was "an amazing misrepresentation." The *Madras Hindu* has referred to "mischievous half truths" and declared of Mr. Churchill: "So far as India is concerned he is as dangerously irresponsible, as arrogantly contemptuous, as purblind as ever." In the view of the *Calcutta Amrita Bazar Patrika*, "Where Churchill's blunders have failed, Roosevelt, Stalin, and Chiang Kai-shek must labor and succeed by their combined wisdom."

One observer on the spot adds his own comments. He believes that Mr. Churchill has underestimated the number of deaths in the current disturbances, and surmises that many provincial ministers will be angry at the implication in the speech that they are supporting the policy of the Central Government. Furthermore, he has found no evidence of the fifth-column activity hinted at by the Prime Minister. In sum, he concludes, the speech will render more difficult the task of compromise now being attempted by a group of non-Congress leaders in New Delhi.

Inter-party Negotiations

The statement of this latter group calls for a "national government, pledged to the support of the war against the aggressors, consisting of representatives of major political interests, with complete autonomy in the international aspects during the period of the war and unfettered freedom thereafter." The signers of the statement are considered to

reflect the width of its support. They include leaders of the Hindu Mahasabha, two of the leading Sikhs of the Punjab, and the Moslem Prime Ministers of Bengal and Sind.

Furthermore, the Mahasabha has issued its own statement declaring that "the demand for Indian freedom . . . has not been made by the Congress alone but by all important political parties in the country." Similarly, Sir Sikander Hyat Khan, Premier of the Punjab, has affirmed that the majority of Hindus sympathize with the Congress, while the Premier of Sind has said the same of the non-Moslem League Moslems. Off the record, one of the Indian members of the Viceroy's Executive Council has declared that 80 percent of India's people agree with the aims of the Congress.

At least one of the compromise negotiators, Khan Bahadur Allah Baksh, Premier of Sind, has declared that he is now convinced that Britain does not intend to free India even after the war is over, and Rajagopalachariar has implied as much. It is even being said in India that the British would rather have the country taken by the enemy, with the chance to win it back at the Peace Conference, than to abandon all hope of recovering India by giving it freedom now.

Meantime, compromise negotiations are stalled by the fact that Rajagopalachariar—the one suitable intermediary to talk with Jinnah—has evidently refused to act until the Government has changed its stand. Furthermore, there is some danger that Hindu-Moslem relations may become embittered at the current meeting of the Central Legislature. A Moslem League member is evidently intending to present a resolution calling for the regularization of a policy, already adopted in certain localities, of excusing Moslems from the fines imposed on the inhabitants of towns where disturbances have occurred.

The British Reaction

Despite the acid criticisms of certain left-wing Labor members of Parliament (including Lord Strabolgi's suggestion that President Roosevelt arbitrate the Indian issue), the British House of Commons and press have given the Prime Minister their fairly uniform support. The *Daily Mail* and *Daily Telegraph* have gone right down the line with Mr. Churchill—the latter affirming that the Congress "seems to have enlisted the help of Japanese fifth columnists and certainly seeks to stab in the back those of its countrymen who have volunteered to defend India against the aggressor."

The *Times* is more moderate in its support. Taking issue with the Prime Minister, it declares that the Indian situation is "full of hazard" and that though the Congress may not represent all India, a settlement ignoring the Congress would be an impossibility, especially in view of the fact that all major parties in India agree with the Congress in demanding independence. "The most hopeful symptom of the past few weeks," it concludes, "has been a series of attempts, patient though hitherto abortive, by Indian party and nonparty leaders to find a way out through discussions among themselves."

The *Manchester Guardian* has continued its campaign for conciliation: "While the suppression of disorder is . . . welcome, there will be a deep disappointment in this country as well as among the United Nations overseas if Mr. Churchill's statement is to be the last word." Alone among major papers the *Daily Worker* vigorously takes issue with the Government's whole policy: ". . . refusal to negotiate only surrenders initiative to the enemy and does irreparable harm both morally and materially to the Allied cause."

Chungking Maneuvers for Position in the Northwest

While the military fronts in China have remained quiet, political activity has increased. Chungking is evidently engaged in an attempt to extend Kuomintang authority as widely as possible throughout the northwest. General Chiang Kai-shek is reported to have been successful in negotiations which would increase Central Government influence in the hitherto Russian-dominated province of Sinkiang. Chiang is now attending a military conference in Sian at which, according to a reliable observer, he will attempt a general settlement of Chungking's relations with Sinkiang, and with the Chinese Communists of Shensi.

Chungking is in a strong position, since the Communists have been suffering severely from the unofficial Central Government blockade. Our observer reports that Chungking will probably propose that Communist areas be administered by the Kuomintang, that the Communist forces be absorbed in the main Chinese army, and that Communist leaders should reside in Chungking. He places little hope in the outcome of the conference, but, if agreement should be achieved, Sian will once again have witnessed an important turn in Kuomintang-Communist relations. It was at Sian that Chiang was kidnaped in 1936, and it was after this event that the Kuomintang and Communists originally formed a united front.

The Meaning of the Japanese Withdrawal in Chekiang

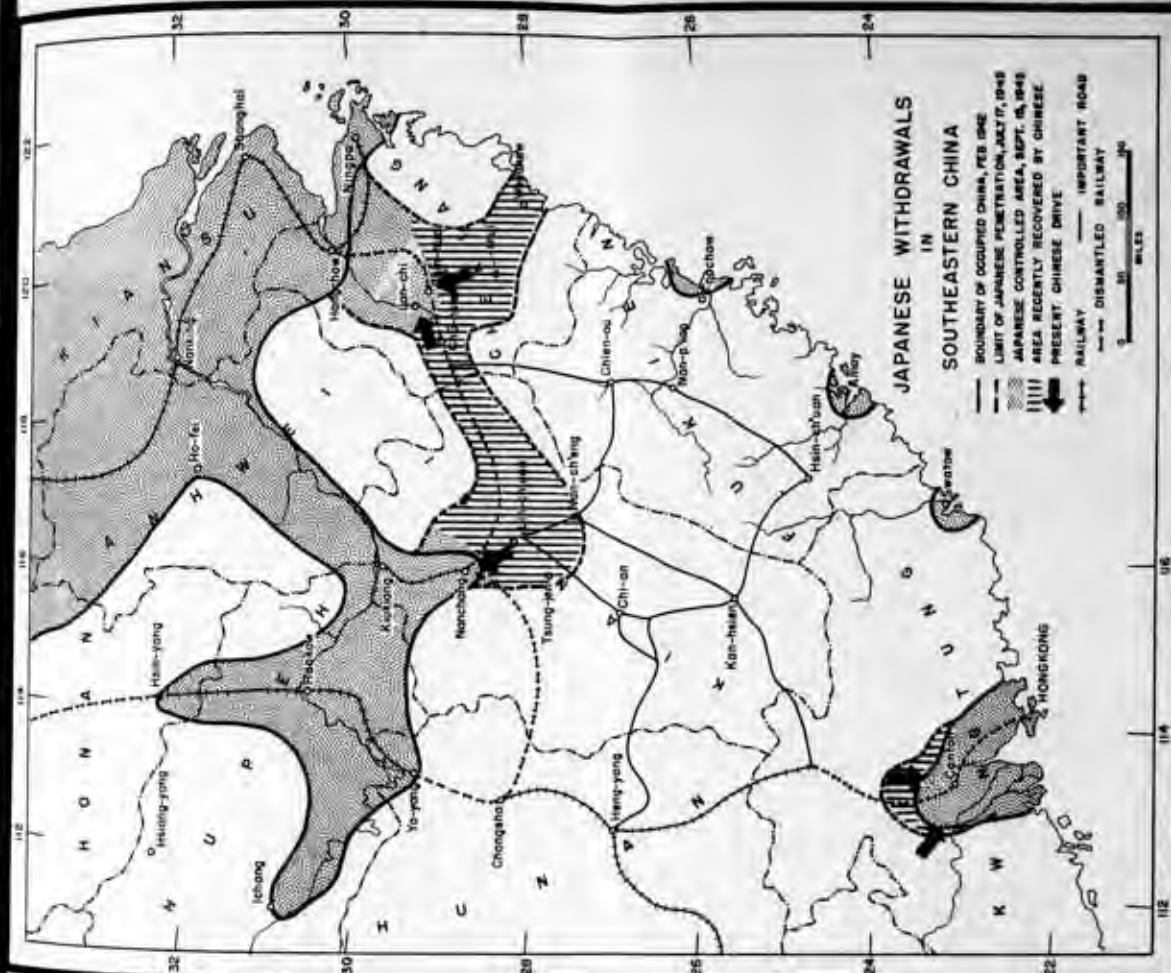
Speculation as to the significance of the Japanese withdrawal in Chekiang, Kiangsi, and Kwangtung has been stimulated by the considerable gains which the Japanese relinquished in their retirement (see accompanying map). Between May 15 and the last week of July the Japanese had occupied the entire Hangchow-Nanchang Railway, had cut off most of Chekiang from communications with Free China, and had

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occupied all the airfields in the province. They had established themselves astride the highway junction of Nan-ch'eng (northeastern Kiangsi), denying to the Chinese the use of the better of the two highways which connect Fukien with the other provinces of unoccupied China, and threatening the important highway which runs from Nan-ch'eng through Kan-hsien (Kiangsi) to Shao-kuan (terminal in Kwangtung of the Chinese held portion of the Canton-Hankow Railway). Subsidiary drives northward from Canton and south and west from Nanchang had made enough progress to be ripe for development into further prongs of a major offensive against the vital Canton-Hankow Railway. According to reliable observers, the Japanese advance of May-July did not meet important Chinese resistance. In August, still free from significant Chinese pressure, the Japanese fell back on Chin-hua, Nanchang, and Canton.

The soundest interpretation of the Japanese withdrawal is probably the view that the Japanese have withdrawn because their objectives have been achieved. According to this interpretation, the Japanese campaign should be regarded as a raid in force to destroy the Chekiang airfields and plunder Chekiang and Kiangsi towns of their accumulated supplies, with the possible additional purpose of providing valuable combat training for the Japanese troops involved. The fact that the Japanese, by retaining Chin-hua, are holding a position from which drives may be undertaken against the Chekiang airfields more easily than from Hangchow is some justification for this thesis. More important supporting evidence, however, is the fact that the Japanese withdrawal was preceded by well organized and systematic looting, and that the withdrawal occurred after harvests were completed. The Japanese have gained enough in plunder to offset the costs of the campaign and they retain an advantageous position at Chin-hua.

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Military Decision in China Abandoned

The Japanese withdrawal does indicate, however, that the Japanese will not make an immediate attempt for a military decision in China. Their retirement in Chekiang and Kiangsi demonstrates that they do not intend to develop a major offensive against the southeastern provinces and the Canton-Hankow Railway. Seizure of this railway would be as critical to Chungking and as valuable to Japan as would be the results of any other single Japanese drive in China. It is not likely that the Japanese have written off promising preliminaries for one major offensive merely to begin another somewhere else in China.

Moreover, there is some room for the hypothesis that the Japanese withdrawals signify a decision in favor of another theater of operations and may possibly give a clue as to where action may be expected. This hypothesis runs as follows: Japanese withdrawal has freed airfields and released Chungking from considerable economic pressure (by reopening Chekiang smuggling centers and by giving Chungking access to Chekiang salt and other products). The fact that the Japanese have withdrawn their troops at the cost of relinquishing air fields and economic pressure might indicate a temporary strain on Japanese manpower. This tightness of manpower is only credible if the Japanese are building up striking forces for another theater without weakening their heavy concentrations in Manchuria (since an attack on Siberia alone would probably not necessitate withdrawals in China). The fact that the Japanese have given up airfields in China close to Japan may be a clue to possible Japanese action against the immediate sources of China-based airpower, the Assam and Bengal bases of the India-to-China air route.

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Continuing Enigma in Manchuria

Although confirmation is lacking, Chinese sources indicate that at least one other Japanese division is leaving China proper bound northward, presumably either for Manchuria or Inner Mongolia. Tokyo radio, meanwhile, has relayed a statement by the Japanese commander in China, General Shunroku Hata, which, though the radio reception by our monitoring service was spotty, foreshadowed the "merging" of Japanese military action with the Axis war in the west.

Argentina Seeks to Counter Our Influence

The meeting of the chief executives of Argentina and Bolivia in the Bolivian border town of Yacuiba on September 17 is the most important of a number of recent maneuvers by which Castillo is attempting to dispute the political and economic leadership of the United States in South America and to counteract Argentina's isolation vis-à-vis the pro-democratic bloc. These maneuvers include cancellation of Paraguay's long forgotten 10 billion peso war debt; inauguration of a branch of the Argentine Central Bank in Asunción; sending of a military mission to Perú; opening of maritime service in Argentine vessels with Chile and other west coast countries; an invitation to Dr. Parra Pérez, Venezuelan Foreign Minister, to be present at the inauguration of a new monument to Simón Bolívar in the Argentine capital; and an invitation to President Ríos of Chile to visit Buenos Aires on his return from Washington.

At the Yacuiba conference with President Peñaranda, Castillo is engaging in negotiations of a more ambitious nature. He is to witness the inauguration of the construction of a railroad and a pipeline, financed by Argentine capital, both of which will open up new avenues of Argentine-Bolivian trade. The pipeline, more likely to be completed success-

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fully, will provide Argentina with desperately needed fuel from nearby Bolivian oil fields.

In addition to the announced purpose of his visit, it can be assumed that Castillo will press for further economic and political advantages, thereby competing directly with the United States, notwithstanding the fact that the latter has already been promised the greater part of Bolivia's vital mineral production. The none-too-stable condition of the Peñaranda Government, beset by acute food problems and increasing social unrest, offers Castillo a fertile field, one, moreover, of great strategic significance because of Bolivia's supply of critical minerals and its central geographic position.

Toward National Union in Brazil

Return from exile of Brazilian political refugees residing in Uruguay, principal refuge of fleeing Brazilians, is strengthening the movement toward a wartime union of all anti-Axis political groups behind the Vargas Administration. Upon the announcement of a state of war between Brazil and Germany and Italy, leaders who had been forced to flee at various times since 1930 as the result of successive political shifts of the present Administration, declared themselves unconditionally at the service of President Vargas. Many are already on their way back to Brazil.

The attitude of the Brazilian government toward this movement was expressed by Dr. Pimentel Brandão, delegate to the Montevideo Permanent Committee for Continental Defense: "The President is seeking the cooperation of all the citizens in the war effort of Brazil and to that end considers that he has no political enemy who cannot again be his political friend." Significantly, General Flores da Cunha, a leading opposition figure since 1937, who returned to Brazil three months ago to offer his services in furthering the national drive against the Fifth Column, enjoys complete freedom

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despite an unserved sentence of a year's imprisonment pronounced *in absentia*. An announcement that President Vargas has granted amnesty to all political exiles, however, has not been confirmed.

A significant and comprehensible exception to this policy of reconciliation is the treatment accorded the Integralistas, Brazil's green-shirted native Fascists. On the eve of Brazil's Independence Day celebration, federal police arrested 40 members of the Integralista executive committee in Rio de Janeiro. Reports also stated that several Communists were arrested at the same time. Nevertheless Communist exiles in Uruguay have taken the lead in offering Vargas their unqualified cooperation.

Nicaraguan Imbrolio

Despite the comic opera setting of the near-revolt against President Somoza of Nicaragua, the arrest of 13 members of the opposition Conservative party, including several prominent generals, focuses attention on the latent instability of the Central American dictatorships in general and the opportunities it offers to Axis agents and sympathizers. Political ramifications involved in the election of a festival queen touched off deeper political rivalry which resulted in Somoza's halting the affair and calling out the police who, among other things, broke up an anti-Somoza student demonstration, sending almost a score of the students to the hospital.

The arrest of the conservative leaders was probably motivated more by personal rancors and ambitions than by ideological considerations. President Somoza apparently believes, however, that they did not refuse the help of Nazi agents and Fascist sympathizers, who had capitalized on the situation by labeling Somoza "a servant of the Jew Roosevelt and of Yankee imperialism." Significantly enough, news of the frustrated plot was first announced by the Berlin radio, a

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circumstance which indicates that a clandestine Nazi radio had sent the information from Nicaragua to Germany.

The basic weakness of the Somoza and other dictatorial Central American regimes lies in the fact that they can not count on popular support and hence are constantly in danger of a coup d'état against which their only protection is a mercenary army or police force. In addition, social unrest, always endemic in these countries even if repressed, may develop to the breaking point as wartime economic stress deprives larger and larger numbers of employment and food. Thus Somoza and other Central American rulers are threatened from two sides, a situation from which the Nazis constantly attempt to draw advantage.

APPENDIX I

A HISTORY OF THE AMERICAN VOLUNTEER GROUP

(The following report was prepared from authoritative sources by the Far Eastern Section of the Office of Strategic Services.)

Credit for the spectacular success of the American Volunteer Group, nicknamed the "Flying Tigers", is due principally to one man, Claire L. Chennault of Texas and Louisiana, according to authoritative opinion. With an organization which never at any one time included more than 260 American personnel in the field and never as many planes in service as the original 100 Curtiss P-40's allotted to them, Chennault became the terror of Japanese airmen flying in Asia, and won for himself and his men the lasting gratitude of the Chinese Republic.

In its brief seven months in action, the AVG destroyed 297 Japanese planes in combat or on the ground (witnessed and confirmed) and an almost equal number of "probables," at a cost of only 13 American pilots shot down, four missing in action (believed to be prisoners), and nine killed in accidents. One balance sheet claims 34 Japanese airmen killed for each American pilot killed in action. About 85 percent of the Japanese planes destroyed were shot down in aerial combat. The over-all financial cost of the AVG was less than US \$11 million, all supplied by the Chinese Government.

Birth of the Idea for an AVG

Late in 1940, when there was great fear of a Japanese drive southward on Singapore, certain American naval authorities became interested in the idea of an American air force operating from Chinese bases. The British were also aware of the potential value of a strong air force active on Malaya's flank. China was vitally interested. After 1938 the Chinese air forces, even with Russian help, had become so weak that Japanese bombers were ranging the length and breadth of Free China almost at will and unmolested.

The plans for a group of American volunteer airmen fighting for China were originally proposed by Colonel Chennault and other instructors with the American air forces in China, together with several CNAC pilots. Their joint idea was easily sold to Madame Chiang, the Generalissimo, and Dr. T. V. Soong, who commissioned Chennault to organize, train, and command the organization later known as the American Volunteer Group.

Colonel Chennault (now Brigadier General) was a United States Army pilot who retired and went to China in 1937 to train Chinese pilots and advise the Chinese air force. Long a specialist in aerial tactics, he had made a careful study of Japanese tactics and psychology from the beginning of the Sino-Japanese air war in August, 1937.

Getting the Planes

After a Chinese Air Mission had failed to secure American air assistance in November, 1940, President Roosevelt decided early in 1941 that the formation

¹ Final confirmation of three of this number is awaited.

of an American volunteer group of pilots was worth trying. About the same time the Chinese Government's purchasing agents were able to secure the release of 100 Curtiss P-40 planes from the British Army. These planes, including certain spare parts and equipment, were bought at a cost of US \$8,989,266 with funds made available by the Chinese Government.

Obtaining cargo space for shipment proved difficult. Locating and purchasing radio equipment and certain armament, ammunition, and spare parts not secured with the planes also caused trouble and delay. Nevertheless, between May and October all 100 P-40's reached Rangoon, and 78 were assembled.

Recruiting Personnel

Colonel Chennault's plans called for recruiting 264 Americans, including 100 pilots, crew chiefs, technicians, etc., plus 1,044 Chinese workmen, interpreters and servants.

The problem of the legality of recruiting airmen from neutral United States was solved by forming the Central Aircraft Manufacturing Company (CAMCO), in April 1941. This Company was made responsible for the hiring and paying of American personnel, and also made agent for the AVG. Airmen were engaged for the AVG ostensibly for an advanced training and instruction unit in China, but the actual purpose of the group—primarily to protect the Burma Road—was explained verbally to interested candidates.

The War and Navy Departments assisted in the recruiting of personnel for CAMCO by granting special discharges and providing that volunteers could rejoin their American units without loss of rank or seniority, if the United States became involved in war. After interviews at all Army, Navy, and Marine Corps air bases, 100 veteran pilots and the required enlisted personnel were secured. More than half of the pilots and instructors were recruited from the Navy, five from the Marines, and the remainder from the Army. Two-thirds of the ground crew and technical staff came from the Army.

CAMCO pay was high. First class pilots received US \$750 monthly; regular pilots, \$600; and enlisted men serving as ground crew, an average of \$300. There were further inducements offered, including a bonus of US \$500 for each Japanese plane independently confirmed as shot down or destroyed on the ground.

The AVG Gets Established

On August 1, 1941, the AVG was formally constituted by order of Generalissimo Chiang Kai-shek, with the independence of Chennault's command clearly defined.

By arrangement with the British, the airfields at Toungoo, 160 miles by rail from Rangoon, and at Mingaladon, near Rangoon, were made available for group training and plane assembly, until the AVG base at Kunming, Yunnan, was completed. Personnel arrived at irregular intervals. By October there were 49 pilots stationed at Toungoo undergoing group training, and 41 en route.

Colonel Chennault organized his flying circus into three pursuit squadrons of 18 planes each, and 10 in reserve. Although all pilots were personally selected volunteer officers with the great advantage of thorough, slow, Army or Navy pre-war training, and all had at least 500 hours flying time, some had never flown P-40's or any type of pursuit plane.

With any such organization transported to an isolated place like Toungoo, it

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was inevitable that friction, dissatisfaction, and troubles of all kinds should develop. At times, the project seemed hopeless. Colonel Chennault was greatly handicapped by lack of experienced staff officers, few of whom were attracted by CAMCO contracts. The dearth of spare parts was appalling. There was a great shortage of tires, and even those available seemed to go bad very quickly in the hot damp climate. There were also shortages of ammunition and of tools, shortages of nearly everything, in fact, save fuel. Even radios were of a commercial design and had to be adapted. Added to other troubles, there were four planes lost and three pilots killed in September and October. Nevertheless, under Chennault's guiding hand, a splendid Group spirit finally emerged, and within a few months this motley body had become a disciplined fighting unit, trained and eager for combat.

The Problem of Supplies and Replacements

Early in November, when the Far Eastern political situation was clearly nearing the breaking point, the AVG had only 44 of the 100 P-40's available for action in Toungoo. Seven of the original number had crashed, 23 had been disabled, and 26 had been grounded for lack of tires. In addition, the shortage of ammunition, tools, and spare parts persisted. This was the situation on November 13, when Generalissimo Chiang Kai-shek ordered the AVG to be ready to proceed to Kunming, Yunnan, on three days' notice, because an all-out Japanese air attack on that city was feared.

This problem of supply and replacement remains central in the history of the AVG. Constant efforts were made to secure matériel from MacArthur at Manila, from Washington, and from Singapore. Progress was being made when war came in the Pacific on December 7.

Effect of the War on the AVG

The outbreak of war, coming a fortnight before the "Flying Tigers" went into action, ended plans for the expansion of the AVG program. The last groups of American personnel leaving to join the AVG were inducted into the U. S. Army. With the United States a belligerent, it was clearly foreseen in Washington that the problem of securing planes, men, and matériel for an independent air unit would be insurmountable. It was therefore decided to disband the AVG and induct the men into the Army Air Corps. However, before this took place on July 4, 1942, the AVG engaged in seven months of combat that contributed greatly to American prestige at a critical time.

The "Flying Tigers" in Action

Going into battle for the first time on December 20, 1941, the "Flying Tigers" shot down four bombers and drove off six more. In defense of Rangoon the Third Squadron shot down 12 bombers on December 23, and 23 bombers on Christmas Day, chasing all remaining planes back across the Gulf of Martaban with further losses to the enemy that could never be confirmed. After this experience, the Japanese ceased daylight bombing of Rangoon for some time.

The Second Squadron, relieving the Third in Burma, harassed Japanese airdromes in Thailand continuously. Japanese reprisals at night against Mingaladon were ineffective. When the enemy again tried a daylight raid on Rangoon on

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January 20, the AVG shot down 24 planes, in addition to losses inflicted by the RAF.

After the fall of Rangoon the Group continued operations from Magwe, Burma, and later from Lashio and Loiwing.

In May the Japanese broke through the Chinese lines and made a heavy assault on Lashio and Loiwing, attempting to cross the Salween River and capture Paoshan. The suddenness and power of this drive was unexpected, and it was in considerable measure due to the AVG's continuous bombing and machine-gunning of the enemy's mechanized and motorized columns that the Chinese were able to consolidate their positions on the Salween front and halt the advance. The AVG bombed and strafed the Japanese sometimes two and three times a day, from May 4 to May 22.

AVG activities were not confined to aerial combat. Hazardous bombing and machine-gunning of enemy airdromes, fortified positions, and troops were an important part of their combat program. On March 24, 10 AVG planes raided the airdrome at Chiengmai, Thailand, at daybreak and burned numerous fighters and bombers which were just warming up for a take-off. Warehouses, barracks, cantonments, and vehicles were strafed. The Japanese tried to avenge this raid by attacking the AVG base at Loiwing, but lost 13 planes, with no American losses. On one occasion two AVG pilots, while on a reconnaissance flight over Moulmein, Burma, destroyed 16 enemy planes on the ground, in spite of heavy ground fire which shredded their wings. On another occasion four AVG pilots surprised 11 Japanese Zero fighters in the act of taking-off south of Moulmein and destroyed all. In May, five AVG planes flew over 400 miles of mountainous enemy country wreaking havoc on the Japanese air base at Hanoi, Indo-China, and flying back to their base by night. One pilot was lost by anti-aircraft fire.

The Balance Sheet

With only a handful of planes, the AVG demoralized a much larger Japanese air force operating in Burma and China. In addition to almost an equal number "probably destroyed," some 297 planes were definitely shot down or burned on the ground between December 20, 1941, and July 18, 1942. The confirmed number of planes destroyed monthly declined from 77 in January to 25 in June and July. The largest number of planes officially credited to one pilot was 15½ planes. Ten pilots are each credited with destroying nine or more planes.

In recognition of his accomplishment, Colonel Chennault was restored to active duty with the United States Army Air Force with the rank of Brigadier General, and in July assumed command under General Stilwell of all United States air forces in the China theater.

Conclusions

The remarkable successes achieved by the American Volunteer Group were due to many factors:

1. General Chennault proved a genius in pursuit tactics, and a leader who had the confidence and respect of the Chinese authorities and of his officers and men.
2. The pilots, technicians, and ground staff of the AVG were volunteers who had had almost a year or more of training in American armed services and who were selected by officers who knew living and flying conditions in China. A

fighting esprit de corps developed, to which the sporting bonus and high pay no doubt contributed. The men had confidence in their P-40's.

3. While operating in China the AVG had the great advantage of the Chinese ARP system of warnings. Probably in no instance were AVG planes attacked inside Free China without ample and detailed warning. (This warning system, however, was not available in the Burma fighting, where enemy planes were often nearly overhead before the AVG took to the air. Even so, in their first five weeks' fighting in south Burma the AVG shot down at least 111 Japanese planes at a cost of only five American pilots killed in action.)

4. The AVG was "stream-lined", making it possible for planes and men to move rapidly from place to place and commence operations before the Japanese knew they had moved.

Reinducted into the Army, Navy, and Marine Corps, the Flying Tigers can teach a system of aerial tactics vindicated by outstanding success against the Japanese enemy.

APPENDIX II

MILITARY MORALE IN THE TRANS-CAUCASUS

In the event of a battle for the Trans-Caucasus, the loyalty of the Georgians, the Armenians, and the Azerbaidzhan Turks of this region would be a prime factor in its defense. Data gathered by the East European Section of the Office of Strategic Services suggest that, despite the probability that a limited amount of the unrest and anti-Russian feeling of the earlier post-Revolutionary years still exists, fifth column activity in the Trans-Caucasus is not now likely to be of decisive importance.

Indo-Europeans are not numerous in the Trans-Caucasus. The Russians and the Ukrainians are the most important, since they hold many high military and civil positions. There are some Russian farming communities in southern Azerbaidzhan and in Armenia. Some Greeks live near Tbilisi and on the Black Sea coast, while a few Germans live in the cities and in rural communities near Tbilisi, Sukhumi, and Kirovabad.

There are a few Semites; European and native Jews are found in the cities, and *Aisora* (Assyrians) on the Armenian plateau.

Principal Population Groups

Georgians (including Mingrellians, Adzhars, Svanetians, etc.)	1,797,900
Turks	1,652,768
Armenians	1,382,598
Russians	336,178
Osetians	114,450
Talysh	77,323
Greeks	57,938
Abkhazians	56,851

Kurds	52,173
Lezgians	40,709
Ukrainians	35,423
Jews	30,175
Tatars	28,443
Germans	25,327

Soviet rule has produced significant results in the Trans-Caucasus. Literacy has been extended to about 75 percent of the population, while the growth of industry has brought a considerable urbanization (1939, percentage of urban population: Azerbaidzhan, 36.2; Georgia, 30.1; Armenia, 28.6). Trans-Caucasia has already given the U. S. S. R. some of its most capable leaders. Stalin is a Georgian, as is Beria, head of the U. S. S. R. Commissariat of Internal Affairs. Mikolai, U. S. S. R. Commissar for Food Industry, is an Armenian.

Nationalism in the Trans-Caucasus

Of the many tribes and peoples of the Trans-Caucasus, only the Georgians, the Armenians, and the Azerbaidzhan Turks are sufficiently numerous and politically conscious to have produced strong nationalist movements.

In Armenia, the chief nationalist organization has been that of the Dashnaks, founded under Russian oppression in the 1890's. During the brief period of Armenian independence in 1919, the Dashnaks were apparently split into three factions, all socialist in character. In 1920-21 Soviet intervention saved Armenia from Turkish conquest and massacre by the Azerbaidzhan Turks. There followed a Dashnak revolt against the Soviet Government, which was suppressed. Since that time Armenia has not been visibly troubled by national movements, although the Dashnaks have continued to exist abroad, torn by dissension. Many of them are favorable to the Soviet regime. The extreme wing, however, bitterly anti-Soviet, today leans toward Fascism.

Georgia and Azerbaidzhan

In Georgia, the Social Democrats or Mensheviks were the nationalist leaders in the struggle against Soviet control. Like the Armenians, the Georgians had a brief period of independence that ended when the Soviet forces took control in March, 1921. The Georgian nationalist movement continued to exist under cover, however, and from time to time the Soviet authorities suppressed its plots. Several Georgian leaders were reported executed in the purges of 1935-37. The movement has apparently ceased to exist within the Soviet Union, although focal points of Georgian Menshevik opposition to the Soviet regime may exist abroad.

The Azerbaidzhan Turks combined nationalism and Moslem fanaticism in the movement led by the Musavat Party. Azerbaidzhan had a brief period under British protection, which ended in 1922 when the Soviet regime was established. Since then the nationalist movement has lost much of its power, and disaffection from this source does not appear imminent. An article in the *Moscow Daily News* of February 3, 1942, in which the chief Moslem leader in the U. S. S. R. urged the faithful to carry on the fight against the invaders, would suggest that the Moslem chiefs in the Azerbaidzhan Republic are loyally supporting the war effort.

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The Problem of Military Morale

While nationalist and religious appeals are potentially dangerous to the Soviets, other factors tend to preserve or induce good morale. During the 20 years of Soviet rule in the Trans-Caucasus, the indoctrination of its population has been thoroughgoing. In 1940, 63.1 percent of the whole population of the Caucasus consisted of persons not over eight years of age at the time of the Revolution; 75 percent were not older than 18 in 1917. These rising generations form the backbone of Soviet strength in the Trans-Caucasus.

Furthermore, in the event of an invasion of Trans-Caucasia, the Georgians, Armenians, and Azerbaidzhan Turks would be fighting for their homes. In the areas of Russia invaded thus far, the people as a whole seem firmly convinced that they are fighting against an unprincipled aggressor in a war that was forced upon them. The Germans themselves have repeatedly testified to the hatred they have encountered from the people of the occupied regions. There is little reason to doubt that under the stress of invasion a very large part of the inhabitants of the Trans-Caucasus would follow the example of the Soviet peoples (for instance the Ukrainians, as well as the Great Russians) who have already resisted the Nazi aggression.

Since the Germans crossed the Don, however, reports of lowered morale in the Soviet forces have been fairly frequent. There is no doubt that the Russians have suffered severely in 14 months of defeats, and that war-weariness has begun to appear. If the military situation continues to deteriorate, defeatism and apathy may increase. Such a weakening of morale might give an opportunity for latent nationalist and religious movements in the Trans-Caucasus to begin subversive activity, even eventually in the open. Nevertheless, it is fairly certain that the people of the Trans-Caucasus can be counted upon to fight valiantly against the invaders for a considerable time to come.

National Composition of the Trans-Caucasus

The population of the Trans-Caucasus is exceedingly heterogeneous, with many small isolated peoples scattered among the others. There are, however, five principal groups: the Georgians, Turks, Armenians, Indo-Iranians, and Indo-European.

Georgians are found chiefly in the Georgian Republic, although they are scattered over the whole region. Smaller groups of Georgians are the *Imeretians*, the *Gurians*, the *Mingrelians*, and several of the smaller mountain tribes of the Central Caucasus (*Khevsurs*, *Tushes*, and *Pshavs*). The *Seanetians*, on the south slopes of the main Caucasus, and the *Abkhazians*, are also, Georgians.

The *Turks* live mainly in Azerbaidzhan Republic, although small groups are found near Batumi. The *Armenians* are found in the Armenian Republic and in most of the cities, especially Tbilisi and Baku. Among the Indo-Iranians, the most numerous are the *Kurds*, in Armenia, and the *Osetians*. There are several other small groups of Indo-Iranians.

September 18, 1942
9:38 a.m.

Operator: Go ahead.

HMJr: Hello.

Oscar Cox: Hello, Mr. Secretary.

HMJr: Hello, Oscar. How late did you work last night?

C: Oh, early. We quit at eleven-thirty.

HMJr: Oh, well. I-I'm too old for these mid-night seances.

C: Well, I would put it the other way - you're much brighter and get things done much faster and so you don't have to work like these lawyers who don't - who fool all day and then start working at night.

HMJr: When did you transfer to the State Department?

C: I - I never did.

HMJr: I see.

C: I wonder if Lubin and I could come over and see you sometime this morning.

HMJr: Lubin and you?

C: Yeah.

HMJr: Oh, I'd be honored.

C: Well, can we

HMJr: ten-thirty?

C: That would be wonderful.

HMJr: Ten-thirty.

C: We'll be there.

HMJr: I'll be honored.

C: Thank you.

September 18, 1942
12:06 p.m.

Operator: Mr. Drew Pearson.

HMJr: Hello.

Drew Pearson: Mr. Secretary? Drew Pearson.

HMJr: Yes, in person.

P: How - how are you feeling?

HMJr: Okay.

P: Are you bearing up?

HMJr: What? Oh, sure. I'm not one of these fellows who's hanging my head.

P: Well, I wasn't worried about you.

HMJr: No.

P: Say, I wanted to ask you - I don't want to quote - quote this, but I - I - Harold Ickes has been storming at me because I indicated that the Russians had been held up in getting some oil refineries which they wanted dismantled and taken to Russia, and the question of royalties paid to Standard Oil is involved, and I - I told him that some of his men were holding it up.

HMJr: Some what?

P: Some of his men were holding - were - were - a lot of red tape in there, and he comes back and he didn't say that your men were, but he indicated that it was over in the Treasury and that Procurement had it, and anyway I wondered who's holding it up.

HMJr: Well, I....

P: I know damn well you both are in favor of aid to Russia.

HMJr: No. The story's a very simple one. Last Monday they finally gave us the specifications - hello?

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P: Yes, yes.

HMJr: We only got them this Monday.

P: I see.

HMJr: And - from the Russians.

P: Yeah.

HMJr: Then in these specifications, they - they specify a certain process which would cost them about five million dollars in royalties.

P: Yeah.

HMJr: And we wanted to make sure that there wasn't any other process which they could get which wouldn't cost them anything.

P: Uh huh.

HMJr: There's - the independent oil people are using a process which doesn't cost them anything.

P: That's it. Yeah.

HMJr: I - and we asked Ickes' people to advise us whether this was the right process and whether there was any other. And to the last date I haven't heard. See? Hello?

P: Yes, yes.

HMJr: Then because I have to get through - I mean I'll tell you the facts, then we can save - then I - Ickes called me up all excited - I didn't know what about, you know, blaming us, and I had the Russian General - the Aviation General, you know, the head of the Mission down....

P: Yes.

HMJr:and Ickes was out of town and I had his Under Secretary over here.

P: Yeah.

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HMJr: And we went into the thing for an hour. Well, as an up-shot of that, what I suggested was that in addition to letting this - I think they call it O. P. C., don't they?

P: That's right.

HMJr: Why not let the Bureau of Mines take a look at this, because they were not - you know - had no interest.

P: Yeah, yeah.

HMJr: And the up-shot was that they would, both the Bureau of Mines, which had never been asked before....

P: I....

HMJr:that was the first time anybody had asked them to.

P: It's a good idea.

HMJr: And after all, I figured that they were non-commercial.

P: That's right.

HMJr:to review this thing, and I asked for an answer this week, and Abe Fortas promised me one.

P: Well, that's - that's swell. They - they - the O. P. C. boys kept telling me that it was over in Procurement, but I....

HMJr: No, no, no.

P:but the Russians indicated that the O. P. C. fellows were holding it up.

HMJr: Well, it's just that we - we still haven't got an order.

P: They - they prefer the Standard, but the - the Standard, you know, never took its patents out in Russia. These - these - the - is this thermal - thermal....

HMJr: Something.

P:thermal cracking process?

HMJr: Something, I don't know. They're - they're buying groups of machinery to do five or six different jobs....

P: Yeah.

HMJr:but there's one thing which would cost them five million dollars. Well, it seems to me that that's bad business, particularly where there's a group of independent oil companies that have a process that they - that we could get for them and it doesn't cost them anything. At least....

P: Well, that's what I felt.

HMJr: What?

P: That's what I felt.

HMJr: But as it stands right now, I'm waiting to hear from the Bureau of Mines, and who have--for some strange reason--have never been asked in on this before, and who have the people.

P: Yeah.

HMJr: And if they haven't, they know where to get them.

P: Well, I think that's a swell idea.

HMJr: What?

P: I think - I think your idea is an excellent one, to have the Bureau of Mines in there.

HMJr: But I didn't know why Harold got so excited. Now I know.

P: Well, I - I had something on the radio that - that he was - I didn't say he personally, but his - one of - one of his Standard Oil men was - was holding it up.

HMJr: Then I told this General - I can't remember him - you know, the Aviation General, the head of the Purchasing Mission - I said, "We could go ahead and order this tomorrow, but...." I said, "....I take it that if we could save you five million dollars, you would like it." You know?

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P: Yes.

HMJr: And so he allowed he would, and - and Abe Fortas has promised us something by the end of the week.

P: Well, that's swell.

HMJr: He hasn't been in it before, but I was glad to have him sit in on it.

P: Yeah, Abe's a good man.

HMJr: Because he knows all this background, and he's got his own suspicions too.

P: Yeah.

HMJr: What?

P: You bet. Well, I'm glad he has. He's - he's pretty - he's pretty wide awake.

HMJr: Yeah. But he - it was a new story to him, and I mean, this thing, but he had his suspicions and - just the way I have mine. And somebody's trying to sell a special process to these people.

P: Yeah. Well....

HMJr: But that's - now how much of that are you going to use?

P: I don't think I'll use anything.

HMJr: I see.

P: I'll tell you why. I - I've already made my point. I said that they were being held up for five million dollars - I said that on Sunday. That's the thing that Harold's objecting to.

HMJr: Oh.

P: And....

HMJr: Well, the story's just the way I told it to you, Drew, and....

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- P: Well, I don't think I'll - I'll wait until you fellows iron it out, before I write anything.
- HMJr: As a matter of fact, when the Russians began to get something last March, it was entirely due to the hell I raised around town. And then for awhile stuff moved, and the - they - our Procurement section did a marvelous job for the Russians.
- P: I know they did.
- HMJr: And I - it was I who went to the President and got him to give me this little chit, in which it said that the Russian thing comes first. And up to that time nothing had moved.
- P: Well, I didn't know that.
- HMJr: What?
- P: No, I didn't know that.
- HMJr: No, I - I was the fellow that went to the President and got him to give me a little piece of paper and say that their stuff should come ahead of everything. And then up to that time - that - there was a big loss to that convoy, you know?
- P: Yeah.
- HMJr: Everything really moved. I mean, they just had - New York and Philadelphia and Baltimore was flooded with ships.
- P: Well, you shouldn't bury your candle under a bushel - a bushel.
- HMJr: Well, you know, I've been here nine years and I - I'm afraid that I can't change. But that - it was - it was the first ten days of March that I went to the President and then, oh God, I mean Nelson and everybody, "What does this mean? This is going to upset everything," and I said, "Well, if you don't like it, you can go and ask the President. Here it is in writing." I had it photostated and sent it all around town - Maritime Commission, everybody got a photostat.
- P: Good.

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HMJr: Yeah. And the interesting thing was it was written on some old paper that he had - "Assistant Secretary of the Navy".

P: Oh, really?

HMJr: Yeah.

P: (Laughs)

HMJr: Yeah. But until then, up until that time, you know those big losses - the stuff really, for the first time, it flowed out of here.

P: No, I - I didn't realize that it was that slow. That's terrible.

HMJr: What?

P: I didn't realize that it was that bad.

HMJr: No, it wasn't until - oh, about along the tenth or eleventh of March that I got this shit, and then things went and Procurement just had everybody - Army, everybody, up on their ear, and making them go to town. And the stuff we got - we loaded more ships there in three months than they loaded before in a whole year practically.

P: My God!

HMJr: Yeah.

P: Well, I - I - I'm not going to use any of this stuff, and - I don't think at all, but I just wanted to see....

HMJr: Well, you wanted to check.

P: I wanted to see if I was in error, and I don't think I was.

HMJr: No, I don't think you were very much in error.

P: And - all right. See you, Mr. Morgenthau.

HMJr: And - in the matter - the way it stands, we're waiting right now to have it reviewed by those two separate bureaus over there.

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P: Yeah.

HMJr: And until we hear from them - why, we're - we're waiting.

P: Yeah.

HMJr: And I thought bringing in the Bureau of Mines was kind of cute.

P: I think it's an excellent idea. They've got some good men over there.

HMJr: Sure they have, and why they would side-track them anyway, I never understood, and brought in the Standard Oil crowd.

P: Well, I had a long talk with Ickes yesterday and told - and I told him that I thought he was making a hell of a stink by trusting all these oil men. He's got to have some oil men around, but....

HMJr: Well, why doesn't he use the Bureau of Mines? They're a good crowd. It's just like I use Procurement.

P: I don't know. I don't know why he doesn't. He - he thinks well of the Bureau of Mines too, but I never talked to him about that.

HMJr: Well, the day anybody in this town gets anything on Cliff Mack over in Procurement, they've got to be pretty good....

P: Yes.

HMJr:because he really is - I mean, there's a little organization with - buying thirty million dollars a day - so it isn't so little, see? Nobody knows about it, nobody hears about it, and we haven't got a dollar-a-year man in the whole God damn shop, and we go ahead and we average thirty million dollars a day. And we just deliver day after day - non-military and for lend-lease - that's what we do. All are non-military or lend-lease, and they're doing a beautiful job over there.

P: I didn't - I didn't realize that.

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HMJr: Thirty million dollars a day, is what they average. And they go to town, believe me - and no dollar-a-year men in the whole place.

P: Well, I've always said that you - that you were the best executive in Washington.

HMJr: Well, take a look at it sometime, and

P: I will.

HMJr: it's a nice little organization, and it shows what can be done by people who have got their heart in the right place, and

P: Thanks ever so much, and I'm - I'm sorry to bother you.

HMJr: No, it's - you - you touched a warm spot.

P: All right.

HMJr: Well.

P: Thank you. Good-bye.

HMJr: Good-bye.

Stellman

*Photostat 133 sent
to Mr. Mack 9/17/42-*

OFFICE OF
PETROLEUM COORDINATOR FOR WAR
WASHINGTON

SEP 18 1942

My dear Mr. Secretary:

In view of the various questions which have recently arisen relating to the efforts of my Office to assist the Russians in securing equipment and processes for the construction and operation of refineries in the Soviet Union, I wish to make clear for your information the functions and responsibilities of my Office in connection with these negotiations.

From the outset, we have endeavored to have made available to the Russians all the technical information possessed by American companies which might assist the Russians in any way in selecting those processes and equipment most suitable to meet their needs. We have assumed no responsibility whatsoever for the selection of any particular equipment or process since we have believed that these were matters for the Russians themselves to decide. Such selections have been made solely by the Russians and not by us, as our files show and as I know they themselves will confirm.

With respect to the cost of acquiring either the rights to use, or the engineering and technical data and assistance necessary to construct the refineries and operate the processes selected by the Russians, these are financial and legal questions for Lend Lease and Treasury Procurement in which my Office has no interest. We are only anxious that whatever arrangements you and Lend Lease may decide upon be consummated as quickly as possible in order that the Russian requirements shall be satisfied at once.

We shall be happy, of course, to continue to provide you and the representatives of the Soviet Government with any technical assistance which may be needed.

Sincerely yours,

Harold Z. Parker

Petroleum Coordinator for War.

Hon. Henry Morgenthau, Jr.,
Secretary of the Treasury.





THE SECRETARY OF THE INTERIOR
WASHINGTON

September 18, 1942.

Dear Henry:

You were a trump to amend your report to the Director of the Budget on the proposed administrative order to give more comprehensive powers to the Petroleum Coordinator.

Sincerely yours,

Harold I. Ickes

Secretary of the Interior.

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

September 15, 1942

Dear Harold:

I have your letter of September 11th, and have been glad to incorporate your suggestion in the Department's report on the proposed administrative order that has been submitted to the President with reference to the Petroleum Coordinator's Office. I enclose a copy of our report for your information.

Sincerely,

/s/ Henry

Honorable Harold L. Ickes,
Petroleum Coordinator for War,
Washington, D. C.

By Mess. 9/15/42 4:40 per J. Cul-
len

WT:aja

SEP 15 1942

The Honorable

The Director of the Budget.

Sir:

Reference is made to letter of August 25, 1942, from the Assistant Director, Legislative Reference, of your Bureau, transmitting for an expression of the views of this Department copies of a letter of August 19, 1942, from the Petroleum Coordinator for War, and of a proposed Executive Order entitled "Establishing the Petroleum Administration for War in the Executive Office of the President and Defining its Functions and Duties."

The proposed Executive Order would create, to take the place of the present Office of Petroleum Coordinator for War, a Petroleum Administration for War, and would centralize in such Administration broad powers to control the conservation, development, production, transportation, refining, storage, distribution, sale, exchange, transfer, and use of petroleum, petroleum products, and associated hydrocarbons. In this connection the Administrator would be empowered to exercise, subject to overall control by the Chairman of the War Production Board, certain of the powers of the President with respect to priorities and allocations, and would also be authorized to exercise powers of the Price Administrator under the Emergency Price Control Act of 1942, subject to the approval of the Price Administrator only as regards the establishment of prices at the consumer level.

The following provisions of paragraphs 3 and 7 of the proposed Executive Order would directly affect the functions of the Procurement Division of this Department in its procurement of petroleum products:

"3. The Administrator shall perform the following functions and duties:

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* * *

"(1) Collaborate with the Department of War, the Department of the Navy, the Department of the Treasury, the War Production Board, the Office of Lend-Lease Administration, and other interested departments or agencies in the formulation of plans, policies, and procedures with respect to the procurement of petroleum for the armed forces of the United States, the Government of the United States and foreign nations.

* * *

"(n) Meet at regular and special intervals with representatives of the various Federal departments and agencies having continuing functions directly related to petroleum or the petroleum industry.

* * *

"7. The several departments and agencies which perform functions relating directly to petroleum or the petroleum industry shall, in discharging such functions, conform to such policies, programs, and measures as the Administrator may prescribe in the execution of the powers vested in him by this Order. Such departments and agencies shall supply such information and data as the Administrator may require in performing his functions and shall give the Administrator antecedent advice with respect to any action which they may propose or undertake which will affect petroleum or the petroleum industry. The Administrator may establish committees or groups of advisors representing two or more departments or agencies of the Federal Government, or States, or agencies or missions of governments allied with the United States in the prosecution of the war, as the case may require, to carry out the purposes of this Order."

This Department sees no reason for objection to the proposed Executive Order insofar as its functions would be affected by the proposed provisions just quoted. As regards the broader questions of policy presented by the proposed Executive Order, it seems to this Department that they resolve ultimately into the question whether a

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single agency should exercise powers now dispersed among several agencies, so far as the petroleum industry is concerned. The Treasury Department is of the opinion that the proposal to centralise powers in the Administrator is consistent with the theory of good administration and would probably make possible the doing of a better job in the petroleum field.

By direction of the Secretary:

Very truly yours,

(SIGNED) W. N. THOMPSON
Administrative Assistant
to the Secretary.

TMD:JES:ims
9/14/42

OFFICE OF
PETROLEUM COORDINATOR FOR WAR
WASHINGTON

LEGISLATIVE SESSION '42
File -- Rm. 170

September 11, 1942.

My dear Henry:

Thank you for having your Administrative Assistant, Mr. W. N. Thompson, send me a copy of your proposed letter to the Budget in re the suggested administrative order with reference to the Petroleum Coordinator's Office that has been submitted to the President.

I have read your proposed letter with interest and I have only one suggestion to make -- one that I make with some hesitation. If you believe in one man running a single job without having to wait hat in hand upon other executives to get their permission to perform acts over which he ought to have jurisdiction, then it would mean a great deal to me if you would be willing to say to the President, instead of your last sentence, something to the general effect that the proposal to give adequate powers to the Coordinator to do his job is consistent with the theory of good administration and would probably make possible the doing of a better job.

Sincerely yours,



Petroleum Coordinator for War.

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

September 18, 1942
2:15 p.m.

GROUP

Present: Mr. Bell
Mr. Gaston
Mr. Buffington
Mr. Sullivan
Mr. Haas
Mr. Gamble
Mr. Blough
Mr. Schwarz
Mr. Odegard
Mr. Paul
Mr. White
Mr. Charles Bell
Mrs. Klotz

H.M.JR: This is mainly a meeting about five different things to Mr. Paul.

MR. PAUL: That is good. I am without anything to do.

H.M.JR: Wonderful. Mrs. Roosevelt wants a simple explanation of the Ruml plan and wants it by tomorrow morning. (Laughter)

MR. BELL: Does she say anything about the Paul plan? (Laughter)

MR. ODEGARD: I would suggest a general circulation of that. (Laughter)

MR. SULLIVAN: That is a good idea.

H.M.JR: Peter, you sound like Elmer Davis. (Laughter)

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MR. PAUL: Why not play that record to her?
(Laughter)

H.M.JR: Does that make sense to you, that note from the President? (Memorandum to the Secretary from the President handed to Mr. Paul.)

If it does not, ask Mr. Hull's secretary what it means.

MR. PAUL: Not very much.

H.M.JR: You might call Hull's secretary.

And third, take that and I will explain it to the group. (Memorandum dated September 18, 1942, entitled "Price Legislation", from Mr. Oscar Cox, handed to Mr. Paul.)

MR. PAUL: I thought you said five things.
(Laughter)

H.M.JR: I have got to leave here at two-thirty; otherwise they won't get me up to LaGuardia airport.

This is very much in the room here. It is kind of a sad story, but I want to tell Paul and some others.

In the first place, last night at eleven o'clock Sam Rosenman wanted me to come over to the White House to gossip about this bill. I went over at eleven o'clock last night.

So Oscar Cox and Lubin walked over here this morning to show me something they had put together. The President has sort of left Hopkins and Lubin and Cox and Rosenman watching this bill, with nobody really in charge. They are in hot water; and so the thing is in an awful mess.

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Now, I made them a suggestion. If nothing happens, there is no use telling about it; if something happens, I will tell you about it.

But the main thing is that there is a draft of what they like about the bill and what they don't. I want you to read it, and the people in your shop, and if there is anything--

MR. PAUL: Whose is it?

H.M.JR: It is Oscar Cox's, and if there is something in it - if anybody wants to see it, just ask Paul and he will be glad to let you see it. If anybody who is interested in this legislation, even remotely, and wants to see it, talk it over; and if you have any suggestions for Oscar give him a ring. What he was talking about was something on how to handle the thing with the members of Congress, which is something else. But I made him a suggestion. There may nothing come out of it.

Is that clear?

MR. PAUL: Yes.

H.M.JR: O.K.?

MR. PAUL: Yes. As I understand it, we are to look this over and pool any suggestions and give him any help we can.

H.M.JR: That is right. I mean, that is an analysis of the bill, and if you don't like it or don't think it is good, or if you have any suggestions of your own, you are to call him up. The whole thing is pretty sickening.

MR. PAUL: I might tell you in connection with Mrs. Roosevelt's request for an explanation of the

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Ruml plan - I don't know whether there is any connection - the attorney for Mr. Ruml came down yesterday on the train with Judge Rosenman, and he reported Judge Rosenman as saying that he could not understand the Treasury's objection to the plan.

H.M.JR: Rosenman said that?

MR. PAUL: Yes.

H.M.JR: Well, when you send an explanation to Mrs. Rosenman send one - I mean to Mrs. Roosevelt, send one to Rosenman. I am getting my Roosevelts mixed up. Well, send it to the Rosenman-Roosevelt group, anyway. I will leave it up to you.

MR. PAUL: May I make a report on one other thing?

H.M.JR: I have got--

MR. PAUL: Sixty seconds?

H.M.JR: Barely sixty seconds.

MR. PAUL: I had dinner with La Follette last night, and he is going to pick a fight on the Floor on a limited number of points. He wants to know whether we have any objection to his advocating the spendings tax but not letting it get to a vote - withdrawing it before it gets to a vote.

H.M.JR: I don't understand that kind of language.

MR. PAUL: He does not want to have a vote against it because he is for it, but he wants to give it a little push and some publicity.

MR. BELL: He wants to get it in the record.

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MR. PAUL: Yes, get it in the record and get some publicity.

MR. BELL: That is right.

H.M.JR: Isn't that what is known as a "hit and run"-- (Laughter)

MR. PAUL: But he says, "I don't want it to come to a vote. I will withdraw it."

H.M.JR: What do they call it when a fellow goes up with a bat and-- (Laughter)

MR. PAUL: He wants to make a bunt.

MR. GAMBLE: Sacrifice bunt. (Laughter)

H.M.JR: Sacrifice bunt, yes. Who said that?

MR. ODEGARD: Gamble.

H.M.JR: Sacrifice bunt - he gets put out and the other fellow comes in. That is what I was groping for.

MR. PAUL: I think it is a good idea. It will get a lot of stuff in the record. It will give us publicity and we won't have unfavorable reaction of the vote.

H.M.JR: Tell him to pull a La Follette. (Laughter)

MR. SULLIVAN: What happens if they insist on a vote?

H.M.JR: I said, tell him to pull a La Follette.

MR. BELL: They might adopt it.

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MR. SULLIVAN: I think that is the danger.

MR. PAUL: That they would adopt it? (Laughter)

MR. SULLIVAN: No, that they would take a vote on it.

MR. PAUL: I think he will manipulate that.

H.M.JR: It is O.K. Anything else?

MR. PAUL: No. I just wanted to tell you that.

H.M.JR: That is all right.

Mr. Bell?

MR. CHARLES BELL: I have nothing that can't wait.

H.M.JR: Good. It will wait then. (Laughter)

Dan?

MR. D. W. BELL: I have got some things to be signed in connection with taking over that postal savings thing.

H.M.JR: I thought you were doing the signing for the Secretary of the Treasury. What are you staying down here so late for? (Laughter)

MR. BELL: To do my own signing. (Laughter)

H.M.JR: I knew you would have a come-back.

(Letter to The Postmaster General, a "Memorandum of Agreement Between the Post Office and the Treasury Department" and a resolution concerning the Postal Savings matter signed by the Secretary.)

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H.M.JR: Incidentally, I pulled one this morning, which I very modestly said was a good one. When Cox and Lubin came in, you see, they came from this side (indicating) of the White House, so I said, "Here comes the 'left wing' of the White House." (Laughter) That isn't bad.

MR. SULLIVAN: I don't know which is the front door to the White House.

H.M.JR: I was taking it that you face the front door and then this (indicating) would be the left wing. (Laughter)

MR. PAUL: Did Lubin thank you for extending his time to get his return in?

H.M.JR: No. Did you do that?

MR. SULLIVAN: You mean somebody in the Government didn't get his return in in time? (Laughter)

H.M.JR: Lubin has not paid this year's tax?

MR. PAUL: Lubin is on a fiscal year. His return was due September 15 and he couldn't get the return in and we had to give him thirty days. (Laughter)

H.M.JR: How could he be on a fiscal--

MR. PAUL: An individual can have a fiscal year if he wants. I don't know why he has it.

H.M.JR: That is the darnedest thing I ever heard. (Laughter)

MR. SULLIVAN: There are very, very few of them.

H.M.JR: How long has he been with the Government?

MR. GASTON: It is just to be different.

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H.M.JR: He is on a fiscal basis?

MR. PAUL: His fiscal year ends June 30 so his return was due September 15.

MR. WHITE: That gives three extra months.

MR. SULLIVAN: Now look, in your provision on fiscal year corporations are you extending those to cover fiscal year individuals?

MR. PAUL: Yes, we are.

H.M.JR: Well, Harry the White! (Laughter)

MR. WHITE: There is just one thing that I think might not appropriately wait. Bewley called with a message from his government to the effect that they would like one hundred and fifty tons of silver for productive uses on a lend-lease basis. They said they would not be very happy about returning the silver.

The question I want to raise with you is, is it all right to see whether the Lend-Lease people can do that. Would it be a violation of your understanding with the Silver Committee that any silver that you allow out would be returned?

H.M.JR: Now, wait a minute, Harry. Right here - I haven't had a chance to read it, but I wish you would read it and weep. This is a letter from Pat McCarran on that.

MR. WHITE: Oh, this is the twentieth Congressional letter, I think, we have gotten in a week on the silver. All the jewelers are complaining, but they are all getting answered satisfactorily.

H.M.JR: I don't know, Harry, about that. I tell you, I would have to find out. It would make an awful difference if it is for coinage.

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MR. WHITE: It is not for coinage, and Lend-Lease would prefer to lend-lease it not for coinage. They think it is more nearly within their power.

H.M.JR: And it wouldn't be returned?

MR. WHITE: The British say - this is the phrase they use, "We would not be happy about returning the silver."

H.M.JR: What is that song - "I want to be happy"? (Laughter)

MR. WHITE: It is an old one - I don't remember. (Laughter)

H.M.JR: Isn't there a song, "I want to be happy"? I want to be happy. (Laughter)

MR. SCHWARZ: It is from "Tea for Two."

MR. BLOUGH: From "No, No, Nanette."

H.M.JR: "No, No, Nanette" - who said that?

MR. BLOUGH: I did. I am the musical comedy expert. (Laughter)

H.M.JR: You are good back there. Anyway, you invite Harry for tea and I will sing, "No, No, Nanette." (Laughter)

MR. WHITE: I will sing "A Thousand Times No." (Laughter)

H.M.JR: Do you agree with me or not?

MR. WHITE: I am not sure, but we can try it out on them. If they insist upon coming back--

H.M.JR: That is it. Is there anything else?

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MR. WHITE: The Joint Production Board has considered your request and they apparently are asking the subcommittee to make an investigation.

H.M.JR: Good. What was it I heard about that? It has been going around, each one telling a story about the other agency - that the other agency was at fault. The Navy is telling about the Maritime Commission - they pulled something, I don't know what. Commander Strauss was telling it on the Maritime Commission - how terrible they were. Well, anyway, the rest of the group has got two minutes. I have been taking most of it.

Schwarz? Schwarz, Pearson called me up today on a matter on which he wanted to check his facts. In the course of the conversation I was telling him about how good Procurement is, they do thirty million dollars a day without a dollar-a-year man. I think you might get somebody to write up a story on Procurement - how we run that thing with practically all civil servants.

MR. SCHWARZ: It is a good story.

H.M.JR: Doing thirty million a day and not a dollar-a-year man in the carload. (Laughter)

MR. SCHWARZ: "Life" might.

H.M.JR: Somebody. "Life" wouldn't - "Life" or "Time" wouldn't do it - got to get something off center.

MR. SCHWARZ: We might sell them.

H.M.JR: Start with "PM" and work down. (Laughter)

MR. PAUL: Down? (Laughter)

H.M.JR: Peter?

MR. ODEGARD: Just two things I thought you might like to know. Alexander Wolcott will be on

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the Treasury "Star Parade" beginning this next month - on for two programs.

H.M.JR: Good.

MR. ODEGARD: And your supplementary statement that you had Cagney read was carried by both the NBC and the CBS networks.

H.M.JR: Good.

MR. ODEGARD: Mutual did not carry it because they said they did not carry the original misstatement.

H.M.JR: George?

MR. HAAS: I have nothing.

H.M.JR: You stay behind a minute, George. I want to talk to you.

Roy?

MR. BLOUGH: Nothing.

H.M.JR: You had better stay home tomorrow, Roy. You have it coming to you.

MR. BLOUGH: I will try. We have some things to get ready for Monday.

H.M.JR: You had better stay home tomorrow.

MR. GAMBLE: The War Production Board has approved the first two requests for equipment.

H.M.JR: Good. Is Packard among those?

MR. GAMBLE: No. Packard - we had not presented that. We had presented the Kaiser and the Moore Dry Dock Companies while we were making that investigation. They approved the first two of them and will give us an answer on their policy regarding all of them in the next two or three days.

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H.M.JR: George?

MR. BUFFINGTON: Nothing.

H.M.JR: You (Paul) have been taken care of.
(Laughter)

MR. SULLIVAN: I called MacDonald about that automobile information and he is away for ten days - MacDonald over at Public Roads. You asked for certain information.

I have Bill Horne coming back here, he is starting in Monday. He was the man who was so helpful to George on the publicity in connection with tax anticipation notes, and what-not. I can use him on a variety of other things, then when it shakes down - this tax anticipation notes - until we find out who is running the show--

H.M.JR: Who did you have lunch with? (Laughter)

MR. SULLIVAN: I have just spent an hour and a half in the dentist chair.

H.M.JR: Who did you have lunch with?

MR. SULLIVAN: In my own office, all alone. I had milk - that I hate. (Laughter)

H.M.JR: All right.

MR. WHITE: I just read the last line of this letter. If you want quick service I will have to raise the question now, on this answer to Senator McCarran. He makes the statement, which he is leading up to, that it is hoped that in keeping with the spirit of our agreement before the Silver Committee, that your Department may seek to report unfavorably on S.2678. That bill calls for permission to sell. That was not your agreement with the Committee.

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H.M.JR: Definitely not. My agreement was I would not start anything, but I didn't say I would stop anything. That is the difference between La Follette and me. (Laughter) Now I think you had better--

MR. WHITE: We will check this letter through, but I wanted to be sure you had the same view on it.

H.M.JR: I think the thing ought to go up - who went up there with me?

MR. WHITE: Foley and myself, I think.

H.M.JR: Wasn't Bernie there?

MR. WHITE: And Bernie, yes.

H.M.JR: I think what you had better do is simply say - write this kind of a letter, "My dear Senator: Mr. Morgenthau has asked me to write you this letter, which I have cleared with him over the telephone" - which you will do, tonight, you see. "He did not want this false impression to be in your mind more than one day," and you could call me up around eight-thirty tonight - are you going to be home or out? You can do it through the Treasury switchboard.

MR. WHITE: At eight-thirty?

H.M.JR: Tonight.

MR. WHITE: In New York?

MRS. KLOTZ: On the farm.

H.M.JR: Can you do that?

MR. WHITE: Yes, I think I can - yes, I can.

H.M.JR: Between eight-thirty and nine o'clock, or tomorrow morning at nine o'clock.

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MR. WHITE: That would be more convenient.

H.M.JR: I will call you at nine o'clock tomorrow, then you can clear it and send it up by hand.

Anything else, Harry?

You (Sullivan) are taken care of - your tax anticipation notes? (Laughter)

MR. SULLIVAN: I don't know yet who is going to run the show on it.

H.M.JR: What you (Buffington) want to do is find out what he (Sullivan) had for lunch and give it to all the bankers. They will buy your tax anticipation notes. (Laughter)

Gaston?

MR. GASTON: Nothing.

H.M.JR: All right. I will see you all Monday or Tuesday.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE 9-18-42

TO Secretary Morgenthau
FROM Ferdinand Kuhn, Jr.

You may wish to see a copy of The Saturday Evening Post story of 1918 which Elmer Davis mentioned at lunch the other day. I am sending another copy to Peter Odegard, with the suggestion that if he likes the story we should get The Saturday Evening Post to reprint it.

F. K.

Published Weekly
The Curtis Publishing Company
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 Independence Square, Philadelphia
 London: G. Henricus Street
 Covent Garden, W. C.

THE SATURDAY EVENING POST

Founded A^D 1728 by Benj. Franklin

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George Horace Lorimer
 EDITOR

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Entered at the Philadelphia Post-Office as
 Second-Class Matter

Entered as Second-Class Matter at the
 Post-Office at
 Ottawa, Canada

June 190

PHILADELPHIA, MARCH 25, 1918

Number 38

THE BEGGAR'S PURSE

A Fairy Tale of Familiar Finance

By Samuel Hopkins Adams

E. VAN TENNER was a man who pursued his way through life by fixed habits. He lived in Philadelphia. That was one of the facts. He ate regularly, slept regularly, worked regularly, went to the club regularly; all this within the limits of a very comfortable income. He never overstrained himself. That's what kept it so comfortable. It kept E. Van Tenner comfortable. They were very comfortable together, which is fortunate, for there were only the two of them to look after each other. That is to say, E. Van Tenner was a bachelor. As to his age, his hair and apparel, the illustrator will apprise you. Not I. They have no essential bearing upon this, my story, which is no love story, for love and E. Van Tenner were strangers. But though love had passed him by, some home to him, touching him with its shock upon the income and then upon his habits; but this he endured, not without discomposure, indeed, but without resentment, for one of his best habits was to be honestly and thoroughly patient. In sundry phases war came to him, but the particular phase which, at the beginning of this chronicle, cramped him in the task of figuring up his accounts wore white whiskers and an ingratiating expression and was a professional beggar, not for pay but for notoriety.

The professional and patriotic beggar looked E. Van Tenner with a bright and shrewd eye and said—that is, he would have said if E. Van Tenner hadn't first said:

"No." And then repeated it with level and considered firmness: "No. No. No."

"But ——" began the professional beggar.

"I subscribed liberally to the first Liberty Loan."

"I know. But —"

"More liberally to the second Liberty Loan."

"Exactly. Nevertheless —"

"As for War Savings Stamps—I see them in your glittering eye—I know all the arguments —"

"Except one," interrupted the beggar.

"Quite useless," said E. Van Tenner firmly. "However, proceed!"

"My argument," said the beggar, "is based upon the word 'savings.' War Savings Stamps. I propose that you shall start modestly with one of these stamps, purchased out of what you save on your expenses without giving up anything that you need or want or aren't better off without."

"That," commented E. Van Tenner, smiling, "suggests magic."

"Magic, pure, deep and wide," affirmed the beggar promptly. "What are your plans for to-day?"

"A trip on business to New York."

"Good! How long?"

"Twenty-four hours," said the prosaic E. Van Tenner.

"Do you carry a pocket-book—or your money loose?"

"Loose."

"Take this purse. It calls for but one condition: That you keep all your money—and change—in it and spend only from it. If this is faithfully done, within twenty-four hours you will have saved enough to buy one—no, two stamps; which at the present price will come to eight dollars and twenty-eight cents."



"I've Learned That Every Time I Spend a Dollar I Spend an Extra Quarter for Vanity and a Dime for Timidity!"

To E. Van Tenner's skeptical eye the purse placed in his hand seemed an ordinary-enough affair—a cheap, flimsy wallet, without distinguishing mark until he opened it and found, set into the flap, a celluloid tablet flanked by a small pencil. Across the top of the tablet ran the legend:

"What's the good?"

"A colloquial expression of the philosophy of indifference," observed E. Van Tenner with a smile.

"On the contrary," retorted the beggar, "it is a serious and profound inquiry into first causes. The magic inheres in it. Understand, now: You are not to scribble and scrooge at all. Parsimony by people who can afford to spend does harm, not good. And this magic, being white magic, works only for good. But if you undertake to remove money from that purse for any purely wasteful purpose the magic will be loosened; and you shall see what you shall see—or, more accurately, feel what you shall feel."

"The purse will stir in my pocket, I suppose," laughed E. Van Tenner.

"Much deeper," replied the beggar gravely. "In your conscience."

"I accept your challenge," said the other. He emptied his pockets and deposited all his money under the guardianship of the inquiry "What's the good?"

"To start from the moment when I leave my office for the train."

"I shall expect to hear from you on your return," replied the beggar, and vanished by the magical process of stepping into a bewitched compartment which, at the touch of a brass-buttoned wizard's hand upon a lever, dropped harmlessly down a frightful chasm and disgorged him unharmed upon the street.

On the punctual fifteen minutes before train time E. Van Tenner picked up his small, light traveling bag and walked the two blocks to the station. There he was met by an obsequious porter to whom he mechanically surrendered the insignificant burden. Instinctively he felt in his change pocket to see whether he had any silver. None. Nor in his trousers pocket. Why, what had he—Oh, of course. The beggar's purse, in his breast pocket. He reached in for it and the purse bit him. At least that was his first startled thought, so queer and unpleasant a thrill ran up his finger. Then it was the porter's turn to be startled, for E. Van Tenner, retrieving his luggage, addressed to him a positive monosyllable: "None."

"Wha—wha' that you say, suh?"

"Didn't you just ask me 'What's the good?'"

"Me? Lawd! No, suh!"

"Well, somebody did," asserted E. Van Tenner, vague but emphatic. "I'll carry my own bag, thank you."

"Ghos'es! He's bearin' ghos'es," surmised the alarmed African, staring after his swamped patron as that haunted gentleman made his way to the Pullman window.

Here he again felt for the wallet. Though there was no shock this time it seemed to come forth reluctantly, and the magic phrase as it met his eyes took on a quality of insistence.

"Well, what is the good?" repeated E. Van Tenner.

"Beg your pardon?" said the astonished agent from his window.

"I—that is to say—have you a chair for New York on this train?"

"Just one left, sir."

Regraded Unclassified

"Keep it!" the horrified Van Tenner heard himself say. Or was it himself that had said it? At any rate he was torn from the window on his way to a day coach before he recovered. Not until then did it occur to him that on his last trip the parlor car had been so hot and stuffy as to leave him with a headache all day. Perhaps he would be just as well off in a day coach; even better, possibly. He found a seat, disposed himself in it and essayed to return the beggar's purse to his pocket. It resisted. Its reluctance was quite unanny until E. Van Tenner observed that in some way the pencil had got afool of the pocket flap. "Oh, that's it!" said he, enlightened, and proceeded to make the following entries of cash saved, on the magic tablet:

Table with 2 columns: Item, Amount. Includes entries for Hotel parlor, Purse car, and Pullman parlor.

Hardly had he settled in his place when he heard a familiar voice behind him. He turned. It was Welland, a near neighbor to his apartment. Welland was in the automobile business, from which he was reputed to draw from twenty-five to thirty thousand dollars a year in commissions. It was a surprise to E. Van Tenner to find so glibly prosperous a person, with a reputation as a free spender, in the day coach. He mentioned his surprise.

"War, my dear sir, war," said Welland. "This nation is at war. I haven't ridden in a parlor car since last summer." "Economy!" "Principle!" "I see no principle involved except economy."

"Don't you? The fewer heavy parlor cars the less demand on coal and rolling stock. Here I am, unable to get my normal supply of automobiles from the factory, because the railroads can't handle them. And, mind you, they're a necessity. They relieve the strain of suburban railway traffic. Men in every other line of business are up against the same thing. So I'm doing my part to relieve the situation by riding in a light day coach, which seats a hundred or so passengers instead of a heavy Pullman, which seats maybe forty."

E. Van Tenner glowed inwardly with self-satisfaction in that he had taken the unaccustomed and plebeian coach. He felt sure that the beggar's purse would warmly approve of Welland. When that gentleman, on his suggestion, moved forward to share his seat he anticipated a pleasant journey than he would have enjoyed in the parlor car. On the outskirts of the city the train was halted for a minute. Welland pointed out of the window to a great mass of scrap iron which was being pulled apart and loaded on flat cars by a busy gang of workmen. To his astonishment he perceived that the workers were women.

"You see that," said his companion. "Why do you think they get women on such rough work?" "Because they can be had for lower wages, I suppose." "Not at all. They're getting men's pay; have been for months. I saw the advertisements in the papers, offering it. No, sir! It's because the railroad can't find men enough. Yet back in the parlor car there's a lanky rascal about picking up towels and flicking dust off chair backs for tips, while those women hustle iron. He gets more of my money!"

The trip to New York was exceptionally brief, E. Van Tenner thought. At the terminus two Red-Caps swooped upon Welland and himself, only to be repelled in disorder.

"As long as women handle bulk metal I guess I can carry my own suit case," observed Welland, stopping quickly along under the burden of a walk-and-trunk. "You're no idea how much good muscle one puts on, hauling things like this. Regular travelling gymnasium. Well; here's a shiny one I have you."

E. Van Tenner laid a hand on his purse, drew it forth and— "What's the good?" it demanded in black and authoritative print. "How much to the Hotel Von Gorder?" "Bout forty cents," returned the tough, as one dismissing such petty considerations. "Thank you," returned E. Van Tenner politely, and entered the amount on his tablet. "I'll walk."

"Walk!" bellowed the outraged chauffeur. "Whaddaya tryin' to do—kid me!" The protrusive jaw was thrust up under E. Van Tenner's retiring nose. The small, greenish eyes bored into his. "Yah took me," snarled their owner. "Now gid in!" Ordinarily a pacifist in all personal relations E. Van Tenner would, unsupported by ulterior influences, have meekly obeyed rather than risk a verbal or possibly physical encounter. But magic is magic and will carry him where it upholds by its might through the imminent deadly breach even to the cabby's mouth. Something tingled upward from the hand that held the beggar's purse; something that snapped back E. Van Tenner's spare shoulders to a spring squariness and fired his brain and nerved his voice; and with unutterable surprise he heard himself speak in tones that were more than peremptory, that had the flick and sting of a military command: "Where is your draft registration card?"

"The red and savage faces turned pallid and recoiled. The gorilla frame drooped away, then gathered itself and sprang—not upon E. Van Tenner but upon the driver's seat of the taxi, which straightway departed with mirth of pain and terror.



"Inner Mind That Cuts," said the Bewitched E. Van Tenner.

himself. "In another moment I should have hit that fellow upon the nose. I am sure that I should." A wild, infuriated yell from the postman of a cable car, which the rounded taxi had missed by a scant inch, drew E. Van Tenner's eyes to the beyond on the car, which he perceived, as within one block of his hotel. To save time he jumped aboard, and reached his destination so quickly as he would have done in the taxicab. On the way he corrected his entry by deducting five cents for fare; then on reflection added fifteen cents of the probable tip to the chauffeur, this representing the above blackmail of the driver of being considered a short spender. At the beggar's and his account read:

Table with 2 columns: Item, Amount. Includes entries for Hotel parlor, Purse car, Pullman parlor, Red-Cap, Cable car or taxi, and Chauffeur's blackmail.

Making a promising total of \$1.50 already, E. Van Tenner perceived that instead of by a beggar he had been visited by one who was perhaps a prophet. The last item in the account particularly pleased the accountant. He began to suspect that much of the change that he systematically debitted out was simply the blackmail paid by

vanity to extortion. At once he was to meet with a double verification of this. At the hotel desk he asked for room and bath.

"Something about five dollars, Mister—er—er?" inquired the official behind the register. "Yes," assented E. Van Tenner, and instantly fell a pang in the purse. "That is—ah—haven't you—anything for four dollars?"

"Oh, yes; we have some as low as that," returned the clerk superciliously; "if —"

He left unfinished a conditional clause that obviously was designed to conclude—"you don't feel that you can afford a good room."

So frail was E. Van Tenner's humanity—let him that is without vanity cast the first stone—that he hesitated. He didn't dare take out the beggar's purse and look it in the face. But, then, neither did he dare look the supercilious hotel clerk in the face; that is, until— "Reservation for J. Q. Smith; room and bath, three dollars," said a brisk newcomer at his side; and another clerk answered promptly: "Yes, Mr. Smith; Room 1115."

"I'll take the four-dollar room," said E. Van Tenner firmly; and the clerk, whose supercilious expression was worth thousands per year to the hotel, admitted defeat for once and said: "Very well; will you go up now?" No; he decided that he would lunch at once; but first he would wash up. In the washroom he was beset by a human bluebottle who buzzed round him with a futuristic and superhuman whist hroon, despite his protests, and did but blocked his way when he sought an egress without paying for it in the form of a tip. But the spirit in the purse was having its way with E. Van Tenner now, and an inspired inquiry as to whether the brush brigand was of military age removed him from the path.

The next obstacle was more formidable. The door of the café was guarded by two young and unbeautiful descendants of the horseleech's daughters. Always before he had contributed automatically in response to their unspoken "Give! Give!" though he knew that he was only enriching some unknown capitalist in the background who rented this particular blackmailing privilege from the hotel for eight thousand dollars per year. But—what would the fearsome beggar's purse say or do should he attempt to extract the minimum of two cents to protect him from their cackle of diabolical Fortified as he was he could now face the contempt of man but not of these befrizzled Amazons. Yet to pass them while retaining possession of his hat and coat was impossible. Already their grasping hands were extended for his apparel. E. Van Tenner turned and fled.

Do not assume, however, that his retreat was caused by cowardice alone. Impenitently, doubtless instigated by the beggar's purse, he entitled to half credit. E. Van Tenner took the elevator—free—to his room and hung his hat and coat—gratis—in the clothes press. The room, he noted with satisfaction, was precisely the same as the five-dollar variety except that it was a few floors higher. He entered one dollar saved on room, two cents each on washroom and coat check; and descending passed, unarmed but unscratched, the gantlet of the disarmed horseleech's granddaughters. Already his total was two dollars and eighty cents. Good progress toward one stamp!

Upon his return to the room to resume his cast-off garments some indefinite discomfort in the region of his left big toe attracted E. Van Tenner's unfavorable notice. Could the magic wallet have established connections in that quarter? It seemed highly improbable. Investigation supplied a simpler reason—a large hole yawned in his sock. A block distant was a high-class department store. Thither he made his way, and was presently applying a rather exigent taste in hosiery to the consideration of some chastely fancy designs in striped silk. Three dollars was about his usual price. But, came the chilling thought, what would the purse say or do? Tentatively he drew it forth. It made no protest. The legend "What's the good?" had lost its accusing aspect.

"After all," reflected E. Van Tenner, "the beggar said that I wasn't to scrimp myself." Then to the clerk: "I'll take this pair."

Still maintaining strict neutrality the wallet gave of its wealth. He returned it to his breast pocket.

"Will you take them with you, sir?" asked the saleswoman. "No. Send them to — Ouch!"

"To where?" The man lifted startled eyes above a poised pencil.

"I'll have them sent to the — Ugh!" It was most astounding! The magic purse, quivering during the deal, was now catching at his breath like a bargain! Must he give up those chaste yet exquisite socks? Not without a struggle.

"Could you deliver them this afternoon?"

"We could if it isn't too far."

THE BEGGAR'S PURSE

(Continued from Page 4)

"Then have them sent to — Oh, Lord! No use!"

"Are you ill, sir?" asked the floorwalker, apprehending anxiously.

Some unknown incident forced a question to E. Van Tenner's lips: "See here, does it cost you anything to deliver goods?"

"Certainly. In time and labor from twelve cents per package upward."

So that was it! The magic was working beyond the limits of his own exchequer. Obviously it didn't propose to sit by and watch him waste anybody's money, even a store's.

"I'll take them with me," said he.

"Thank you, sir," said the floorman.

As he departed with his purchase E. Van Tenner felt a sensation as if a very soft and satisfied kitten were purring against his chest. "All right," said he, speaking down his shirt front; "but don't you get too dictatorial."

Business took up the rest of the afternoon; business in which the purse played an honorable and unprotecting part, though its course at one point called for a taxi expenditure of something more than two dollars. That, however, was to save necessary time. E. Van Tenner was relieved to find the magic receptacle so reasonable. He began to feel that he could live on terms of amity and confidence with it indefinitely. But when he came to pay the chauffeur the wallet produced the exact amount with a precision that he could not but feel to be significant. In vain did he search for a tip.

"What's the good?" demanded his mentor. "What's the good of making a present to a man in whom you have no possible interest and who hasn't done anything that he isn't paid to do by his employer?"

"Not the slightest," admitted E. Van Tenner in the face of the disquieted taxi man; and even added cheerfully: "That's the precise amount, I believe."

So swiftly and blithely does one become hardened to impotent scorn! Thus was twenty-five cents added to the mounting record.

His evening was free. He decided upon a light and hasty dinner, followed by the theater—if the magic arbiter would permit. By repeating his simple expedient of leaving his outer apparel in his room he eluded the coat-check impost, and genially smiled at the disgruntled Amazons, who seemed to be asking each other whether this comparatively nude intruder had perhaps pawned his overcoat.

"Dry Martini," ordered E. Van Tenner upon seating himself. Instinctively and miraculously the beggar's wallet seemed to have dropped from his breast pocket to the pit of his stomach, upon which it pressed with a destructive insistence.

"Wait a moment!" said its proprietor alive hastily to the waiter; then added in a low but indignant undertone: "See here! It isn't your affair to censor my morals and habits. You're a committee on finance, and that's all!"

He plucked forth the purse into the light of day. "What's the good?" it inquired with an air of sweet reasonableness.

E. Van Tenner reflected. After all, what was the good? Either he had an appetite for dinner, in which case he didn't need the cocktail; or else he needed the cocktail to create an appetite for dinner, in which case it was high time that he quit the habit. Hadn't the beggar distinctly told him that he needn't give up anything which he wouldn't be better off without?

"Never mind the Martini," said he wearily.

During dinner he looked over the theatrical advertisements in his paper, and hesitating between those classically named productions whereto a discriminating public taste is addressed, Atta Boy, Oh, Shush, and Gertie's Green Garters, fixed upon the latter. He must now retrieve his coat and hat, upon which he had saved another dime. Ascending to his room he switched on the lights, got into his outer garments, locked his door and started for the elevator. A slight but insistent cramp in the pocketbook halted him. What could that mean? He wasn't sweating any money. If it was a protest against theatergoing it was premature. Let it wait till he got to the theater! He started again, and caught his breath over a more pronounced pang. His eyes, turning upward, were arrested by the glowing glass of his transom. To be sure! He had left the lights on, thereby wasting coal

for the hotel—upon which he had already saved a dollar and fifty-five cents.

"You are certainly some little economist!" he murmured to the occupant of his pocket as he returned and left the room in darkness.

At the theater a dual personage behind a grille negligently informed him that there was nothing available in the orchestra before a week from Wednesday; but an undistinguished individual in the lobby—who distinguished himself by being there for that very purpose—mentioned that the Bilbosh Agency had some good seats. Thither went E. Van Tenner. Yes; the agency had a few seats left. There was one in the eighth row, three dollars and thirty cents, please. At the mention of the price, the beggar's purse leaped from E. Van Tenner's hand and fell flat on its face upon the floor.

E. Van Tenner took it forth and gave it air. Now in our amiable and easy-going bachelor there was a definite streak of obstinacy. He had undertaken to see Gertie's Green Garters and see it he would, always assuming that the magic receptacle would permit. He retraced his steps to the theater, retired to a corner of the lobby and drew forth the chancelor of his exchequer.

"What's the good?" it questioned. But the effect was that of inquiry, not of challenge.

"The good is that I've done a day's work and am entitled to some amusement. What's the harm?"

The beggar's purse appeared to accept this view complacently. Back to the ticket window stepped E. Van Tenner.

"What is the best seat you have for tonight?" he asked the duke of the diagram.

"Tenth row in the balcony; one sixty-five."

"Can one see the stage from it?"

"Oh, yes," replied the duke wearily.

"You can see the stage." His tone, aimed at the inquirer's vanity, commented: "If you're the kind of cheap person who goes into the balcony." But E. Van Tenner's vanity was now armored like the tropic anteater.

"I'll take it," he said; and the beggar's purse opened automatically.

Rather to his surprise he found that his view of the play was just as unobstructed as in the orchestra seats to which he had been accustomed; and his hearing was much less interrupted—not to mention the fact that he had saved one dollar and sixty-five cents at one fell swoop. Thus he felt justified at the close of the performance in stopping for a bite of supper. A glaring light directed him to a place where, all too late, the frantic dissonances of a jazz band burst upon his shocked ears. Before he could retreat a coat-room attendant had his garments in pawn. Perforce he must go forward. As he dropped into a gilded and fragile chair a pair of ample ladies, wearing carefully greased evening gowns, appeared upon the stage and burst into metallic shrieks, supported by the musical spam of the orchestra. E. Van Tenner essayed to forget his sufferings in contemplation of the menu—and got a fresh shock. He had seen prices before, but never such prices as these. Even without the magic purse he was sure that they would have given him pause. As for the purse, he did not dare bring it out in sight of that array of figures.

Something light, a bit of fish and some stuffed green peppers, he had thought to order. The fish were evidently goldfish; solid gold at that. As for the peppers, his eyes encountered this legend:

Green peppers (1) stuffed with rice and tomato—30 cents.

At first he thought it a misprint; it must be thirty cents; or possibly fifty. Consideration of the other vegetables dispelled that hope. They were on an equal scale. But—eighty cents for one green pepper! Was there, then, a fatal shortage in the green-pepper market? Or a crop failure in the rice or tomatoes whereto the stuffing was compounded?

"Cut it short! Be a sport! Buy a quart!"

abridged the songsters, coyly adjusting their shoulder straps.

Enlightenment burst upon E. Van Tenner. The prices of the menu, suggesting the daily stock-market reports before the depression, became clear. Somehow that

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Salute!
The Ensign

HAVE a little sailor in your home! Dress him in the spirit of America's fighting navy—here's to *The Ensign*, Jack Tar Reefers, pride of the navy. Full of the vigor and dash that has made America's little boys the finest on the seas.

It's free and easy, sailor-look—bright and light and playful as an ocean breeze. In shining brass buttons and sleeve insignia are exactly as worn on a man-of-war. Just the coat for cool spring and Summer evenings.

It's the newest member of the family of *Sampack Clothes*. If the best retailer in your town hasn't "*The Ensign*" with the *Sampack Label*, write us.

And don't miss "Marches of Distinction," our beautiful "Rally" illustrated book. Having the rank of officers in the Junior Navy and Army, and full of other interesting facts, it's a real Boy's Own Book.

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VISIT the Crown, Adlake or America dealer in your town. He's a good bicycle man to know.

Ask for these models by name. Look for the trade symbols shown above.

See the snow-white head, the patent dart finish, the lustrous enamel and the ultra-style in every line.

Each model has the genuine, patented, one-piece Fauber Crank Hanger—trouble-proof and efficient always.

Now until you've seen these handsome bicycles can you appreciate their beauty.

Great Western Manufacturing Co.
La Porte, Indiana
World's Largest Makers of Bicycles



This snow-white head with patent dart finish on every Crown, Adlake or America

(Concluded from Page 34)

awful vocality and the hardly less agonizing accompaniment had to be paid for. His green pepper at eighty cents was to pay for it. It was stuffed, that green pepper, not with rice and tomato but with ragtime jazzieries and syncopated shrieks. E. Van Tenner laid the menu on the table and would have risen and escaped, but there hovered over him, portentous and awful, the head waiter himself.

"You had ordered?" he inquired.
 "I—that is—no; I think I won't order this evening," quavered the patron.
 "There is a table charge of one dollar," said the official severely.

E. Van Tenner, overawed, reached for the beggar's purse. It flatly refused to open. As the owner strove with it there was instilled into his veins a calm and chill determination, born of a discovery that he had made—or had the purse magically indicated it?—regarding the menu.

"I shall not pay it," he said quietly.
 "You shouldn't haf to pay it." The head waiter's threatening tone took on a little more pronounced avowal.

"You're a German, aren't you?" inquired E. Van Tenner blandly.
 "Dot is my bisness," retorted the other excitedly. "You pay dot table charge!"

"No; I shall not pay the table charge. But I will do this: I will pay you one dollar for that menu card, which, I observe, has on it two, four, seven, eleven—eleven different kinds of meat, on a Meatless Tuesday! Come; what do you say?"

The head waiter said nothing. His jaw dropped. He put his hand to his chin undecidedly, then turned and fled, taking the card with him. Glowing with virtue—which, after all, was the purse's, not his—E. Van Tenner departed, not even tipping the coat-room attendant, to such heights was his courage inspired, and found a chop-house where he supped excellently on a strict Hoover basis, and entered an estimated saving of eighty-five cents, and ten cents extra for the defrauded hat boy.

All that night he slept the deep, sweet sleep of one justified of good deeds. The beggar's purse, at least equally justified, slept equally well under his pillow. In the morning it started work for him again. It saved him the usual coat-room charge, and rudely checked his mildly emotional impulse to drop a quarter in the tin cup of a pitiable and shivering mendicant cripple who owns two tenement houses on the East Side and has amassed a small fortune by distracting on tenants' furniture. He hardly knew whether to repeat the entry on the morning's taxi or not, since he felt it already a habit not to hire a cab when he could conveniently take a car. But he was vicariously to the good on one item of a quarter, when in carrying his grip from the elevator he was charged upon by a liveried youth. Horror was writ large in that youth's face; horror that a guest of the golden Van Gorder should carry a grip weighing almost four pounds across ten yards of floor alone and unaided.

As Christian strove with Apollyon so strove E. Van Tenner with the liveried youth for that grip, which he finally delivered safe out of the enemy's hands, and himself bore, triumphant, to the street car.

In the returning train, where he won to the day coach through the stricken hopes of the embattled Red-Caps, he figured out his day's savings to date as follows:

Station porter	30.15
Purple car	25
Fullman porter	15
Red-Cap	15
Cable car vs. taxi	35
Chauffeur's blackmail	15
Pride of hotel room that went before a fall in price	1.00
Washroom hold-up	.10
Coat check	.25
2d Chauffeur's supertax	.25
Cocktail toppings	.65
3 Check-room petty larcenies	1.65
1 Theater-Gokst-agency grand larceny	.25
Chauffeur highway robbery	.25
Victory in wrestling match with bull boy	.25
Cripple's curse	.25
Cable car vs. taxi (he decided to put it in, instead of tip)	.30
Triumph in bowdraz with Red-Caps	.15
Parlor-car fare and tip	.40
Making a grand, impressive, but insufficient total of	\$8.05

Insufficient, because two of the beggar's War Savings Stamps would cost \$8.28. At the Philadelphia terminus he would save fifteen cents more of his accustomed expenditure by dispensing with a porter's service. Still he would be eight cents short of

the total. Suddenly E. Van Tenner felt himself bitterly disappointed. The zest of the game had got into his veins. Had he braved hotel clerks, striven with bell boys, bearded head waiters and outfooted the fleet and determined Red-Cap only to fail in sight of the goal? Perish the thought!

"Evening papers! All the magazines! Here y'are before the train starts!" began "Evening Sentinel and Sat" began E. Van Tenner, and dropped his voice and the beggar's purse simultaneously. "Never mind. Don't want—I mean need—'em."

For here was his eight cents saved! With a triumphant heart he retrieved the wallet, took out the pencil and entered upon the celluloid tablet the final and victorious eight cents—that is, he thought he had entered it. But lo! the line upon which he had written remained blank. He examined the pencil. Its point was perfect. The celluloid surface invited it. Again he essayed to set down the consummating eight cents. It was as if he had written with a wand upon water.

"This is not white but black magic," said E. Van Tenner, appalled.

In response there came back to him again the words of the beggar: "What you save on current expenses without giving up anything that you need or want or aren't better off without." Obviously, then, the beggar's purse was backing up the beggar's undertaking. It considered that he was better off with than without his favorite reading. E. Van Tenner pursued the boy and spent the eight cents.

All the way back to Philadelphia, however, his mind reverted painfully to the problem. In vain did he pass up a subsequent train boy's blandishments on the subject of chocolate; he never ate chocolate. The sensitive tablet refused to be gulled into accepting an entry on any such pretext. Equally idle was it to pretend that he might have given a quarter instead of fifteen cents to the porter at Philadelphia. Fifteen cents was his unerringly methodical tip. To make matters worse the train was nearly an hour late. Consequently there would be no opportunity of further saving; not even eight cents.

Heavy-hearted he disembarked. The beggar had asked to be informed about the experiment. Well; he'd tell him. Too bad! Might as well get it over with. And there was only ten minutes' leeway. He'd phone from that hotel opposite. Possibly the beggar could, of his magic, secure some last-moment plan. So approaching the telephone girl he began: "Broad, Four-four—"

and gasped. The beggar's purse had stirred. It had more than stirred; it had flopped. It was now doing more than flopping. It was turning frantic handspins in his pocket, turning frantic handspins in his pocket. "Never mind that call," said the perturbed E. Van Tenner. "I'll write."

The beggar's purse settled down and went to sleep.

"How—how much would that call have been?" asked E. Van Tenner breathlessly.

"Local, Ten cents."

"And a letter—no, a postal card—is two cents. That's eight cents saved. The exact amount! Gimme a postal card. No; I don't need to write. I'll save the whole ten cents and be two cents to the good. I've done it! I've done it! Whoopie!" said E. Van Tenner, dancing upon the marble floor.

"Police!" said the telephone girl. With the purpose of calling up the beggar on his own phone, free of charge, E. Van Tenner hurried joyously to his office. The beggar was there awaiting him.

"Well?" said he.
 "Yes," said E. Van Tenner.

"Two stamps?"
 "And two cents over for a third. The magic worked."

"What about the price of the lessons?"
 "Lessons?"
 "Haven't you learned anything in the last twenty-four hours?"

E. Van Tenner considered. "I've learned that every time I spend a dollar I spend an extra quarter for vanity and a dime for timidity. I've learned how to go without things I don't want, and to stop doing things I dislike myself for doing. I've learned the difference between parsimony and thrift."

"Is it worth anything to you?" inquired the worker of white magic.

"How many stamps can I take?"
 "One hundred and ninety-eight more. That'll make your total investment \$828. That'll make you in at \$1000 at maturity." "I'll buy." Thus did E. Van Tenner, ex-waiver, join the Take-to-Limit Club.



Serving the Well-dressed Man is our business; the EMERY shirt, our sole product.

We do things not ordinarily done in shirtmaking; and, of course, not required by men indifferent to fit, style, character in the garments they wear.

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Rosenwald & Weil
 Clothing Specialists
 CHICAGO

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

September 18, 1942

TO Secretary Morgenthau
FROM Ferdinand Kuhn, Jr.

Struthers Burt, the novelist and short story writer, sends the following bouquet to the Treasury in a letter to Julian Street:

"I have done, and am doing, a good deal of similar work for various government bureaus, and may I take this opportunity to say that so far as I am able to observe the Treasury Department is doing by far the best propaganda job in every way; not only in its imagination, its actual output, but in its intelligent use of volunteer effort and effective liaison with these volunteers, many of them experts"

J. K.

Analysis of Exposure to Payroll Savings Plans

September 12, 1942

	Number exposed to payroll savings plans	Total number in the country (estimated)	Percent of total exposed
Part A - Summary by Number of Organizations Exposed			
I. Business organizations			
(1) Firms with 5,000 employees or more.....	484	487	99
(2) Firms with 500 to 4,999 employees.....	5,339	6,106	87
(3) Firms with 100 to 499 employees.....	<u>22,838</u>	<u>27,287</u>	<u>84</u>
(4) Subtotal - large firms.....	28,661	33,880	85
(5) Firms with less than 100 employees.....	<u>111,829</u>	*	*
(6) Total business organizations.....	140,490	*	*
II. Governmental organizations.....	*	*	*
III. Grand total.....	<u>140,490</u>	<u>*</u>	<u>*</u>

Part B - Summary by Number of Employees Exposed

I. Business organizations			
(1) Firms with 5,000 employees or more.....	7,854,262	*	*
(2) Firms with 500 to 4,999 employees.....	7,083,512	*	*
(3) Firms with 100 to 499 employees.....	<u>5,249,460</u>	*	*
(4) Subtotal - large firms.....	20,187,234	*	*
(5) Firms with less than 100 employees.....	<u>2,801,641</u>	*	*
(6) Total business organizations.....	22,988,875	32,000,000 1/	72
II. Governmental organizations			
(1) Federal Government.....	1,551,186	2,400,000 1/	65
(2) State and local governments.....	<u>1,217,189</u>	<u>2,700,000</u>	<u>45</u>
(3) Total governmental organizations.....	<u>2,768,375</u>	<u>5,100,000</u>	<u>54</u>
III. Grand total.....	<u>25,757,250</u>	<u>37,100,000 1/</u>	<u>69</u>

September 18, 1942.

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

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

* Data not available.

Firms Employing 100 to 499 Persons Participating in Payroll Savings Plans
(As reported by the War Savings Staff's State Administrators)

State	Number of firms with payroll savings plans			Total number of firms (estimated)	Percent of total having payroll savings plans		
	Apr. 18	Sept. 5	Sept. 12		Apr. 18	Sept. 5	Sept. 12
Alabama.....	149	250	250*	285	52	88	88
Arizona.....	43	67	67	67	64	100	100
Arkansas.....	44	55	55*	112	31	39	39
Northern California.....	512	658	665	665	77	99	100
Southern California.....	756	1,001	1,011	1,178	64	85	86
Colorado.....	113	135	135	135	84	100	100
Connecticut.....	277	452	472	622	45	73	76
Delaware.....	21	55	55	87	24	63	63
District of Columbia.....	52	134	139	152	34	88	91
Florida.....	147	198	200	200	74	99	100
Georgia.....	133	389	389*	417	32	93	93
Idaho.....	31	32	32	34	91	94	94
Illinois.....	1,300	1,847	1,852	2,253	58	82	82
Indiana.....	415	625	651	651	66	99	100
Iowa.....	165	204	204*	272	61	75	75
Kansas.....	276	286	286	286	97	100	100
Kentucky.....	136	187	187	313	43	60	60
Louisiana.....	179	273	273	385	46	71	71
Maine.....	60	159	169	198	30	80	85
Maryland.....	177	275	277	405	44	68	68
Massachusetts.....	639	942	1,005	1,532	42	61	66
Michigan.....	689	914	923	1,030	67	89	90
Minnesota.....	376	436	436	436	86	100	100
Mississippi.....	59	78	78	110	54	71	71
Missouri.....	472	661	661*	664	71	99	99
Montana.....	40	49	49	49	82	100	100
Nebraska.....	103	113	113	123	84	92	92
Nevada.....	14	18	18	21	67	86	86
New Hampshire.....	89	136	137	145	61	94	94
New Jersey.....	463	911	918	918	50	99	100
New Mexico.....	33	39	39	42	79	93	93
New York.....	2,060	3,478	3,517	4,257	48	82	83
North Carolina.....	282	441	444	499	57	88	89
North Dakota.....	14	19	19	19	74	100	100
Ohio.....	1,126	1,484	1,514	1,740	65	85	87
Oklahoma.....	166	289	289	349	48	83	83
Oregon.....	211	283	284	284	74	99	100
Pennsylvania.....	1,682	2,111	2,119	2,119	79	99	100
Rhode Island.....	154	253	253	335	46	76	76
South Carolina.....	71	150	152	178	40	84	85
South Dakota.....	21	25	25	25	84	100	100
Tennessee.....	199	334	338	444	44	74	76
Texas.....	326	589	592	1,378	24	43	43
Utah.....	36	44	44	44	82	100	100
Vermont.....	59	61	64	64	92	95	100
Virginia.....	281	387	388	388	72	99	100
Washington.....	234	348	348	348	67	100	100
West Virginia.....	134	199	205	272	49	73	75
Wisconsin.....	278	437	445	680	41	64	65
Wyoming.....	17	21	21	21	81	100	100
Alaska.....	2	2	2*	2	100	100	100
Railroads.....	49	49	49	52	94	94	94
Total.....	15,365	22,583	22,838	27,287	56	83	84

Firms Employing 500 Persons or More Participating in Payroll Savings Plans
(As reported by the War Savings Staff's State Administrators)

State	Number of firms with payroll savings plans			Total number of firms (estimated)	Percent of total having payroll savings plans		
	Apr. 18	Sept. 5	Sept. 12		Apr. 18	Sept. 5	Sept. 12
Alabama.....	41	65	65*	83	49	78	78
Arizona.....	9	14	14	14	64	100	100
Arkansas.....	16	17	17*	22	73	77	77
Northern California.....	122	136	136	175	70	78	78
Southern California.....	121	144	146	146	83	99	100
Colorado.....	25	31	31	31	81	100	100
Connecticut.....	114	142	144	158	72	90	91
Delaware.....	15	18	18	22	68	82	82
District of Columbia.....	32	42	44	44	73	95	100
Florida.....	28	39	40	43	65	91	93
Georgia.....	86	123	123*	123	70	100	100
Idaho.....	11	11	11	11	100	100	100
Illinois.....	391	463	463	559	70	83	83
Indiana.....	88	132	134	165	53	80	81
Iowa.....	22	29	29*	39	56	74	74
Kansas.....	23	24	25	25	92	96	100
Kentucky.....	38	48	48	71	54	68	68
Louisiana.....	29	45	46	76	38	59	61
Maine.....	48	57	58	60	80	95	97
Maryland.....	84	101	102	106	80	96	96
Massachusetts.....	237	305	309	338	70	90	91
Michigan.....	265	281	282	303	87	93	93
Minnesota.....	79	81	81	82	96	99	99
Mississippi.....	26	33	33	33	79	100	100
Missouri.....	103	128	128*	142	73	90	90
Montana.....	3	4	4	4	75	100	100
Nebraska.....	23	25	25	32	72	78	78
Nevada.....	4	4	4	5	80	80	80
New Hampshire.....	29	32	32	32	91	100	100
New Jersey.....	142	182	183	211	67	86	87
New Mexico.....	5	5	5	5	100	100	100
New York.....	759	872	872	1,087	70	80	80
North Carolina.....	103	132	132	139	74	95	95
North Dakota.....	0	0	0	0	-	-	-
Ohio.....	412	449	454	499	83	90	91
Oklahoma.....	31	51	51	51	61	100	100
Oregon.....	48	54	54	54	89	100	100
Pennsylvania.....	551	594	595	629	88	94	95
Rhode Island.....	61	76	76	97	63	78	78
South Carolina.....	84	97	98	99	85	98	99
South Dakota.....	5	5	5	5	100	100	100
Tennessee.....	50	73	73	115	43	63	63
Texas.....	63	104	104	104	61	100	100
Utah.....	8	10	10	11	73	91	91
Vermont.....	12	12	12	12	100	100	100
Virginia.....	93	105	106	106	88	99	100
Washington.....	49	68	70	77	64	88	91
West Virginia.....	36	70	72	72	50	97	100
Wisconsin.....	127	143	143	154	82	93	93
Wyoming.....	1	4	4	4	25	100	100
Alaska.....	3	3	3*	3	100	100	100
Railroads.....	109	109	109	115	95	95	95
Total.....	4,864	5,792	5,823	6,593	74	88	88

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

September 18, 1942.

* Data are for September 5, inasmuch as no September 12 report was received.

Regraded Unclassified

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 18, 1942

TO Secretary Morgenthau
FROM Mr. Haas
Subject: Recent Changes in Prices and Yields of Government Securities

During the week ended last night, prices of Government securities were mixed. Treasury notes, both taxable and tax exempt, either held or showed some improvement over their levels of a week ago. Little movement occurred in the prices of taxable bonds, but the partially tax-exempt issues were generally lower with declines ranging up to 6/32 in the case of the longest-term bond.

The new 1-1/4 percent notes due March 1945 opened at 100-2/32 on Saturday, the first day traded, and closed at that price yesterday. The 2's due December 1949-51 (offered in July) were unchanged at 100-8/32, while the 2-1/2's of 1967-72 declined 1/32 during the week, closing last night at 101-4/32.

Neither the offering of two new series of Treasury Tax savings notes on Monday nor the reduction in reserve requirements of member banks in New York and Chicago on the same day had any discernable effect on the market for Government securities.

With few exceptions, prices of all Government securities outstanding on March 19 are now below their levels of that date. The 2-1/2's of 1967-72 among the taxable issues, and the 2's of 1953-55 and 2-1/4's of 1954-56 among the tax-exempt issues are the only securities currently selling above their March 19 closing prices. It should be noted, however, that 3 taxable and 15 tax-exempt securities have lower yields than on March 19. This discrepancy is due, of course, to the amortization factor which has already been discussed in a number of the memoranda of this series. (See attached chart and tables.)

The average rate on the weekly offering of bills was 0.369 percent, up fractionally from the previous week. The new certificate due May 1, 1943, traded for the first time

Secretary Morgenthau - 2

last Saturday opened at 100.008 and improved slightly during the week, closing last night at 100.011 to yield about 0.63 percent. Some improvement also occurred in the price of the certificate due August 1943, but small declines occurred in the prices of the earlier certificate maturities.

Purchases by the Federal Open Market Account during the week amounted to \$47 millions. They consisted of \$32 millions of bills, \$8 millions of certificates, \$4 millions of other taxable securities and \$3 millions of partially tax-exempt bonds. Sales, consisting entirely of bills, totaled \$78 millions and bill and note maturities amounted to \$147 millions, resulting in a net decrease in the Account's portfolio of \$178 millions.

Attachments

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Table I
Price and Yield Changes of United States Securities
September 10, 1942 to September 17, 1942

(Based on mean of closing bid and asked quotations)

Security	Prices			Yields		
	Sept. 10, 1942	Sept. 17, 1942	Change	Sept. 10, 1942	Sept. 17, 1942	Change
	(Decimals are thirty-seconds) 1/			(Percent)		
TAXABLE SECURITIES						
Bills						
Average rate last issue	-	-	-	.37	.37	.00
Certificates						
1/2 ²⁸ 11/1/42	100.020	100.017	-.003	.36	.36	.00
5/8 2/1/43	100.055	100.052	-.003	.48	.48	.00
.65 5/1/43	-	100.011w1	-	-	.63w1	-
7/8 8/1/43	100.095	100.100	+0.005	.77	.76	-.01
Taxable Notes						
3/4 3/15/43	100.03	100.03	.00	.57	.56	-.01
3/4 9/15/44	99.16	99.19	+0.03	1.00	.96	-.04
1-1/4 3/15/45	-	100.02w1	-	-	1.22w1	-
3/4 12/15/45	98.29	98.31	+0.02	1.09	1.07	-.02
1 3/15/46	99.03	99.05	+0.02	1.26	1.25	-.01
1-1/2 12/15/46	100.03	100.04	+0.01	1.48	1.47	-.01
Taxable Bonds						
2 ²⁸ 3/15/48-50	101.06	101.07	+0.01	1.77	1.77	.00
2 6/15/49-51	100.11	100.12	+0.01	1.95	1.94	-.01
2 9/15/49-51	100.09	100.09	.00	1.96	1.96	.00
2 12/15/49-51	100.08	100.08	.00	1.96	1.96	.00
2 12/15/51-55	100.02	100.02	.00	1.99	1.99	.00
2-1/2 3/15/52-54	103.21	103.18	-.03	2.07	2.08	+0.01
2-1/4 6/15/52-55	101.03	101.03	.00	2.13	2.13	.00
2-1/2 3/15/56-58	103.04	103.04	.00	2.23	2.23	.00
2-1/2 6/15/62-67	100.14	100.14	.00	2.47	2.47	.00
2-1/2 9/15/67-72	101.05	101.04	-.01	2.44	2.44	.00
TAX-EXEMPT SECURITIES						
Wholly Tax-exempt Notes						
1-3/4 12/15/42	100.12	100.12	.00	.30	.19	-.11
1-1/8 6/15/43	100.18	100.19	+0.01	.38	.32	-.06
1 9/15/43	100.20	100.21	+0.01	.38	.34	-.04
1-1/8 12/15/43	100.28	100.31	+0.03	.43	.34	-.09
1 3/15/44	100.24	100.25	+0.01	.50	.47	-.03
3/4 6/15/44	100.13	100.15	+0.02	.52	.48	-.04
1 9/15/44	100.31	100.31	.00	.52	.51	-.01
3/4 3/15/45	100.13	100.16	+0.03	.59	.55	-.04
Partially Tax-exempt Bonds						
3-3/8 6/15/43-47	102.05	102.03	-.02	.53	.54	+0.01
3-1/4 10/15/43-45	102.26	102.23	-.03	.66	.70	+0.04
3-1/4 4/15/44-46	103.27	103.25	-.02	.82	.83	+0.01
4 12/15/44-54	106.28	106.26	-.02	.92	.92	.00
2-3/4 9/15/45-47	105.08	105.06	-.02	.98	.99	+0.01
2-1/2 12/15/45	104.30	104.28	-.02	.96	.97	+0.01
3-3/4 3/15/46-56	109.00	109.00	.00	1.13	1.11	-.02
3 6/15/46-48	107.00	107.00	.00	1.09	1.09	.00
3-1/8 6/15/46-49	107.14	107.13	-.01	1.10	1.10	.00
4-1/4 10/15/47-52	114.26	114.26	.00	1.24	1.23	-.01
2 12/15/47	104.06	104.06	.00	1.18	1.17	-.01
2-3/4 3/15/48-51	107.11	107.13	+0.02	1.36	1.35	-.01
2-1/2 9/15/48	106.26	106.28	+0.02	1.32	1.30	-.02
2 12/15/48-50	104.05	104.05	.00	1.31	1.30	-.01
3-1/8 12/15/49-52	110.19	110.19	.00	1.58	1.57	-.01
2-1/2 12/15/49-53	106.09	106.06	-.03	1.58	1.59	+0.01
2-1/2 9/15/50-52	106.20	106.16	-.04	1.62	1.63	+0.01
2-3/4 6/15/51-54	108.11	108.08	-.03	1.72	1.73	+0.01
3 9/15/51-55	110.14	110.10	-.04	1.74	1.76	+0.02
2-1/4 12/15/51-53	104.30	104.28	-.02	1.67	1.68	+0.01
2 6/15/53-55	103.13	103.12	-.01	1.65	1.66	+0.01
2-1/4 6/15/54-56	105.09	105.07	-.02	1.75	1.76	+0.01
2-7/8 3/15/55-60	109.31	109.26	-.05	1.97	1.98	+0.01
2-3/4 9/15/56-59	109.06	109.02	-.04	2.00	2.00	.00
2-3/4 6/15/58-63	109.13	109.09	-.04	2.05	2.06	+0.01
2-3/4 12/15/60-65	110.00	109.26	-.06	2.09	2.10	+0.01

Treasury Department, Division of Research and Statistics.

September 17, 1942.

1/ Decimals in prices of certificates are true decimals.

Table II
Price and Yield Changes of United States Securities
March 19, 1942 to September 17, 1942

(Based on mean of closing bid and asked quotations)

Security	Prices			Yields		
	March 19, 1942	Sept. 17, 1942	Change	March 19, 1942	Sept. 17, 1942	Change
(Decimals are thirty-seconds) 1/			(Percent)			
TAXABLE SECURITIES						
Bills						
Average rate last issue	-	-	-	.20	.37	+ .17
Certificates						
1/2% 11/1/42	-	100.017	-	-	.36	-
5/8 2/1/43	-	100.052	-	-	.48	-
.65 5/1/43	-	100.011w1	-	-	.63w1	-
7/8 8/1/43	-	100.100	-	-	.76	-
Taxable Notes						
3/4% 3/15/43	100.12	100.03	-.09	.37	.56	+ .19
3/4 9/15/44	99.31	99.19	-.12	.76	.96	+ .20
1-1/4 3/15/45	-	100.02w1	-	-	1.22w1	-
3/4 12/15/45	99.21	98.31	-.22	.84	1.07	+ .23
1 3/15/46	99.29	99.05	-.24	1.02	1.25	+ .23
1-1/2 12/15/46	-	100.04	-	-	1.47	-
Taxable Bonds						
2% 3/15/48-50	101.28	101.07	-.21	1.67	1.77	+ .10
2 6/15/49-51	101.04	100.12	-.24	1.83	1.94	+ .11
2 9/15/49-51	-	100.09	-	-	1.96	-
2 12/15/49-51	-	100.08	-	-	1.96	-
2 12/15/51-55	100.12	100.02	-.10	1.96	1.99	+ .03
2-1/2 3/15/52-54	103.23	103.18	-.05	2.09	2.08	-.01
2-1/4 6/15/52-55	101.06	101.03	-.03	2.12	2.13	+ .01
2-1/2 3/15/56-58	103.05	103.04	-.01	2.24	2.23	-.01
2-1/2 6/15/62-67	-	100.14	-	-	2.47	-
2-1/2 9/15/67-72	100.27	101.04	+ .09	2.46	2.44	-.02
TAX-EXEMPT SECURITIES						
Wholly Tax-exempt Notes						
1-3/4% 12/15/42	101.11	100.12	-.31	2/32*	.19	-3/32*
1-1/8 6/15/43	101.04	100.19	-.17	.22	.32	+ .10
1 9/15/43	101.03	100.21	-.14	.26	.34	+ .08
1-1/8 12/15/43	101.16	100.31	-.17	.26	.34	+ .08
1 3/15/44	101.10	100.25	-.17	.34	.47	+ .13
3/4 6/15/44	100.27	100.15	-.12	.37	.48	+ .11
1 9/15/44	101.16	100.31	-.17	.39	.51	+ .12
3/4 3/15/45	101.00	100.16	-.16	.41	.55	+ .14
Partially Tax-exempt Bonds						
3-3/8% 6/15/43-47	103.21	102.03	-1.18	.41	.54	+ .13
3-1/4 10/15/43-45	104.06	102.23	-1.15	.57	.70	+ .13
3-1/4 4/15/44-46	105.06	103.25	-1.13	.72	.83	+ .11
4 12/15/44-54	108.11	106.26	-1.17	.91	.92	+ .01
2-3/4 9/15/45-47	106.06	105.06	-1.00	.94	.99	+ .05
2-1/2 12/15/45	105.28	104.28	-1.00	.90	.97	+ .07
3-3/4 3/15/46-56	110.08	109.00	-1.08	1.11	1.11	.00
3 6/15/46-48	107.28	107.00	-.28	1.09	1.09	.00
3-1/8 6/15/46-49	108.08	107.13	-.27	1.13	1.10	-.03
4-1/4 10/15/47-52	115.20	114.26	-.26	1.33	1.23	-.10
2 12/15/47	104.23	104.06	-.17	1.15	1.17	+ .02
2-3/4 3/15/48-51	107.28	107.13	-.15	1.38	1.35	-.03
2-1/2 9/15/48	107.07	106.28	-.11	1.33	1.30	-.03
2 12/15/48-50	104.21	104.05	-.16	1.28	1.30	+ .02
3-1/8 12/15/49-52	110.22	110.19	-.03	1.65	1.57	-.08
2-1/2 12/15/49-53	106.16	106.06	-.10	1.60	1.59	-.01
2-1/2 9/15/50-52	106.20	106.16	-.04	1.66	1.63	-.03
2-3/4 6/15/51-54	108.18	108.08	-.10	1.74	1.73	-.01
3 9/15/51-55	110.20	110.10	-.10	1.78	1.76	-.02
2-1/4 12/15/51-53	104.29	104.28	-.01	1.70	1.68	-.02
2 6/15/53-55	103.10	103.12	+ .02	1.68	1.66	-.02
2-1/4 6/15/54-56	104.28	105.07	+ .11	1.80	1.76	-.04
2-7/8 3/15/55-60	110.00	109.26	-.06	2.00	1.98	-.02
2-3/4 9/15/56-59	109.10	109.02	-.08	2.01	2.00	-.01
2-3/4 6/15/58-63	109.12	109.09	-.03	2.07	2.06	-.01
2-3/4 12/15/60-65	110.00	109.26	-.06	2.10	2.10	.00

Treasury Department, Division of Research and Statistics.

September 17, 1942.

1/ Decimals in prices of certificates are true decimals.
* Excess of price over zero yield.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE

September 18, 1942

TO Secretary Morgenthau

FROM Randolph Paul

You may be interested in the attached letter from Congressman A. Willis Robertson of the Ways and Means Committee in answer to a letter which I wrote to him expressing my regret that I was not able to attend the Fifth Virginia Bankers Conference.

You might note page 3 of Robertson's speech at the Wayne Manufacturing Company, Waynesboro, Virginia, September 7, 1942.

REP

Congress of the United States
House of Representatives
Washington, D. C.

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September 16, 1942

PERSONAL

Hon. Randolph Paul,
General Counsel,
U. S. Treasury Department,
Washington, D. C.

My dear Randolph:

You are a swell guy and I am glad you have a sense of humor. While I endeavored to lighten a dull tax discussion with a bit of wisecracks, when I said you were a real tax expert I meant it. You are the best I know, and it is a pleasure to work with you.

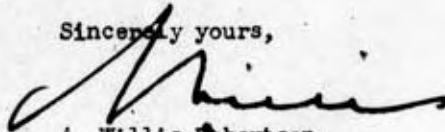
It is a source of regret to me that neither our committee nor the Senate Committee has seen fit to go as far as we certainly should have gone in providing for new revenue. You may recall that I said from the first we should set ten billion dollars as our minimum goal. The present failure to take that action means we will have to start on another tax bill early next year. In order that taxpayers may not at that time complain that they had no adequate notice that further taxes would be imposed upon 1943 income, I hope the Treasury Department will continue to say the tax program is inadequate and further burdens must be imposed next year. While I have no debts I can sympathize with those who do. Yet I feel that the need for more revenue is so urgent it must take precedence. So far as personal income taxes are concerned, I have reached the position where I will be content to have left out of my Congressional salary just enough to permit me to keep my two boys in school and to meet necessary living expenses on a scale reduced to the minimum permitted by the current increase in the cost of living. I have also pledged 10% of my entire salary for the purchase of war bonds, feeling that even though I may have to borrow money to meet my taxes next year I could not consistently urge industrial workers to pledge 10% of their wages and then fail to do the same myself. I enclose copy of the speech I made to the employees of the Wayne Manufacturing Company who have pledged 12 1/2% of the current payroll and in addition were

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the first in the state to receive the merit award of the Maritime Commission.

It may interest you to know that for the first time in ten years I will have no opposition in the General Election. I have never had any in the Primary.

Sincerely yours,



A. Willis Robertson.

SPEECH BY REPRESENTATIVE A. WILLIS ROBERTSON, AT THE WAVER
MANUFACTURING COMPANY, WAYNESBORO, VA., SEPTEMBER 7, 1942,
UPON THE PRESENTATION OF THE MARITIME "M".

The past three years have no doubt shaken the faith of some in the old maxim, "the pen is mightier than the sword," and the corollary maxim "truth crushed to earth will rise again." In those tragic years we have seen the frozen wastes of the Russian plains strewn with the bodies of those bent upon conquest and those who died to protect their homes and loved ones. In the jungles of Bataan brave American boys have died with the cry on their lips: "For God's sake send us planes," while on the hot sands of the African desert men have cried out for water with blistered tongues. Across the continents of Europe, Asia and Africa have ridden the Four Horsemen of the Apocalypse, leaving in their wake agony and despair, while disease and hunger have searched for their victims among the women and children. In those lands happiness has died and laughter has been forgotten. When men on far-flung battle fronts are falling like leaves in wintry weather and untimely graves are being dug in every corner of the earth, we need the sustaining power of an unflinching trust in an Overruling Providence, lest faith in God become the major casualty of the conflict.

Throughout the Christian era, by a singular coincidence, the pen has wielded its greatest influence from behind prison bars. The greatest interpreter of the Christian faith and Christian ethics was St. Paul, whose ^{most} moving lines were penned from a Roman prison. From an English prison John Bunyan wrote a book that has had a greater circulation and more influence upon human conduct than any book ever published except the Bible. It remained for an obscure but fanatical Austrian, confined in a German prison because of radical actions and evidence of a disordered mind, to dip his pen in undiluted venom and write a book that started a world conflagration. Millions of Germans adopted that book as their bible and its author as their god. At first we ignored both book and author, or else treated them with silent contempt. But as Hitler's pagan

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Juggernaut gained momentum on its journey through Austria, Czecho-Slovakia, and Poland, at least some leaders in this country including our President and our Secretary of State ceased to treat Hitler's announced program of world conquest as an idle boast. When the treacherous blow by Hitler's ally was struck at Pearl Harbor all knew Hitler's boast about two worlds, one of which would burst asunder, meant us as well as the democracies of Europe.

Thank God for that realization and the unity of purpose and action that has resulted from it. Man's noblest aspirations are not nurtured by ease and luxury. "Without the shedding of blood" wrote St. Paul from his prison walls, "there is no remission." The blood shed for you and for me at Pearl Harbor, in the Philippines and the islands of the Coral Sea, make us determined ^{that} those boys have not died in vain. Gone is the flabby thinking of the period "It cannot happen here." In its stead is the willingness to sacrifice and the will to win. The road to victory may be a long road. It undoubtedly will be a hard road. Ambassador Grew knew whereof he spoke when he told us the Japanese would never quit until defeated. Then, we will defeat them, and in a way to convince those barbarians crime doesn't pay. If to teach them and the followers of Hitler that lesson and thus free the world from the dread and horrors of another war it be necessary to bomb Japan and Germany until no two buildings stand side by side, then I say, "Forward, Christian Soldiers!" I don't discount the courage of the Japs nor the skill of the Germans. But our boys will have both and over and above that they will have faith in the justness of their cause. And behind them they will have the support of a nation of free people not driven as galley slaves to the support of a cause repugnant to their finer instincts.

"It is sweet," we read in our school days, "to die for one's country." Yes, but it is sweeter to make your enemies die for their country. Let us remember that courage alone will not stop a tank or bring down a plane. And if our boys are to carry Old Glory into Tokio

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and Berlin they must have ships. The recognition in Waynesboro of those essential facts is a source of great pride to me. You know this is a people's war and can only be won by all the people. You know you are going to have loved ones in battles yet to be fought before tyranny is destroyed. You are determined the desperate cry from a foreign front, "For God's sake send us planes" shall not pierce again a mother's heart.

Congratulations, men of the Wayne Manufacturing Company, upon your contribution to victory, both in production and in sending your proxy through the purchase of War Bonds to some fighting plane or tank. The Secretary of the Treasury has asked me to tell you that you have set an outstanding example by pledging 12% of your pay for War Bond buying. "If the employees of every company in the country were doing as well, we should be much further along in our efforts to finance the war and to avert inflation. I feel that every employee of this company," said he, "has made a real contribution to victory, and I should like to congratulate each and every one for this achievement."

American sailors going down to the sea in ships you no doubt helped to build knocked the Japs into a socked hat at Midway, and taught them the meaning, if not the words, of our old hymn, "God moves in a mysterious way His wonders to perform. He plants his feet upon the waves and rides before the storm." The Japs said we were soft and wouldn't fight. Hitler said our goal for the production of ships, planes and tanks was a joke. To both we have given the lie.

Eighty-one years ago last month men from the Valley of Virginia stood behind their leader on the top of Henry hill, calmly awaiting the Federal attack in the first battle of Bull Run. As the men under General Bee began to waver he cried: "Look, there is Jackson, standing like a stone wall. Rally around the Virginian." As our boys go for a second time to a foreign battlefield, may a united Nation say, as it did twenty-five years ago:

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"Here's to the boys of the wind-swept North;
When they meet on the fields of France
May the spirit of Grant be with them all
As the sons of the North advance.

"Here's to the boys of the sun-kissed South;
When they meet on the fields of France
May the spirit of Lee be with them all
As the sons of the South advance.

"Here's to the blue and the gray as one;
When they meet on the fields of France
May the spirit of God be with them all
As the sons of the Flag advance."



TREASURY DEPARTMENT
WASHINGTON

SEP 18 1942

OFFICE OF
COMMISSIONER OF INTERNAL REVENUE

ADDRESS REPLY TO
COMMISSIONER OF INTERNAL REVENUE
AND REFER TO

Memorandum for SECRETARY MORGENTHAU:

The Bureau recognizes that it will experience difficulty in obtaining trained male accountants in sufficient numbers to maintain the present production schedules in revenue agents' offices. Therefore, I have directed the Deputy Commissioner of the Income Tax Unit to select a substantial number of women eligibles to be appointed as junior internal revenue agents.

There are a number of women employees in the Bureau who have taken the appropriate examinations and obtained an eligible rating, and the Deputy Commissioner of the Income Tax Unit is at present engaged, with the aid of the Washington and field offices, in the consideration of the adaptability of these people to the duties required to be performed by junior internal revenue agents in field stations.

The Bureau is also making arrangements to contact trained women accountants engaged in industry and private accounting practice with a view to acquainting them with the opportunity to enter the Internal Revenue Service.

I realize that it is necessary to avail ourselves of the services of women employees whenever practicable because of the need for man power as an aid to the war effort, particularly with the fighting forces. Knowing that the matter has had your personal consideration I felt that you would be interested to learn that the Bureau is making every effort to recruit immediately those women who may be available to us and who are equipped to perform the difficult duties of an internal revenue agent. It is because of your keen interest in this subject that I am informing you as to my plans.

W. J. C. H. Herring
Commissioner.



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MEMORANDUM FOR THE SECRETARY.

September 18, 1942.

Mail Report

The very heavy mail received during this past week is reflected in the attached pages, for so many quotable letters were received that it was difficult to pick and choose in order not to overload the report. The numerous tax proposals under consideration have brought us quantities of letters, and they are difficult to classify since they cover a lot of territory in the way of comment and suggestion. On the whole the ratios of subjects covered and public opinion concerning them are indicated by the following figures taken from representative collections of mail: 20 letters on the Ruml Plan, favorable, 16, unfavorable 4; 15 on the withholding tax, favorable 14, unfavorable 1; 18 on the spending tax, favorable 7, unfavorable 11; 10 on the Victory Tax, favorable 3, unfavorable 7; 40 on the sales tax, favorable 36, unfavorable 4; 32 on higher personal taxes, favorable 10, unfavorable 22; 4 on higher corporation taxes, evenly divided. There have also been a few letters speaking of incentive forced savings, excess profits taxes for individuals, and gross income tax. Exemptions continue to be asked for War Bond investments, illness and death expenses, insurance premiums, debt retirement, and alimony payments or support of estranged wife. There have been four letters endorsing some sort of savings sale tax and a number of miscellaneous plans for simplified collection of taxes. There are also the usual suggestions for additional revenue, including radios, gasoline, transportation, hotels, pets, check tax, increased postage rates, and lotteries. The suggestions for various types of lotteries have shown particularly fertile imagination during the past week. Many are tied up with the War Bond selling effort.

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During the week 113 letters and 121 telegrams have been received in reply to the inquiry on the length of time required to deliver bonds under payroll deduction plans. A high percentage reported a period of 5 days or less, and almost without exception the spirit of the letters was cooperative. The economy criticism appeared occasionally, however, a number suggesting that too many telegrams are being sent and requested.

It is interesting to note that approval of compulsory savings is gaining momentum. At first there were many protests, but now out of 20 letters 15 approve the adoption of compulsory bond buying. There were 8 reports of the abuse of the privilege of cashing bonds at the end of the 60-day period.

Many letters outlined selling suggestions in connection with the Christmas season, and many asked for new types of bonds. Those of smaller denominations and those which can be used as collateral seem to be particularly desired. Repeated requests are made that postmen be permitted to sell bonds and stamps.

Among the reasons suggested for lagging bond sales are waste in Government, uncertainty about taxes, appeals from Red Cross, U.S.O., etc., reluctance to invest in non-negotiable bonds, and extravagance or indifference to the production program in defense plants. Of 28 complaints, 21 dealt with delay, 7 with the non-receipt of interest.

In the miscellaneous mail there continues to be great opposition to labor union tactics and a demand for the taxation of unions. These letters outnumbered those complaining on behalf of labor by 12 to 1. Pleas for economy in Government continue heavy as do letters complaining of inflation and the lack of control of prices. Ten letters, most of them referred to the Treasury by Members of Congress, vigorously protest restrictions on silver needed for commercial purposes. The proposed 5-cent piece has brought several suggestions as to materials.

Gabriel E. Forbush

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General Comments

Jane Franklin, War Savings Staff, New York, N. Y.
You have found the solution to so many seemingly impossible situations; perhaps you can suggest a course of action for me. I have been working for the Treasury Department, in the Publicity Bureau of the New York War Savings Staff since June. I was finally sworn in on September 1, and told my salary would be retroactive only until then. The pay has not arrived, and there is no indication as to when it will come. For the first time in my life, I am in debt. Among the money due this month is a bill for some ninety-nine dollars, the regular quarterly payment of my federal income tax. * * * Having exhausted my savings waiting for my salary, I could go to a loan agency for money, although I have always avoided transactions with such agencies, both because of what they stand for, and because I have never before lived beyond my means. * * * Nevertheless, I am told that I am liable to dismissal from the Treasury Department if I borrow from a loan office to pay the Treasury Department my taxes. I also know that I am subject to possible penalties and the payment of interest if I do not pay my taxes on time; yet if I delay, I shall be regarded an unpatriotic citizen. * * *

Alfred L. Godfrey, Lawyer, Elkhorn, Wis. * * * A vast amount of indebtedness still exists which must be retired out of income. A very substantial portion of that is funded debt of which there is a public record. * * * Many of our larger corporations, including railroads, have funded debts which they have been carrying for years. * * * Nothing is being paid upon the principal and in altogether too many instances nothing is being paid upon the interest. * * * As a result, many widows whose husbands felt that they had left them independent for life are now public charges or eking out a mere existence. * * * It is my mature judgment that the income tax accounting methods followed by the Federal and State governments are responsible to a marked degree for these

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conditions. * * * I have at the present time an estate in which there is preferred stock of a corporation which has made a substantial income over a long period. That corporation's books are audited four times a year. On the second audit the salaries of the corporate officers are adjusted. On the fourth audit the salaries of the officers are re-adjusted. The result is that there is no net income left out of which interest upon this preferred stock may be paid nor out of which the indebtedness evidenced by the preferred stock may be retired. These salaries are deductible and it is altogether too apparent that adjustments are made for the purpose of evading corporate income tax. * * * It is my suggestion that no increases in salaries should be deductible for such purposes which are not made pursuant to a fixed schedule on file for at least one year before the increase is made. (Outlines other details) * * * Such a change in the law would be unfair to the corporation unless the Government gave encouragement in the form of income tax exemption to retire the corporation's funded debt. That debt never will be retired except out of income or sale of capital assets. The country needs the capital assets kept intact. * * * Retirement of funded debts by corporations should be encouraged. * * *

Natalie Levy, Los Angeles, Calif. We were happy to hear this announced over radio. "Secretary Morgenthau has become so popular that many say he should be our next President." Certain it is that our great President couldn't have selected a better man for this position. * * *

Chas. Waterall, Prichard Theatre, Prichard, Ala. May I beg a few minutes of your precious time to inquire if it is possible to give to our Government the earnings of my theatres one day out of each week for the duration? Will the Government accept this without any obligation other than to use the proceeds (without earmarks) in the war effort? I have been working on this plan for quite some time and I honestly believe it will work. * * * If you

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will O. K. the plan, I will have special trailers made - and big banners in front of the theatres and call "Every Thursday is Victory Day" at this Theatre. The Mobile Press has promised full cooperation and I am sure I can count on the radio. I believe the motion picture industry is one of the greatest mediums to present a plan like this, and perhaps in the best position to start it, since every day in this business takes care of itself, and a cash proposition. * * *

Homer Gard, Hamilton Journal-News, Hamilton, Ohio. Your letter of the 14th received. Our paper will be more than glad to help in every way. It is a pleasure to assist you in every thing you suggest. So different from some other official sources in Washington. For example - some months ago I gave a very prominent international rubber importer a letter to the secretary of the President. The man did not seek any appointment. He only wished to be helpful. He had spent his life in importing rubber and had spent much time abroad in the rubber countries. He thoroughly knows the rubber game. This man could have been of use to our country. But no - he could not even get a reply to his request to confer with any one. He spent two weeks in Washington trying and left in no happy frame of mind. I am sure he would have been a most valuable man in the present rubber crisis. I personally wrote the President's secretary the man was coming with a letter. I have had no reply to my letter.

Frances Ocneanu, Cleveland, Ohio. * * * On June 5, 1942, 5 days after my return to the United States with the Diplomatic exchange vessel SS. "DROTTNINGHOLM", I filed with the Federal Reserve Bank of New York, Form TFE-1, applying for the release of my funds amounting to \$4,440, which I submitted to the customs authorities upon arrival at New York. The currency is listed on Customs Service Receipt No. W 1156 dated June 2, 1942, and was delivered to the Federal Reserve Bank of New York. I have waited patiently for the release for a period of two months and receiving no information as to the decision, I wrote to the F.R.B. on August 2, and received the answer on August 4, informing me that the Treasury Department has denied my application requesting much additional data.

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*** I have served the United States Government as a Foreign Service Employee since 1934. I returned to the United States with the Diplomatic party, was entitled to a lift van of which I did not take advantage for my personal belongings, as I sold them, planning to buy new things as soon as I can find a place to settle definitely here. *** I know that members of other diplomatic parties arriving here with the same steamship have had their funds released and their cases were not much different from mine. *** I shall greatly appreciate it if the Treasury Department will inform me at its earliest convenience whether the above explained facts are sufficient as I am unable to furnish all documentary evidence asked to support my claims. Complete and the most reliable information regarding my character, social life, standard of living and activities during my eight years of employment in the Foreign Service, may be obtained from the Department of State, Washington, D. C. *** Please do not cause me such great difficulties because of my personal lack of knowledge relative to all details concerning this matter. ***

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Favorable Comments on Bonds

C. Steve Roemer, Jr., Bowling Green, Ky. * * * In my home a company is formed. 1 share - \$.50. Dad, 4 shares; Mother, 4 shares; children, 1 share each. This makes \$5.00. I am the treasurer. I purchase \$5.00 worth of defense stamps and put them in a box. About supper time each night I sell stamps to the family. The money goes into the box. Next day I buy as many stamps as I sold the day before. Pennies play their part too. A piece of paper in the box has each member's name on it. If Mary Jo, my sister, has two pennies, then two x's go by her name. Pennies add up until she shaves off a stamp. I keep a record of stamps sold to each member and it is posted so visitors may see for themselves. For each bond a gold star is stuck by the name. If each family had a company, there would be a double in bond sales. Bataan was a defeat, but no matter how small this may be, it is a Victory.

Morton Bodfish, Executive Vice Pres., U. S. Savings and Loan League, Chicago, Ill. I express the appreciation of our entire organization for your recent telegram commenting upon the \$100,000,000 government bond purchase campaign upon which the savings, building and loan associations and cooperative banks have embarked. It was a most appropriate message. We are transmitting it to the entire membership of the United States Savings and Loan League so that all will thereby be encouraged to increase their government bond purchases. You will be interested in knowing that we have already passed the half-way mark of our self-imposed goal, with \$50,000,000 worth of government bonds either purchased or to be purchased by our institutions before the end of the current year. * * *

Edward C. Jenkins, Palo Alto, Calif. A factor of importance is being left out of the campaign to sell War Bonds. In all the appeals over the radio and in the newspapers I have never heard anyone say that he himself had already

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subscribed ten percent of his own salary before he asked others to do so. * * * Suppose that the announcement were made that you, Mr. Secretary, all your staff, the President and all the White House staff, and the heads of all Government agencies had quietly subscribed ten percent of your salaries for the duration. * * * Such an announcement would stimulate the sale of bonds just as a similar statement by the heads of a campaign to raise money in gifts starts the ball rolling in a Community Chest drive. There is something appealing in the idea that those who are urging others to give or to buy bonds believe in the plan enough to sacrifice for it themselves before asking others to join them. * * * While you have lost a good deal of momentum by not doing this before, this can be gained again to some extent by doing it now. * * *

L. V. Mulnix, Jr., Grand Rapids, Mich. In reading last night's Grand Rapids Press, I noticed an article that you are now in favor of compulsory payroll savings. I think that I can understand the economic reason for this statement, but I sincerely believe, Mr. Morgenthau, that the Voluntary Plan of the payroll savings will work, if given a fair chance. * * * In Grand Rapids, we are in the midst of an intensive campaign, shooting towards a 10% goal. We have found there is only one way to do the job, and that is to get into the plants, and talk to the workers themselves. When you do this, and sincerely explain to the men what this wonderful savings method will do for them and for their country, the 10% plan is a success in almost every instance. I am a great believer in the fact that the American people today, if properly approached, and given the logical reasons why of certain necessary moves on the part of our Government, will do practically anything to win this war. That is why I sincerely believe that if, all over the country, the various volunteer workers on the payroll savings work would make it a point to go into the plants themselves, and talk to the men, who have to pay the bill out of their paychecks personally, that the job could be done. * * *

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E. H. Angier, Framingham, Mass. During the past year I have subscribed for a number of series "G" one-thousand-dollar Bonds. Recently I received a check covering semi-annual interest. While we are in the war I don't feel like accepting any interest from the Government and for the duration I would be glad to waive the interest on these or other series "G" Bonds which I may purchase. If that would not be convenient for the Government I would be glad to accept War Bonds in payment of interest. If, however, you prefer to send checks covering interest, I will promptly invest same in more War Bonds. The point I wish to bring out is, I don't want to be paid by the Government for buying War Bonds throughout the war. * * *

Charles E. Orcutt, Yonkers, N. Y. The newspaper item about the trouble which has developed because purchasers of bonds do not receive them quickly disturbs me. Some Americans do not have faith in their country. I purchase two bonds a month on the payroll deduction plan and I have never seen a bond. My organization holds them for me in its vaults. That's the least I can do for my America and I do hope I can do more than just buy bonds to win this war and help my Government. Just an old-fashioned Yankee. (signed Charles E. Orcutt).

Standard Steel Corporation, Los Angeles, Calif. (Telegram) Bonds are issued within one day after employees contribution is completed. Since we have become an issuing agent we have noticed marked improvement in enthusiasm to purchase bonds.

Hugo P. Remington, Attorney-At-Law, Lisbon, N. Dak. I am a fairly successful country lawyer who happens to be War Savings Chairman for Ransom County, North Dakota. My County has made its quota each month, with a comfortable margin. This statement is not based on reports of the Federal Reserve Bank, but on accurate records of bonds actually sold by local banks and post offices. * * * If we were obliged to wait for the report of the Federal

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Reserve Bank we would never know where we were. For instance, on July 15th I sold the city of Lisbon a bond in the sum of \$5,000. I found credit for that sale reflected in Mr. Wolfer's report for the third quarter in August. During the last quarter in August I sold in F and G Bonds \$8,700. The Federal Reserve Bank reports the sum of \$500 only, just \$8,200 off. Each quarter month I have assembled figures from banks and post offices and have given them to the three newspapers in our county. Whenever I have told them that we are in danger of not making our quota, sales have at once stepped up. One week I did not publish such bulletin, and I received 15 phone calls, many from just plain dirt farmers, and more than that called at the office to find what we were doing for that month. These reports constitute 75% of our sales appeal. Now I have seen a copy of the Postal Bulletin stating that after October 1 these reports are to be discontinued. I do not know why, but I do not care to contemplate the loss of this tremendously forceful appeal. * * * I will be like an old lady who was running down a country road to catch a train. She did not know when the train was due, nor whether it was on time or not, neither did she know what time it was, but she thought she had better hurry. At first I did not like the quota system, but before the second month was over I realized that it was my best friend and greatest aid in this work. Will you not please therefore ask the post office department to rescind its order, and to continue quarterly reports to the staff. They are needed.

Betty Barry, Portland, Oregon. I have read in the newspaper recently that some of our folks here in America are buying bonds on the payroll system and then cashing them in sixty days. I also hear some of our radio announcers tell the public day after day to buy bonds, they are a good investment, they can be cashed in sixty days. Isn't it just a waste of time to make out these bonds if they are to be cashed so soon? What good can they do our government? I am only one person in this

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wonderful America, * * * but I would have to be pretty hungry before I would cash one of them until this war is over. I hope and pray they will not have to be cashed until the ten years are up. Thank you so much for reading this letter.

M. G. Cox, Lawyer, Cameron, Texas. Today I purchased another \$4,000 worth of Class G Bonds, making a total of \$48,000. Instead of being a "ten percent man", I hope to be able to invest all of my net earnings over and above actual living expenses in Government Bonds. * * * There is a practice upon the part of some officials which, in its last analysis, I believe is subversive. To illustrate, about a year ago the City Secretary and Treasurer of Cameron made a talk before the Cameron Rotary Club, explaining the financial condition of the city, showing that then existing tax rates and valuations were more than ample to take care of the financial needs. Mr. Tyson told me a month ago that this is still true. In spite of this, after a recent change in administration, a Board of Equalization immediately proceeded to increase tax renditions of a good many people. My city taxes were increased approximately ten percent, and that of many others in proportion. This action dries up the financial reserves which should be devoted to the war effort, and considerable amounts of which would be invested in war bonds. I wrote a letter of protest to the Chairman of the Board in which I pointed out the danger to the war effort and to our beloved country which would result if other city, county and state political subdivisions should follow their example. * * * I hope you may see fit to release to the press an emphatic condemnation of any act increasing state and local taxation that will have a tendency to interfere with the raising of money for the successful prosecution of the war and to that extent dry up the financial reserves that could be applied to the winning of the war.

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Anonymous, signed "Ex-Soldat American". (Enclosed filled stamp book). I bought these stamps with pennies. I hope to be able to buy them with dollars real soon. Uncle Sam has been good to me. In the last World War, he gave me a free ride from Mississippi to England and France, and back. I enjoyed it. He has also given me a job for the past 18 years and I like that. I am not donating these stamps to the politicians, grafters, chiselers, black marketers, strikers, Labor Leader crooks, Unions, loafers in defense plants, loafers in general, hoarders, draft dodgers, fifth columnists, traitors, profiteers, Communists, Fascists, rich refugees, saboteurs, antagonistic heads of Bureaus, jealous members of the Armed forces, I mean the Officers and Dept heads who are not cooperating, etc., etc. I am giving this little bit in memory of the Pearl Harbor, Cavite, Bataan, Corregidor, Philippines, Singapore, Java, Burma, Alaska, China, France, England, Belgium, Norway, and all other places where our Boys have given their lives, have been taken prisoners, have fought, still fight, and will keep fighting. As Walter Pidgeon, the actor said, the Marines, Sailors, Soldiers, Aviators, Coast Guard, Merchant Mariners, give their lives, a leg, an arm, an eye, and they do not get them back, so why should we hesitate to give money, when we will get it back, but if we don't, it is alright, if we whip the Axis and we will. I do not approve of all the things that have been said and done, and all of the wrangling around in Washington, but I still think Old Uncle and the U.S.A. are the best on earth and will stay that way, you folks get tougher and lets pitch good and heavy.

Neil Smith, Pres., Roth Bros. Co., Superior, Wis.
Regarding your telegram of September 9th, concerning time taken to deliver bonds to employees after payments are completed, we are delivering these bonds one hour after the payments are made.

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Unfavorable Comments on Bonds

F. A. Logue, Auditor, Westinghouse Radio Stations, Inc., Philadelphia, Pa. * * * The payroll records of all employees of all of the stations of this company are maintained at this office and orders are placed with the Philadelphia Federal Reserve Bank for issuance of bonds to our employees. * * * Until recently bonds were issued by the Federal Reserve Bank within five days after we had placed our orders. * * * We agree with you that the success of the payroll savings plan depends largely on employees receiving their bonds promptly after they have accumulated sufficient funds to purchase same. The only suggestion we can offer is that the Federal Reserve Bank take prompt action to fill the orders placed by employers.

J. W. Stobaugh, Treasurer, Western Union Employees' Credit Union, Kansas City, Mo. * * * Our Credit Union is an issuing agent for the sale of War Bonds and Stamps. Prior to the inauguration of the payroll deduction plan in Western Union we sold approximately \$2,220 worth of Bonds monthly and about \$150 stamps weekly. Western Union asked me to give up the agency so that the employees would buy through our cashier either by payroll deduction or by cash, so that the company would get credit for the sales. Bonds purchased through the Credit Union did not go in as company sales. I did not give up the agency, but encouraged the employees to buy through the company. About half of those who formerly purchased through the Credit Union adopted the suggestion, and about half refused to do so, purchasing from a bank or post office or continuing with the Credit Union, and a few stopped altogether. The big objection was the delay in delivery of the Bonds when purchased through the Western Union. It is possible to wait nine weeks for delivery after the bond is paid for. Our employees are paid every Wednesday. Bonds paid for on September 2nd will be delivered on October 28th. The interest date, however, is the month in which the Bonds are fully paid. But these people do not want to wait that long and anything the Treasury Department can do will be appreciated. Obviously I should like this communication treated confidential.

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Fred T. Saussy, Attorney-At-Law, St. Petersburg, Fla.
I submit herewith detailed statement of correspondence about my effort to get redemption of three \$500 U. S. Defense Bonds, issued to me in the name Mr. Fred T. Saussy, curator and guardian of Mrs. M. Hortense Maynard, an incompetent, for whom they were held by me. The ward died, and on May 29th, 1941, I was appointed curator of the deceased estate, furnished bond and am still qualified as such. * * * I sent these bonds to Federal Reserve, Atlanta, June 16, 1942, having previously asked requirements and their letter May 21st stated to accompany bonds with certified copy of my letters of curatorship. The following dates indicate subsequent correspondence: (long list from June 23-September 1). * * * September 3rd a letter was written me from Treasury Department, Chicago, which acknowledged that they had the bonds, and gave the numbers, and amounts, omitted the exact date of issuance, and stated that it would be necessary for me to get a special court order authorizing me to get payment of the bonds, which order must describe date of issue, series, series number, denomination and exact form of registration. I immediately wired Chicago Office asking to wire me collect the exact date of issuance, as they had the bonds. No answer to said wire has been received. September 9th I have had a court order expressly authorizing me to collect these bonds, describing them as fully as possible by number, amounts, form of registration- and that they are May 1941 issue. This will be forwarded to Chicago. I never would have invested the estate funds in the bonds if I realized that so much trouble and red tape would be required. I have followed your regulation No. 315.16 and sent letters of curatorship, and also a recent certificate of the court showing that I was still fully qualified. There is nothing in the regulations requiring special order for a fiduciary to obtain payment. Instead of informing me or the Federal Reserve Bank that such was the requirement, or writing to me in answer to previous letters to the Chicago Office, they delayed several months and then for the first time informed me of this additional requirement. * * * I merely wish to make this of record, to let

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your office know how discouraged I am. * * * The heirs desire the estate closed, and all that I can tell them is, that for almost three months I have tried to get their money for them from the Treasury Department.

Geo. L. Gilkey, Pres., Citizens American Bank, Merrill, Wis. I am writing this letter as a taxpayer and as Chairman for Lincoln and Taylor Counties of the Victory Fund Committee, in protest against the needless expenditure of the taxpayers' money involved in the effort to sell Government Securities. I understand from a local theatre owner that they are putting on a drive this month for the sale of Defense Bonds. * * * These men were asked to wire you the first day as to how many bonds were sold. Now whether these men pay for that wire or whether the government pays for it, it comes out of the taxpayers' pockets in the long run and it seems to me that the cost of a large number of telegrams that are sent out where an air mail letter would do just as well is adding materially to the cost of this war effort. The taxpayers are going to be bled white to pay for this war -- why increase the burden unnecessarily. * * *

G. D. Gurley, San Antonio, Texas. You said ask the general public why they were not buying bonds. I can tell you why. Your bonds are non-negotiable. We business men can't afford to freeze our working capital. If we could borrow on the bonds in case we needed money to run our business, we would buy bonds. Never before in our history as I recall were we asked to buy such bonds. On the face of your acts the general public are of the opinion you admit they are worthless paper after the war. That's what I hear every day. You can't fool all the people all the time. As per the press a few days ago the war debt is 200 billion dollars. The national debt is 125 billion dollars. The States owe 35 billion, making a total debt of 380 billion dollars. We are over-mortgaged already as you know. Senator Byrd said last spring we were only worth 372 billions. Who can freeze their money for ten years? * * *

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H. J. Scholl, Pelican Bag Company, Inc., Crowley, La.
As a patriotic American Citizen I feel it my duty to acquaint you with a rather deplorable situation. I manage an organization which employs upward of 50 men and women, all of whom have had very little formal education. When the Government asked that all companies or groups of persons subscribe to a regular purchase plan, our company was the first in this community to register one hundred percent. This was an excellent start and had it continued we would have made an enviable record in the purchase of bonds; but it is my sad duty to relate that as of today fully forty percent of my employees have withdrawn and cashed the stamps that were in their book, giving such excuses as furniture bills, doctor bills, etc. No doubt a certain percentage were justified, but if the rate of withdrawals continues the entire stamp and bond purchase of this company will be canceled. * * * I, therefore, ask you in the name of those few who are trying so hard to make a success of the sale of war bonds to lend your influence to secure the necessary legislation for the installation of an intelligent compulsory payroll deduction program. I am no flag waver, but I can see the urgent need for the success of war bond sales. If you have any suggestions that will help me out of my present difficulty I would appreciate hearing from you. * * *

Mrs. Martha R. Ross, Alexandria, Va. Please listen to me as one of Uncle Sam's "hired help". I am at the General Accounting Office in the Old Post Office Building on the Avenue. Until August 1 we could buy stamps on payday in the building and we did! But after the new methods of signing out a part of the salary to be deducted, our salesman was instructed to "drop everything." Lots of us can't do that because of winter coming on and children going to school and illness, and so on, but we can and do buy stamps and bonds, when we can get them close at hand. Last payday our salesman turned down \$500 of stamp sales because the chief had said stop, and you know lots of that money was not spent in stamps. I am a \$1440 clerk but I am a 10-percenter, buying \$10 worth here

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in town and \$3.00 in Fairfax County where I live. I have a family of three and we all have bonds and will continue to get them, but I know lots more could be sold if we could get them in the building. * * * Of course you know there's a post office next door, but that can't help us because we break our necks to get in on time and also to get home in the afternoon, not to mention sliding the banisters to get a bite of lunch in our allotted 30 minutes. Then when we do take time off to go to the post office, there are queues in front of us that destroy an appetite for stamps.

Henry P. Stacy, Attorney, Detroit, Mich. I am prompted to suggest that there are many people who are opposed to purchasing the present issues of War Savings Bonds, who would purchase such bonds if they were issued, the same as in the case of the Liberty Bonds of the First World War, in a non-registered series, title to which could be transferred by the physical delivery of the bond, without other formality. People of small means discover that, when a member of a family becomes deceased leaving a registered War Savings Bond of small value, but no other property requiring the probate of his estate, it is necessary to probate the estate in order to cash the bond. The expense of probate may exceed the value of the bond, and, in any event, the proceedings take time, and are annoying to those not experienced in business matters. * * *

Anonymous, Chicago, Ill. All we see or hear is the different states have not come up to their share of war bonds quota for the last month. Will you please tell us how to do more when there are so many other contributions to be given to, China relief, Russian relief, now Greek relief, later Community Fund, and later I suppose a day's wages for Red Cross, also British relief, and now Monday we have a "Have-A-Heart" tag day and the Civilian Defense have taken it upon themselves to take up donations, then another donation for flag poles. If your War Bond quota

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has to be reached I would suggest that you rid the nation of some of these reliefs because we the people are getting tired of always handing money out to these foreign elements when our own country is at stake. * * * You in Washington just sit and wait for the money to come in but do you ever think of the hardships you can cause by doing away with men's jobs. * * * We have to work dam hard for our money so get next to yourself and do away with this extra relief or else take what you get and keep still.

Hance H. Cleland, Pres., San Diego Gas & Electric Co., San Diego, Calif. As our reports and correspondence would indicate, we have been carrying on and have recently renewed with increased vigor, our drive to secure not less than 90% participation of our employees, and 10% of payroll for War Bonds. Within this week two of our larger departments have reported 100% participation and every employee for 10% or more. * * * We have a number of district and collection offices throughout the city and county, one located in one of the larger Federal housing projects, for the convenience of the people living in that area. We have four employees in that office. * * * In the building, there are also offices of the National Housing Authority (Federal Housing Agency); employees of the Public Building Administration; and engineers and contractors constructing the housing project. Our two women employees there, when requested to increase their subscriptions to 10%, were rather incensed. * * * They gave as their reason the fact that the employees of all of the agencies above named had twitted them for being required to subscribe for any bonds, - whereas they (the Federal employees and contractors) not only receive higher salaries and compensation, but "were not required to take any bonds unless they more or less volunteered to do so". They have no payroll deductions made from their salary checks. I have three times rewritten this closing paragraph, - as I haven't time to go to jail for a violation of Postal Laws. P.S. Our two women above mentioned signed for 10%. Good luck to you in your program.

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R. M. Schlick, Vice Pres., Field-Schlick, Inc., St. Paul, Minn. * * * With further reference to your lengthy telegram received this morning, I wish to offer my personal criticism which I think is very well founded and should be followed up and investigated very thoroughly by your department. In a matter of this kind there seems to be no necessity for a lengthy telegram at the existing rates, when either an air mail letter or regular mail would suffice. It is for this reason that we are writing you rather than complying with your request to wire you. It would seem very evident that your department is giving little thought to economical operation in connection with our war effort. * * * At the same time we should like to know how you can reconcile this with the fact that the public is requested not to use the telegraph and telephone when mail service will prove adequate, so that important government business may be completed advantageously.

Anonymous, San Antonio, Texas. In the last war I put every cent in Liberty Bonds because besides being a patriotic gesture they were a handy thing to possess. At Xmas or at any other time during the entire year you could use them as a gift or any way you wished to do so. These new war issues of your do not answer the average woman's purpose. * * * When I buy a bond, I have no idea to which of my children or to which institute or to which cause I may want to donate that money -- but your bond gives me no leeway to act as I feel like doing. Just reflect on this angle and perhaps bonds would move easier.

Hartley G. Fleming, Pasadena, Calif. I feel sure that this letter will not get to you personally, but hope it will get into the hands of someone in authority in your Department. Although you were obviously misquoted in saying that "volunteer War Bond sales are a failure", I think it is public information that they are not what they should be. * * * One outstanding reason is a public impression of WASTE IN GOVERNMENT. Many people are not quite convinced that all the money they put into

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Bonds and Stamps is actually being used for guns, planes, tanks, and ships. They are aware that an artificial price is still being paid for silver, that men on supernumerary government boards and committees are being paid exorbitant salaries to get in each other's way, and that the apparently useless small fry in Washington would staff a fair-sized aircraft factory. * * * In all my selling experience, one of the most usual questions was "What is the borrower going to do with the money?" In the case of War Bonds, the public is just not convinced that the government is making a sincere effort to make every dollar count.

Claudius O. Johnson, Pullman, Washington. * * * We should be buying, - that is, the public, not the banks should be buying - at least \$2,000,000,000 worth of bonds each month. Make us do it. Everybody knows that the voluntary system is not working. Movie actresses selling bonds! What a ridiculous proceeding! I am sure that the Axis powers must guffaw at such nonsense. My own face tingles with shame. How utterly beneath the dignity of a great power that we should be fighting a total war with such methods. Besides, the movie people are probably selling few bonds anyhow. My guess is that what is happening is this - that prospective buyers, knowing that they are coming, wait until the stars arrive in town before buying bonds. I regret, Mr. Secretary, that this is rather a severe letter. I know that you know that we must have a real program for bond buying. Why delay announcing it any longer? Make it tough and strong and the American people will approve. The President gave us a fine example in his Labor Day address.

James Drennan, Birmingham, Mich. Thousands of dollars are lost yearly through the uninterested postmasters of various post offices which supply mail to the rural districts. * * * A farmer or his children will run to the mail box to purchase one or more stamps from the mail carrier. But they will not even walk, far less run, from $\frac{1}{4}$ of a mile to 2 miles or more to the nearest store or

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post office for one stamp, or even \$1.00 worth. * * * About one month ago the Women's War Committee of my community gave their time and effort to trying to induce me and my neighbors to buy stamps and bonds. * * * Well, sir, I am one of the thousands of men and women who became really interested in stamps and bonds, so I thought if those women can give time, so can I help in some way. So I called up the Birmingham, Mich., post office, but could only get in touch with the assistant postmaster. * * * I requested he tell the postmaster to have all rural mail carriers carry defense stamps. Well, so far "no dice". Now this morning I talked with one of these ladies' husbands and he said his wife had called up the Birmingham post office, spoke to the postmaster, and that the post master's attitude was "Well, when my boss gives me orders to deliver defense stamps to mail carriers, I will, but not otherwise. * * * Now I call this poor Americanism. This post master should have been glad to cooperate. What do you think? Hoping my mailman carries stamps soon, I will close for present.

N. L. Riegel, Baltimore, Md. Refer to my letter of July 26, 1942, attached thereto ten United States War Bonds to have the payees names changed. The last I heard of these bonds was the middle of August and they were reposing in Chicago, Ill. I have no idea where these bonds will travel before the necessary changes are made, but I do have a definite idea that it should not require nearly two months for the return of these bonds. I realize the many thousands of hands and red-tape that these bonds must go through, but I still feel that enough time has elapsed for all necessary red-tape and boondoggling. I regret annoying your organization, but I am just one of the small boys and do want my bonds back for whatever they may be worth.

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Andrew Wilson, Jr., Pres., The County Trust Co., White Plains, N. Y. As President of a bank and Chairman for Westchester County in the Treasury Department's War Savings Staff, I have been particularly interested in the character of the securities made available to the public up to this time. I understand why the administration has preferred not to offer negotiable securities in small denominations in view of the experience which followed the last war and I agree with the proposition of a non-negotiable but redeemable War Bond. However, in the discussion of inflation by members of your Department, I see repeated references to the desirability of encouraging the taxpayer to reduce the amount of his present indebtedness as much as possible. * * * At the present time, great pressure is being put on all wage earners and taxpayers to buy non-negotiable War Bonds to the limit. * * * Once he has bought them, the average man is rightly reluctant to redeem them as a matter of pride and patriotism. But he has now invested his surplus earnings in a non-negotiable Government Bond which will not help him for at least ten years to get out of debt, so he must continue to pay the interest on his obligations with less likelihood of reducing the principal than before. If the public were offered a type of War Bond which could be purchased either at par or on a discount basis, and which could be accepted by creditors in reduction of existing indebtedness, I believe that thousands of people would be eager to use them. Not only would the buyer be interested, but, in many cases, creditors would offer to accept payment in War Bonds. * * * On the other side of the picture, I know from my own personal situation that I would be glad to buy additional War Bonds if I could use them now to reduce personal obligations, either by arrangement with my creditors or as a matter of right under a statute. * * * It has been apparent to me for a long time that one of the reasons for our failure to reach the monthly quotas set by your Department is a reluctance on the part of people to over-invest in a non-negotiable security, knowing that the cost of living is steadily creeping up and that taxes will increase continually.

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William G. Genner, Pres., Bank of Great Neck, Great Neck, N. Y. Volunteers have been selling Defense Stamps in our Bank lobby and I think they have achieved excellent results. We in turn have been selling the Bonds and have followed the policy of delivering the Bond to the purchaser at the time of sale. We have not required a return visit to pick up the Bonds. We too, I think, have done a good job. We also have assisted to make the sale convenient to clients by converting filled stamp books into Bonds. * * * Our local Post Office is unable to exchange the books for us into cash and the Federal Reserve Bank has taken some but advises us now that they can no longer do this. The amount of filled books has exceeded by about 100 per cent the amount of stamps sold in our lobby. You will see that we are now in the difficult and unfortunate position of having to refuse conversion. * * * I am writing you for suggestions as to how we can restore this service, feeling confident that you do not want any impediments in the way of sales of stamps or bonds. * * *

Clarence L. Dickerson, Dallas, Texas (Addressed to Senator Connally) On a news radio broadcast yesterday morning, mention was made of labor working as usual on Labor Day and the announcer went on to say that some unions voted to "donate" their day's pay to the purchase of War Stamps and Bonds. * * * Personally, I feel that if there are any "safe investments" today, they surely are those made in Government Securities. Organized labor is benefiting more today from the war effort than any group and they, of all people, should not feel that they are "donating" anything when they "invest" a small portion of their tremendously increased income in Government Stamps and Bonds. This type of propaganda could have a detrimental effect upon the public mind, too; it could cause it to feel that organized groups of people that are strong politically, having representation in practically all governmental agencies, feel that in purchasing United States War Stamps and Bonds, they are "donating" this money to the Government. It seems to me that the Treasury Department and those in authority in Washington would discourage this type of publicity.

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Favorable Comments on Taxation

J. K. Livingston, Houston, Texas. It is with great pleasure that I note your proposed plan of placing a tax on spending. In a sense it is nothing but a sales tax, but the arrangement, if I get the correct interpretation, is a most unusual one and brim full of good common sense. Everything one purchases SHOULD HAVE a GOVERNMENT SALES STAMP. (Outlines his idea) * * * I call this a REAL stamp act! Get it going and our Uncle will get plenty money this way and everybody will be happy but the chiselers and fifth columnists. I'm just happy to register my appreciation of such a plan.

Hortense M. Arnold, Allendale, N. J. Everyone I have contacted has been in favor of a direct tax at the source, such as the federal old age and unemployment taxes, as they feel it will be most difficult to try to save up for it and because of its complete lack of complications. 'Pay as you go.' Also, they are in favor of a smaller tax, but no exemptions. * * * The Ruml plan of dropping a year and starting anew, as of January 1st, 1943, also meets with the approval of the man in the street and on the train and in the bus and even the woman in the home! As for the slowing up of the Defense Bond sales, so many people are afraid that Mr. Roosevelt will decide to void them or recall them and replace them with others which will not be redeemable for perhaps twenty years or more, that they actually are hesitant about tying up their money in this way and those are the people who should be paying the sales tax because they are the 'spenders' who are heading us toward inflation.

Conrad A. Carstens, Blue Island, Ill. Read Mr. Henry Morgenthau's controversy with Congress in last Sunday's Tribune. Although I am not qualified to speak on "The Spending Tax" and "The Federal Sales Tax," it is my opinion that Mr. Morgenthau wishes to protect the little fellow, the common folks as people like myself. We have

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no money to spare for the luxury of spending so it would not harm us if enacted, but a Federal Sales Tax would crush the common folks. Would appreciate it if you extend my thanks and gratitude to the Secretary for his kindness and consideration to the common people.

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Unfavorable Comments on Taxation

John H. McGinnis, Houston, Texas. Your deep and growing uneasiness as to what shall befall Mr. Average Citizen unless your self-styled experts continue to figure out new and better ways to separate him from his income is truly touching. It seems to be your conviction that because the total national income has increased, the income of the individual has increased accordingly. Did it ever occur to you that while every one in Washington seems to talk and spend in billions, Mr. Average Citizen is compelled to figure in terms of dollars? * * * Throughout the world, it is the prevailing opinion that the citizens of the United States are highly literate, of good judgment and have done a fairly good job of taking care of their individual business, until comes an administration that constantly seeks new ways of proving that we are a bunch of imbeciles, incapable of managing our own affairs and that the Treasury Department is especially concerned lest we waste our substance. Would it be possible for you and your self-styled experts to get your heads down out of the clouds for a time and give the average citizen credit for being far enough ahead of the moron to at least handle his own paycheck, without new and better ways being found to shorten it for him by Washington would-be dictators? This letter will probably never reach you, but be tossed into the waste basket by some pea-brain allotted such tasks, but at least the above is becoming rather generally expressed throughout the provinces.

Anonymous, New York, N. Y. "America First Last and Always", but for heaven sake once and for all settle this tax question. If we have to pay 15% lets do it and stop all this bickering around. You are giving a hundred and thirty million people one fine headache. Settle the question between you big wigs in Washington, you don't ask the small fry for any advice, we just have to sink or swim. * * * Talk about morale--you in Washington sure plant the seed of fear in every heart. We are

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fighting a war and everyone is uneasy enough. Start practicing what you preach - economy. If the heart of our country has the jitters, what do you think the rest of the body suffers?

C. H. Shaver, Glencoe, Ill. It was necessary for me to stand in line for forty minutes today in order to turn in some United States Treasury Tax Notes on a September 15th installment of income tax. There were six people in line ahead of me when I started, so that the time per person was approximately seven minutes. There is just one window available to the taxpayers of the entire city of Chicago who wish to use tax notes in paying their income tax installment. A courteous inquiry made of the man who seemed to be in general charge, as to why there were not more windows opened up for the receiving of tax notes brought a snappy comment, "Why don't you write your Congressman about it?" Judging from the comments which I overheard from people standing in line there will probably be fewer tax notes purchased in this area in the future. If this proves to be true, you will have at least one of the reasons why.

Laurence H. Eldredge, Philadelphia, Pa. I prepared and filed an income tax return for 1941 and mailed it on March 3, 1942. It showed a tax of \$2,908.09, of which one-quarter, \$727.02, was payable March 15th. However, I wanted to make as big a payment as possible to give the government the use of the money, so I made a first payment of \$1,000.00. On June 12th I made a second payment of \$1,000.00. At that time according to my original return I had overpaid the amount due June 15th by \$545.96. However, I failed to return an item received as back interest on some defaulted bonds as I was under the impression this should be treated as a capital item and included as capital gain when the bonds were finally sold. When I later discovered that only part of the interest should be so treated, I filed an amended return showing the total tax to be \$2,976.36, an increase of \$68.27. If I had shown \$2,976.36 in the original return,

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one-quarter of that amount, or \$744.09 would have been due on March 15th. I have recently received a bill from the collector for the \$68.27 additional, plus an item of \$1.48 interest. I have argued in vain that I do not owe any interest and that I paid more than was due under either the original or the amended return when I made my March and June payments. * * * I am told it is the uniform practice to charge interest on an amended return and to ignore the fact of how much the taxpayer has paid. Mr. Secretary, I do not care about this \$1.48. I am willing to contribute this much, and a great deal more to my government. But I do care about having my Treasury Department do a shabby thing. * * * I do not want to have my government stoop to a shyster trick in order to collect a few extra dollars. There is no justification in good law or good morals for the attempt to collect this \$1.48 interest. The only reason for assessing it is that the government has so much power that the average taxpayer will pay rather than fight it. If an ordinary individual sought to collect payment of such an item of non-existent interest he would be thrown out of court before he got started. * * * If the ordinary business man made a practice of charging interest when the debtor had actually overpaid his installments, the Better Business Bureaus would get after him and, if he was engaged in Interstate Commerce, the Federal Trade Commission would probably issue a cease and desist order. I know I can speak for the Better Business Bureau viewpoint because I happen to be the president of the Philadelphia bureau. * * * I do not intend to pay this \$1.48. I shall resist any demand for payment with all my power (puny though it may be compared with that of the United States.)

Wm. B. Mayor, Chicago, Ill. I acknowledge your reply courteous to my discourteous comment on the proposed spending tax. No doubt you folks receive plenty of unqualified help. So here's some more. The spending tax is dictatorial. It does not and cannot appreciate that what constitutes unnecessary, extravagant expenditure for one person, is sensible, necessary expenditure

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for another person. * * * I see clearly the need for drawing off loose funds. But those funds have accumulated in the pick and shovel circles mainly. (I guess I'm one of them there reactionaries.) The New Deal has placed a false economic value on shovel exercises and variations thereof. Unkind people (they couldn't possibly be correct) say it's because there's a vote attached to each shovel. In short, it's time the New Deal clamped down on labor as well as on others and used the word "frozen" instead of "stabilization". It's time, too, the labor leaders (or thugs) were treated as traitors when they pull workers off jobs or swing baseball bats on nonconformists.

* * *

Secretary pleased at what
Mr. Kuhn did in connection
with this.

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RECEIVED

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

September 18, 1942

TO Secretary Morgenthau
FROM Ferdinand Kuhn, Jr.

Congressman Celler made a vicious speech yesterday about silver, speaking of a "vast hoard" at West Point which industry cannot touch, and making similar misstatements throughout his speech. He urged repeal of the silver legislation, and said that if the Treasury still insisted on "hoarding" its silver stock, it should have its knuckles cracked.

I have asked Mr. Shea (Larry Bernard's successor) to show Mr. Celler our two press releases on silver, and to point out the misstatements he had made. Also, I suggested to Mr. Shea that he should get our two statements on silver printed in the Congressional Record, and that someone should reply to Celler on the floor of the House.

J. K.

September 18, 1942

Exports to Russia, Free China and selected blocked countries as reported to the Treasury Department during the eleven-day period ending August 31, 1942

1. Exports to Russia

Exports to Russia as reported to the Treasury Department during the eleven-day period ending August 31, 1942 amounted to \$112,492,000. Among the military equipment exported were 108 bombers, 148 fighter planes, and 508 tanks. (See Appendix C.)

2. Exports to Free China

Exports to Free China, as reported during the period under review amounted to \$2,850,000, as compared with \$3,066,000 during the same period in July, 1942. Non-military exports accounted for the total amount. (See Appendix D.)

3. Exports to selected blocked countries

Exports to selected blocked countries are given in Appendix A. Most important were exports to Sweden amounting to \$1,892,000.

ISP/efe 9/18/42

SECRET

REF ID: A66207

**SUMMARY OF UNITED STATES DOMESTIC EXPORTS TO SELECTED
COUNTRIES AS REPORTED TO THE TREASURY DEPARTMENT
FROM EXPORT DECLARATIONS RECEIVED DURING
THE PERIOD INDICATED 1/**

	11-Day Period ended Aug. 31, 1942	10-Day Period ended Aug. 20, 1942	Total Domestic Exports August 1, 1942 to August 31, 1942	Total Domestic Exports July 28, 1941 to July 31, 1942
U. S. S. R.	\$112,492	\$23,325	\$150,787	\$742,941
Free China	2,850	192	3,250	97,720
Spain	227	48	305	2,858
Switzerland	124	167	648	11,537
Syria	1,892	324	2,476	18,056
Portugal	161	5	167	9,743
French North Africa 2/	117	1,773	1,919	6,305

Treasury Department, Division of Monetary Research

September 17, 1942

Many of the export declarations are received with a lag of several days or more. Therefore this compilation does not accurately represent the actual shipment of a particular period.

1/ Includes Morocco, Algeria, and Tunisia.

7-af 9/17/42

Regraded Unclassified

APPENDIX B

Exports from the U. S. to Free China and U.S.S.R.
as reported to the Treasury Department
July 28, 1941 - August 31, 1942 1/

(Thousands of Dollars)

	<u>Exports to Free China</u>	<u>Exports to U.S.S.R.</u>
July 28, 1941 - Jan. 24, 1942	\$ 32,758	\$ 98,902
<u>1942</u>		
Jan. 26 - Jan. 31	6,938	9,608
Feb. 1 - Feb. 10 2/	4,889	13,315
Feb. 10 - Feb. 20	4,853	26,174
Feb. 20 - Feb. 28 3/	2,921	28,119
Mar. 1 - Mar. 10	2,879	32,509
Mar. 10 - Mar. 20	8,058	28,556
Mar. 20 - Mar. 31 4/	2	42,435
Apr. 1 - Apr. 10	4,836	51,698
Apr. 11 - Apr. 20	5,335	66,906
Apr. 21 - Apr. 30	2,827	50,958
May 1 - May 10 5/	296	28,652
May 11 - May 20	1,872	18,000
May 21 - May 31 4/	2,533	26,180
June 1 - June 10	3,399	12,764
June 11 - June 20	2,707	53,799
June 21 - June 30	1,664	49,919
July 1 - July 10	7,900	35,657
July 11 - July 20	590	33,940
July 21 - July 31 4/	3,066	35,669
Aug. 1 - Aug. 10	208	14,970
Aug. 11 - Aug. 20	192	23,325
Aug. 21 - Aug. 31 4/	<u>2,850</u>	<u>112,492</u>
Total	\$ 103,573	\$ 894,548

1. These figures are in part taken from copies of shipping manifests.
2. Beginning with February 1 figures are given for 10-day period instead of week except where otherwise indicated.
3. 8-day period.
4. 11-day period.
5. Due to changes in reporting procedure by the Department of Commerce this report is incomplete for the period indicated.

Treasury Department, Division of Monetary Research September 18, 1942

F/ofs 9/18/42

APPENDIX C

Principal Exports from U. S. to U. S. S. R.
as reported to the Treasury Department
during the eleven-day period ending
August 31, 1942

	Unit of <u>Quantity</u>	<u>Quantity</u>	Value (Thousands of Dollars)
TOTAL EXPORTS			\$ 112,492
Principal Items:			
Aircraft			
Medium bombers (2 eng. B-25)	No.	3	25,636
Light bombers (2 eng. A-20)	No.	105	
Fighters (P-39)	No.	15	
Fighters (P-40)	No.	133	
Military tanks			
Light, M-3	No.	78	21,776
Light, M-3 - Al	No.	4	
Light, n.e.s.	No.	217	
Medium, M-3	No.	131	
Medium, M-3 - Al	No.	1	
Medium, n.e.s.	No.	77	
Ammunition			
9 m.m. balls	Round	1,000,000	15,936
.30 caliber	Round	72,351,580	
.32, .38 and .45 caliber balls	Round	14,724,000	
.32, .38 and .45 caliber magazines	No.	1,874,000	
.455 caliber balls	Round	3,000,000	
.50 caliber	Round	10,271,150	
Shotgun shells	No.	100,000	
2" mortar shells	No.	10,734	
81 m.m. mortar shells	No.	74,891	
Armor piercing shells	No.	248,094	
Armor piercing shot	No.	77,440	
High explosive shells	No.	161,848	
75 m.m. armor piercing shot	No.	99,166	
75 m.m. semi-armor piercing shells	No.	3,906	
75 m.m. high explosive shells	No.	86,541	
75 m.m. howitzer high explosive shells	No.	50,475	
75 m.m. howitzer shrapnel	No.	21,420	
Anti-aircraft artillery 37 m.m. armor piercing shot	Round	15,400	

APPENDIX C

	<u>Unit of Quantity</u>	<u>Quantity</u>	<u>Value (Thousands of Dollars)</u>
Ammunition (con't)			
For aircraft 20 m.m. tracers	Round	50,160	
For aircraft 20 m.m. high explosive	Round	48,120	
Anti-aircraft 90 m.m. high explosive shells	No.	8,001	
20 m.m. (Oerlikon) tracers	Round	32,000	
20 m.m. (Oerlikon) high explosive shells	Round	275,720	
Aircraft parts	-	-	6,480
Sub-machine guns, .45 caliber	No.	25,000	5,675
Pork sausage and beef	Lb.	10,372,531	3,078
Steel bars and rods	Lb.	37,097,963	2,687
Rotating converters	No.	2,360	2,312
Chemicals and related products, n.e.s.	-	7,272,433	1,660
Iron and steel wire manufactures	Lb.	11,275,907	1,542

Treasury Department, Division of Monetary Research September 18, 1942

ISF/efs 9/18/42

APPENDIX D

**Principal Exports from U. S. to Free China
as reported to the Treasury Department
during the eleven-day period ending
August 31, 1942**

(Thousands of Dollars)

TOTAL EXPORTS

\$ 2,850

Principal Items:

Machinery and vehicles, n.e.s.	571
Printed matter	565
Truck, bus and automobile casings	476
Automobile parts	274
Chemicals and related products, n.e.s.	237
Lubricating oils, n.e.s.	130

Treasury Department, Division of Monetary Research September 18, 1942

SF/efs 9/18/42

211-A

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Sept. 18, 1942

TO Secretary Morgenthau

FROM Mr. Hoflich

Subject: Shipment of Planes and Tanks to the U.S.S.R.

During the period September 1 - 10, 1942,
a total of 31 planes (7 fighters, 24 light
bombers) and 62 medium tanks left the United
States for the Soviet Union.

- 2 -

Table AShipments of Planes and Tanks from the
United States to the U. S. S. R.*

	Shipments during <u>September 1 - 10, 1942</u>	Cumulative Total January 1, 1942 to <u>September 10, 1942</u>
<u>Planes</u>		
Fighters	7	878
Bombers	<u>24</u>	<u>773</u>
Total	31	1,651
<u>Tanks</u>		
Light	0	1,325
Medium	<u>62</u>	<u>1,265</u>
Total	62	2,590

* Based on export declarations received.

- 3 -

Table BShipments of Planes and Tanks to the
U.S.S.R. by Months *

	<u>Fighters</u>	<u>Bombers</u>	<u>Total Planes</u>	<u>Light Tanks</u>	<u>Medium Tanks</u>	<u>Total Tanks</u>
January, 1942	56	4	60	20	22	42
February	123	115	238	172	38	210
March	68	170	238	159	258	417
April	120	54	174	287	216	503
May	52	42	94	94	45	139
June	127	104	231	143	206	349
July	123	134	257	151	157	308
August	202	126	328	299	261	560
September 1 - 10	<u>7</u>	<u>24</u>	<u>31</u>	<u>0</u>	<u>62</u>	<u>62</u>
Total 1942 to September 10	878	773	1,651	1,325	1,265	2,590

* Based on export declarations received.

SEP 18 1942

Mr. E. R. Stettinius, Jr.
Administrator
Office of Lend Lease Administration
515 - 22nd Street, N.W.
Washington, D. C.

Dear Mr. Stettinius:

Thank you so much for the advance copy of
the President's Sixth Report to Congress on Lend-Lease
Operations, which was forwarded with your letter of
September 11th.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Photostat file - Diary
Orig. file - Thompson's office

Written 9/15/42

Walsh/lfb

1 - Mr. Mack
2 - Mr. Eberly
3 - Mr. [unclear]

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

E. R. Stettinius, Jr.
Administrator

September 11, 1942

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

Dear Mr. Secretary,

We are pleased to send you herewith an advance copy of the President's Sixth Report to Congress on Lend-Lease Operations.

Please treat it as confidential until the President's letter of transmittal is read to Congress, which I understand will be on Monday.

We are very grateful for the assistance of the Treasury Department in the preparation of this report, especially the contributions of Mr. Eberly, in Clifton Mack's office, whose suggestions and criticisms of the various drafts were most constructive.

Sincerely yours,


E. R. Stettinius, Jr.

Enclosure.

SEPTEMBER 11, 1942.

CONFIDENTIAL: To be held in STRICT
CONFIDENCE and no

portion, synopsis, or intimation to be published or given out
until the READING of the President's Message transmitting
this report has begun in the Senate or the House of Represent-
atives. Extreme care must therefore be exercised to avoid
premature publication.

STEPHEN EARLY,
Secretary to the President.

.....
**SIXTH REPORT TO CONGRESS
ON LEND-LEASE OPERATIONS**

—————
For the Period Ended September 11, 1942
.....

.....

SIXTH REPORT TO CONGRESS ON LEND-LEASE OPERATIONS

For the Period Ended September 11, 1942

.....

"The President from time to time, but not less frequently than once every ninety days, shall transmit to the Congress a report of operations under this Act except such information as he deems incompatible with the public interest to disclose."

[From Section 5, subsection b of "An Act to Promote the Defense of the United States" (Public Law No. 11, 77th Congress, 1st Session).]

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II. Lend-Lease Appropriations and Authorizations.	21
III. Reciprocal Aid Agreements.....	22

PRESIDENT'S LETTER OF TRANSMITTAL

TO THE CONGRESS OF THE UNITED STATES OF AMERICA:

I am transmitting to the Congress the Sixth Quarterly Report on operations under the Lend-Lease Act.

As our men move overseas to battle they must and will have sufficient quantities of the best equipment the United States can produce. At the same time we must provide more weapons to the armies of our allies already in the fighting lines. Britain has been fighting the Nazis for three years, China is in her sixth year of war, and in Russia the war's greatest land front is more than a year old. From the beginning they have carried on without enough guns or tanks or planes. It is through their uphill fight that the war has not been lost. Only by strengthening our allies and combining their strength with ours can we surely win.

Deliveries of lend-lease supplies, which have been growing, will have to grow much larger still. We and the other United Nations need all the weapons that all of us can produce and all the men that all of us can muster. In relation to their available resources Britain and Russia have up to now produced more weapons than we have. And they are continuing to produce to the limit, in spite of the fact that Russia is a battlefield and Britain an offensive base. So far the United States has little more than passed the halfway mark towards maximum possible war production. Not until we have reached the maximum—and we can do this only by stripping our civilian economy to the bone—can our fighting men and those of our allies be assured of the vastly greater quantities of weapons required to turn the tide. Not until then can the United Nations march forward together to certain victory.

FRANKLIN D. ROOSEVELT.

THE WHITE HOUSE,
September 11, 1942.

Chapter 1

LEND-LEASE PROGRESS

In ever-increasing numbers American men are joining battle with the enemy on land, on sea, and in the air, alongside the men of other United Nations. American factories and workshops are furnishing our forces with the weapons and materials they must have. At the same time, under the lend-lease program, weapons must be provided in steadily increasing quantities to our allies so that the fighting power of the United Nations may become an overwhelming force.

Total Lend-Lease Aid

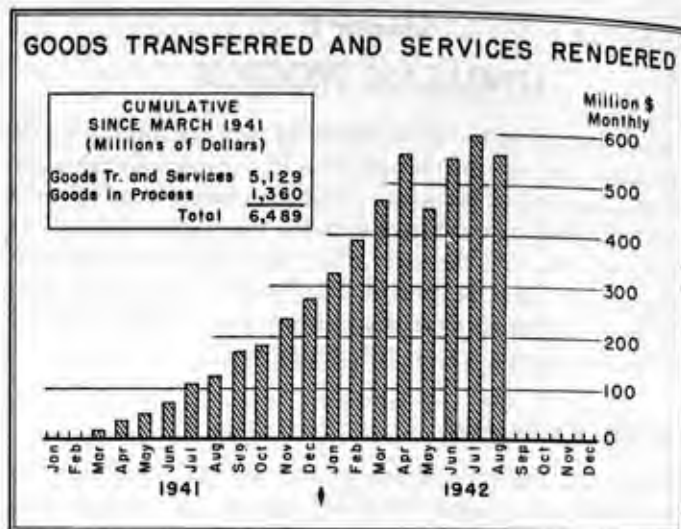
During the eighteen-month period, March 1941 through August 1942, the value of goods transferred and services rendered was \$5,129,000,000. Goods transferred comprise 79 percent of this amount and services rendered 21 percent. In addition, the value of lend-lease goods in process at August 31, 1942, was \$1,360,000,000.

Thus, the total amount of lend-lease aid to the end of August was \$6,489,000,000. This compares with \$4,497,000,000 as reported in the Fifth Report to Congress, three months ago. Currently, aid is being provided at a rate of approximately \$8,000,000,000 per year.

Goods Transferred

Goods transferred consist of (a), military items such as planes, tanks, guns, and ammunition; (b), industrial materials such as steel, petroleum products and machine tools; and (c), agricultural commodities, including principally foodstuffs. In August, military items comprised about 58 percent of total transfers, industrial materials 29 percent, and foodstuffs 13 percent.

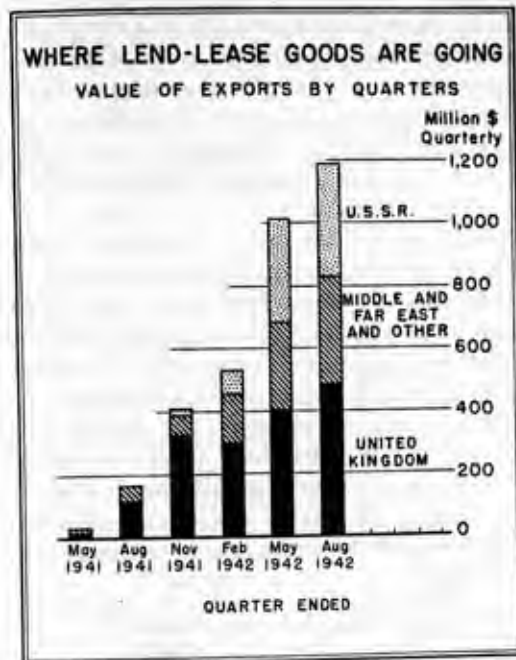
Of the goods transferred, approximately 90 percent have been exported and the remainder are at docks and warehouses awaiting export.



The portion of our total production of military items, industrial materials, and agricultural commodities that is transferred to lend-lease countries is determined by the expert military and civilian bodies in charge of the over-all war effort, not by the agencies charged with the immediate supervision of the lend-lease program. The most important consideration in this determination is the fact that the lend-lease program is an integral part of our over-all war effort. In deciding how much material is to go to United Nations, strategy officials must first determine the needs of the various fronts. The decision must then be made as to how the available material should be distributed in order to do the most harm to the enemy.

Lend-lease exports have gone wherever the needs have been greatest. At first, when the battle of Britain was raging, they went primarily to the United Kingdom. As the war spread to Africa, the Middle East, and Australia, aid was sent to those

areas. With the signing of the Russian protocol last October, aid began to flow to Russia. Aid to China has been limited by the difficulty of transportation, but the development of other means of transportation will relieve this situation. Currently, about 35 percent of lend-lease exports are going to United Kingdom, 35 percent to U. S. S. R., and 30 percent to the Middle East, Australia, and other areas.



Services Rendered

Services rendered include principally the repair in this country of ships of United Nations, the shipping necessary to carry goods to lend-lease countries, new factory and shipyard facilities built in the United States for the production of lend-lease goods, supply services performed in the base areas abroad, and the training in this country of United Nations air

forces. While the value of services rendered is not as great as the value of goods transferred, services are an important part of the lend-lease program and all parts contribute toward fighting the war. Goods cannot be used until they are transported to their destination and the repair of an aircraft carrier may be a service of greater importance than would be the furnishing of an equivalent value of tanks or guns.

Goods in Process

In considering total lend-lease aid, the complete picture is not obtained without including the value of goods in process. This category represents the value of articles ready to be transferred or articles for use in the assembly of other articles which will shortly be transferred. The figure is not to be confused with the value of goods "on order," but represents completed work for which expenditures have been made.

The figure shown in this report for goods in process represents only the value of goods in process procured from lend-lease appropriations to the President. (See Appendix II.) Lend-lease goods in process procured from lend-lease appropriations to the Army and Navy are intermingled with similar goods procured for the Army's and Navy's own use. In the case of tanks, for example, the portion destined for lend-lease use is not determined until assignment of the finished articles by the Munitions Assignments Board. Thus, the value of goods in process understates substantially the value of goods ready or shortly to be ready for transfer to lend-lease countries.

Lend-Lease Exports and Cash Purchases

Before the Lend-Lease Act was passed, the British and others of our allies had let contracts with American manufacturers for the production of planes, tanks, and other munitions of war. These orders, together with the lend-lease orders which followed, were largely responsible for the initial expansion of our war production facilities, without which the U. S. war program would not be as far along as it is today.

Not only has our war production been stimulated by the cash purchases of our allies, and by lend-lease orders, but

our own Army and Navy have been immeasurably helped by diversions to them of considerable of the material so financed.

The items called for by the original cash purchase orders of our allies are still coming off the assembly lines and are being exported side by side with items procured from lend-lease funds. Consequently, in considering the amount of weapons and materials obtained from the United States by our allies, we should consider not only the amount furnished under lend-lease but also the amount secured by direct purchase.

From March 1941 to the end of August 1942, the value of goods exported under lend-lease was \$3,525,000,000; in this same period the value of goods, including munitions, raw materials and other supplies, purchased by lend-lease countries was approximately \$5,800,000,000.

Lend-Lease Countries

Under the provisions of the Lend-Lease Act of March 11, 1941, lend-lease aid may be provided to the government of any country whose defense the President deems vital to the defense of the United States. The list now includes the British Commonwealth of Nations and 35 other countries:

Argentina	Egypt	*Nicaragua
*Belgium	*El Salvador	*Norway
*Bolivia	*France (Fighting)	Panama
*Brazil	*Greece	*Paraguay
Chile	Guatemala	*Peru
*China	*Haiti	*Poland
*Colombia	*Honduras	Turkey
*Costa Rica	*Iceland	*U. S. S. R.
*Cuba	Iran	*Uruguay
*Czechoslovakia	Iraq	*Venezuela
*Dominican Republic	*Mexico	*Yugoslavia
*Ecuador	*Netherlands	
	*British Commonwealth of Nations	

*Indicates countries with which Lend-Lease Agreements have been signed.

**A Lend-Lease Agreement has been signed with the United Kingdom of Great Britain and Northern Ireland, the principles of which have been accepted by the governments of Australia and New Zealand.

Chapter 2 SPECIAL PROJECTS

Lend-lease aid to be effective must be delivered. In wartime deliveries must frequently be made under conditions of great difficulty, in inadequate harbors, without the aid of modern cargo-handling facilities. To facilitate such deliveries a program has been undertaken with lend-lease funds for the construction of various types of small craft, including harbor tugs, coasters and coastal tankers, small light-draft tow boats of specialized design, and a large number of small wood barges for use in shallow rivers.

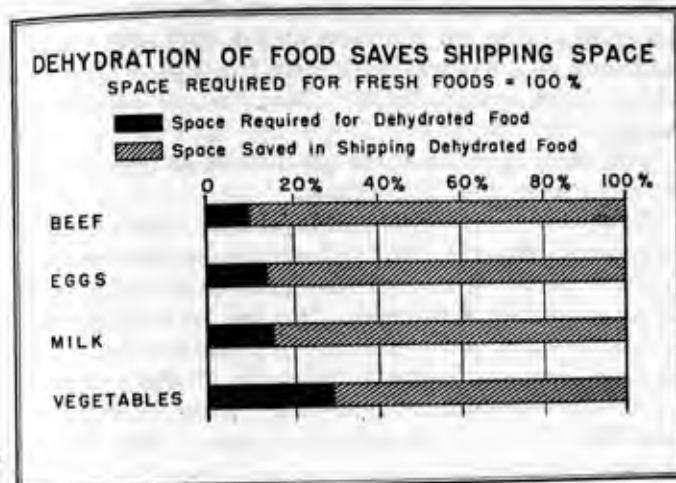
Some of these craft are already in service, others are now going into commission, and most of the remainder will be in service by summer of the coming year.

In addition, lend-lease funds have been used to finance the building and testing of a shallow-draft cargo vessel of novel design, originally known as the "Sea Otter." Experiments on small-sized models of this vessel were not conclusive. Accordingly, it was determined to build a full-sized vessel for further development, and lend-lease funds made this possible. Tests on this first full-sized ship brought to light defects which called for redesigning. In order that the possibilities of a vessel of this type might be fully explored, the Lend-Lease Administration continued its help by financing the construction of a second full-scale model of a modified design, known as the "Seamobile."

The development of this type of ship has been entrusted to a corporation, known as "Cargoes, Incorporated," under the control of a Board of Directors, on which the Navy Department, War Shipping Administration, War Department, War Production Board, and the Office of Lend-Lease Administration are represented. All the stock in this corporation is owned by the Government. Cargoes, Incorporated, has now completed the necessary tests and engineering for a full-scale

model of the Seamobile, and bids are being solicited for the construction of the vessel.

Lend-lease funds have also been used to save shipping space and refrigeration capacity by the development of dehydrated foodstuffs. Dehydrated foods not only withstand the rigors of wartime transportation but require much less cargo space than is necessary for other foods, as shown by the accompanying chart. Packaging has been improved and progress has



been made in selecting foods with a high ratio of nutritive value. The result is that, on the average, a thousand tons of food exported today are the equivalent in food value of nearly two thousand tons of food exported in the early days of the lend-lease program.

These various special projects have pointed the way to an important function which lend-lease funds can perform. War places a high premium on ingenuity. Within the Lend-Lease Act and with the use of lend-lease funds there is ample scope and opportunity for the testing and development of new ideas that may help to win the war.

Chapter 3

LEND-LEASE AGREEMENTS

Ever since we began giving aid to our allies, our allies have been giving aid to us. On September 3, 1942, this informal pooling of resources was made formal in signed agreements with United Kingdom, Australia, New Zealand, and Fighting France.

With these agreements, the program of reciprocal aid to our forces enters upon a new phase.

The agreements rest on the simple principle that each participant provide the other with such articles, services, facilities, or information as each may be in a position to supply for the joint prosecution of the war. The rule to be followed in providing mutual aid is that the war production and war resources of each nation should be used by all United Nations' forces in ways which most effectively utilize the available materials, manpower, production facilities, and shipping space.

The agreements signed on September 3 carry forward the application of these principles in certain important ways. They specify, in the first instance, that while each participant retains the right of final decision with reference to its own war production and war resources, decisions as to the most effective use of resources shall, so far as possible, be made in common, pursuant to common plans for winning the war. In the second place, they provide, as to financing the provision of such aid, that the general rule to be applied is that as large a portion as possible of the articles and services which each participant may authorize to be provided to the other shall be in the form of reciprocal aid, so that the need of each for the currency of the other may be reduced to a minimum.

The agreements then go on to specify certain specific types of assistance which are being provided and will increasingly be provided for our armed forces abroad: Military equipment, munitions, and military and naval stores; supplies, materials, facilities, and services for the forces, except for the pay and allowance of such forces, administrative expenses, and such local purchases as may be made outside the usual channels. The construction of military projects, tasks, and other capital works will be facilitated under this program of reciprocal aid, both in the territories of the participants in the agreement, and wherever those territories are a more practicable source of supply than the United States or another of the United Nations.

The program of reciprocal lend-lease has become a very material and important aspect of our supply problem. It puts the idea of pooling all our resources for war in its most dynamic form. It is more than a gracious and much appreciated gesture of good will. Reciprocal aid represents the most economical use of the war resources of the United Nations. It means that we are husbanding time and transport to use resources where they are. It means, also, of course, that the peoples of Britain, Australia, and New Zealand, already on short rations, are freely sharing what they have with our troops.

Under reciprocal lend-lease General MacArthur's men are receiving munitions, uniforms, food, and shelter from the Australians. Similarly, United States forces are receiving aid from New Zealand. The Fighting French in Equatorial Africa and New Caledonia are furnishing us with materials, facilities, and services. In Great Britain we are receiving a formidable amount of munitions and supplies. Guns and camps, aircraft and military stores have been turned over to our troops. In July alone, a quarter of a million British workmen were engaged on construction for the American Army.

In the recent reciprocal-aid agreements, the governments of Australia and New Zealand announce that they regard the principles of the Lend-Lease Agreement with Great Britain, of February 23, 1942, as applicable also to their relations with

the United States. They thus become the eleventh and twelfth governments to adhere to the broad policies contained in the Master Agreements with Great Britain, the Soviet Union, and China. Since the Fifth Report to the Congress on operations under the Act of March 11, 1941, similar agreements have been signed with Poland, Belgium, the Netherlands, Greece, Czechoslovakia, Norway, and Yugoslavia.

The lend-lease principle also has been applied to relations between other United Nations. The United Kingdom, for instance, is so supplying military stores to the Soviet Union.

The last Lend-Lease Report to Congress set forth a principle for distributing the financial burden of the war among the United Nations in accordance with their ability to contribute to the common pool. The passage of the Lend-Lease Act meant that the dollar sign would not stand in the way of our aid to the other United Nations. The reciprocal aid agreements and the arrangements between the United Kingdom and the Soviet Union demonstrate that the lend-lease policy is becoming a model for assistance furnished by our allies.

APPENDICES

Appendix I LEND-LEASE ACT

Further to promote the defense of the United States, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as "An Act to Promote the Defense of the United States."

Section 2.

As used in this Act—

(a) The term "defense article" means—

- (1) Any weapon, munition, aircraft, vessel, or boat;
- (2) Any machinery, facility, tool, material, or supply necessary for the manufacture, production, processing, repair, servicing, or operation of any article described in this subsection;
- (3) Any component material or part of or equipment for any article described in this subsection;
- (4) Any agricultural, industrial or other commodity or article for defense.

Such term "defense article" includes any article described in this subsection manufactured or procured pursuant to section 3, or to which the United States or any foreign government has or hereafter acquires title, possession, or control.

(b) The term "defense information" means any plan, specification, design, prototype, or information pertaining to any defense article.

Section 3.

(a) Notwithstanding the provisions of any other law, the President may, from time to time, when he deems it in the interest of national defense, authorize the Secretary of War, the Secretary of the Navy, or the head of any other department or agency of the Government—

- (1) To manufacture in arsenals, factories, and shipyards under their jurisdiction, or otherwise procure, to the extent to which funds are made available therefor, or contracts are authorized from time to time by the Congress, or both, any defense article for the government of any country whose defense the President deems vital to the defense of the United States.

(2) To sell, transfer title to, exchange, lease, lend, or otherwise dispose of, to any such government any defense article, but no defense article not manufactured or procured under paragraph (1) shall in any way be disposed of under this paragraph, except after consultation with the Chief of Staff of the Army or the Chief of Naval Operations of the Navy, or both. The value of defense articles disposed of in any way under authority of this paragraph, and procured from funds heretofore appropriated, shall not exceed \$1,300,000,000. The value of such defense articles shall be determined by the head of the department or agency concerned or such other department, agency or officer as shall be designated in the manner provided in the rules and regulations issued hereunder. Defense articles procured from funds hereafter appropriated to any department or agency of the Government, other than from funds authorized to be appropriated under this Act, shall not be disposed of in any way under authority of this paragraph except to the extent hereafter authorized by the Congress in the Acts appropriating such funds or otherwise.

(3) To test, inspect, prove, repair, outfit, recondition, or otherwise to place in good working order, to the extent to which funds are made available therefor, or contracts are authorized from time to time by the Congress or both, any defense article for any such government, or to procure any or all such services by private contract.

(4) To communicate to any such government any defense information, pertaining to any defense article furnished to such government under paragraph (2) of this subsection.

(5) To release for export any defense article disposed of in any way under this subsection to any such government.

(b) The terms and conditions upon which any such foreign government receives any aid authorized under subsection (a) shall be those which the President deems satisfactory, and the benefit to the United States may be payment or repayment in kind or property, or any other direct or indirect benefit which the President deems satisfactory.

(c) After June 30, 1943, or after the passage of a concurrent resolution by the two Houses before June 30, 1943, which declares that the powers conferred by or pursuant to subsection (a) are no longer necessary to promote the defense of the United States, neither the President nor the head of any department or agency shall exercise any of the powers conferred by or pursuant to subsection (a); except that until July 1, 1946, any of such powers may be exercised to the extent necessary to carry out a contract or agreement with such a foreign government made before July 1, 1943, or before the passage of such concurrent resolution, whichever is the earlier.

(d) Nothing in this Act shall be construed to authorize or to permit the authorization of convoying vessels by naval vessels of the United States.

(e) Nothing in this Act shall be construed to authorize or to permit the authorization of the entry of any American vessel into a combat area in violation of section 3 of the Neutrality Act of 1939.

Section 4.

All contracts or agreements made for the disposition of any defense article or defense information pursuant to section 3 shall contain a clause by which the foreign government undertakes that it will not, without the consent of the President, transfer title to or possession of such defense article or defense information by gift, sale, or otherwise, or permit its use by anyone not an officer, employee, or agent of such foreign government.

Section 5.

(a) The Secretary of War, the Secretary of the Navy, or the head of any other department or agency of the Government involved shall, when any such defense article or defense information is exported, immediately inform the department or agency designated by the President to administer section 6 of the Act of July 2, 1940 (54 Stat. 714), of the quantities, character, value, terms of disposition, and destination of the article and information so exported.

(b) The President from time to time, but not less frequently than once every ninety days, shall transmit to the Congress a report of operations under this Act except such information as he deems incompatible with the public interest to disclose. Reports provided for under this subsection shall be transmitted to the Secretary of the Senate or the Clerk of the House of Representatives, as the case may be, if the Senate or the House of Representatives, as the case may be, is not in session.

Section 6.

(a) There is hereby authorized to be appropriated from time to time, out of any money in the Treasury not otherwise appropriated, such amounts as may be necessary to carry out the provisions and accomplish the purposes of this Act.

(b) All money and all property which is converted into money received under section 3 from any government shall, with the approval of the Director of the Budget, revert to the respective appropriation or appropriations out of which funds were expended with respect to the defense article or defense information for which such consideration is received, and shall be available for expenditure for the purpose for which such expended funds were appropriated by law, during the fiscal year in which such funds are received and the ensuing fiscal year; but in no event shall any funds so received be available for expenditure after June 30, 1946.

Section 7.

The Secretary of War, the Secretary of the Navy, and the head of the department or agency shall in all contracts or agreements for the disposition of any defense article or defense information fully protect the rights of all citizens of the United States who have patent rights in and to any such article or information which is hereby authorized to be disposed of and the payments collected for royalties on such patents shall be paid to the owners and holders of such patents.

Section 8.

The Secretaries of War and of the Navy are hereby authorized to purchase or otherwise acquire arms, ammunition, and implements of war produced within the jurisdiction of any country to which section 3 is applicable, whenever the President deems such purchase or acquisition to be necessary in the interests of the defense of the United States.

Section 9.

The President may, from time to time, promulgate such rules and regulations as may be necessary and proper to carry out any of the provisions of this Act; and he may exercise any power or authority conferred on him by this Act through such department, agency, or officer as he shall direct.

Section 10.

Nothing in this Act shall be construed to change existing law relating to the use of the land and naval forces of the United States, except insofar as such use relates to the manufacture, procurement, and repair of defense articles, the communication of information and other noncombatant purposes enumerated in this Act.

Section 11.

If any provision of this Act or the application of such provision to any circumstance shall be held invalid, the validity of the remainder of the Act and the applicability of such provision to other circumstances shall not be affected thereby.

APPROVED, March 11, 1941.

Appendix II

LEND-LEASE APPROPRIATIONS AND TRANSFER AUTHORIZATIONS

Of the total amount of lend-lease aid to date, approximately 90 percent has been provided from funds appropriated directly to the President for lend-lease purposes. The remainder has been provided by the War Department, Navy Department, and Maritime Commission from appropriations made to those agencies which contain provisions earmarking certain maximum amounts which can be used for lend-lease.

Detailed information on the maximum amount of lend-lease aid which can be provided by existing legislation is given in the following table.

Appropriations to the President

First Lend-Lease Appropriation Act.....	\$7,000,000,000
Second Lend-Lease Appropriation Act.....	5,985,000,000
Third Lend-Lease Appropriation (Fifth Supplement).....	5,425,000,000
	<hr/>
	\$18,410,000,000

Transfers Authorized from Other Appropriations

War Department—Third Supplemental.....	\$2,000,000,000
War Department—Fourth Supplemental.....	4,000,000,000
War Department—Fifth Supplemental.....	11,250,000,000
War Department—Sixth Supplemental.....	2,220,000,000
War Department—Military Appropriation Act, 1943.....	12,700,000,000
Navy Department—Naval Approp. Act (Ships).....	3,900,000,000
Navy Department—Naval Approp. Act (Articles).....	2,500,000,000
Navy Department—Sixth Supplemental.....	18,000,000
Maritime Commission—First Supplemental.....	1,296,650,000
Maritime Commission—Fifth Suppl. (Approp. Funds)...	1,500,000,000
Maritime Commission—Fifth Suppl. (Contr. Auth.).....	2,350,000,000
Other Departments—Third Supplemental.....	800,000,000
	<hr/>
	\$44,534,650,000

MAXIMUM AMOUNT OF AID THAT CAN BE PROVIDED..... \$62,944,650,000

Appendix III RECIPROCAL AID AGREEMENTS

Reciprocal-aid agreements with United Kingdom, Australia, New Zealand and Fighting France were concluded September 3, 1942, by the following exchanges of notes. The first three agreements were signed in Washington and the agreement with Fighting France was signed in London.

Agreement with United Kingdom

The Honorable CORDELL HULL,
Secretary of State, United States Department of State,
Washington, D. C.

SIR: In the United Nations declaration of January 1, 1942, the contracting governments pledged themselves to employ their full resources, military or economic, against those nations with which they are at war and in the Agreement of February 23, 1942, each contracting government undertook to provide the other with such articles, services, facilities or information useful in the prosecution of their common war undertaking as each may be in a position to supply. It is further the understanding of the Government of the United Kingdom of Great Britain and Northern Ireland that the general principle to be followed in providing mutual aid as set forth in the said Agreement of February 23, 1942, is that the war production and the war resources of both Nations should be used by the armed forces of each and of the other United Nations in ways which most effectively utilize the available materials, manpower, production facilities and shipping space.

With a view, therefore, to supplementing Article 2 and Article 6 of the Agreement of February 23, 1942, between our two Governments for the provision of reciprocal aid, I have the honour to set forth below the understanding of the Government of the United Kingdom of Great Britain and Northern Ireland of the principles and procedures applicable to the provision of aid by the Government of the United Kingdom of Great Britain and Northern Ireland to the armed forces of the United States and the manner in which such aid will be correlated with the maintenance of those forces by the United States Government.

1. While each Government retains the right of final decision, in the light of its own potentialities and responsibilities, decisions as to the most effective use of resources shall, so far as possible, be made in common, pursuant to common plans for winning the war.

2. As to financing the provision of such aid, within the fields mentioned below, it is the understanding of the Government of the United Kingdom of Great Britain and Northern Ireland that the general principle to be applied, to the point at which the common war effort is most effective, is

that as large a portion as possible of the articles and services which each Government may authorize to be provided to the other shall be in the form of reciprocal aid so that the need of each Government for the currency of the other may be reduced to a minimum.

It is accordingly the understanding of the Government of the United Kingdom of Great Britain and Northern Ireland that the United States Government will provide, in accordance with the provisions of, and to the extent authorized under, the Act of March 11, 1941, the share of its war production made available to the United Kingdom. The Government of the United Kingdom will provide on the same terms and as reciprocal aid so much of its war production made available to the United States as it authorizes in accordance with the Agreement of February 23, 1942.

3. The Government of the United Kingdom will provide the United States or its armed forces with the following types of assistance as such reciprocal aid, when it is found that they can most effectively be procured in the United Kingdom or in the British Colonial Empire:

- (a) Military equipment, munitions and military and naval stores.
- (b) Other supplies, materials, facilities and services for the United States forces, except for the pay and allowances of such forces, administrative expenses, and such local purchases as its official establishments may make other than through the official establishments of the Government of the United Kingdom as specified in paragraph 4.
- (c) Supplies, materials and services needed in the construction of military projects, tasks and similar capital works required for the common war effort in the United Kingdom or in the British Colonial Empire, except for the wages and salaries of United States citizens.
- (d) Supplies, materials and services needed in the construction of such military projects, tasks and capital works in territory other than the United Kingdom or the British Colonial Empire or territory of the United States to the extent that the United Kingdom or the British Colonial Empire is a more practicable source of supply than the United States or another of the United Nations.

4. The practical application of the principles formulated in this note, including the procedure by which requests for aid by either Government are made and acted upon, shall be worked out as occasion may require by agreement between the two Governments, acting when possible through their appropriate military or civilian administrative authorities. Requests by the United States Government for such aid will be presented by duly authorized authorities of the United States to official agencies of the United Kingdom which will be designated or established in London and in the areas where United States forces are located for the purpose of facilitating the provision of reciprocal aid.

5. It is the understanding of the Government of the United Kingdom of Great Britain and Northern Ireland that all such aid, as well as other aid, including information, received under Article 6 of the Agreement of February 23, 1942, accepted by the President of the United States or his authorized representatives from the Government of the United Kingdom will be received as a benefit to the United States under the Act of March 11, 1941.

Insofar as circumstances will permit, appropriate record of aid received under this arrangement, except for miscellaneous facilities and services, will be kept by each Government.

If the Government of the United States concurs in the foregoing, I would suggest that the present note and your reply to that effect be regarded as placing on record the understanding of our two Governments in this matter.

I have the honour to be, with the highest consideration, Sir, your most obedient, humble servant,

HALIFAX.

His Excellency the Right Honorable The Viscount HALIFAX, K. G.,
British Ambassador.

EXCELLENCY: I have the honor to acknowledge the receipt of Your Excellency's note of today's date concerning the principles and procedures applicable to the provision of aid by the Government of the United Kingdom of Great Britain and Northern Ireland to the armed forces of the United States of America.

In reply I wish to inform you that the Government of the United States agrees with the understanding of the Government of the United Kingdom of Great Britain and Northern Ireland as expressed in that note. In accordance with the suggestion contained therein, your note and this reply will be regarded as placing on record the understanding between our two Governments in this matter.

This further integration and strengthening of our common war effort gives me great satisfaction.

Accept, Sir, the renewed assurances of my highest consideration.

CORDELL HULL,
Secretary of State of the United States of America.

Agreement with Australia

The Honorable CORDELL HULL,
Secretary of State, Washington, D. C.

SIR: As contracting parties to the United Nations Declaration of January 1, 1942, the Governments of the United States of America and the Commonwealth of Australia pledged themselves to employ their full resources, military and economic, against those nations with which they are at war.

With regard to the arrangements for mutual aid between our two governments, I refer to the agreement signed at Washington on February 23, 1942, between the Governments of the United States of America and the United Kingdom on principles applying to mutual aid in the present war authorized and provided for by the Act of Congress of March 11, 1941, and have the honour to inform you that the Government of the Commonwealth of Australia accepts the principles therein contained as governing the provision of mutual aid between itself and the Government of the United States of America.

It is the understanding of the Government of the Commonwealth of Australia that the general principle to be followed in providing such aid is that the war production and war resources of both nations should be used by the armed forces of each, in the ways which most effectively utilize available materials, manpower, production facilities and shipping space.

I now set forth the understanding of the Government of the Commonwealth of Australia of the principles and procedure applicable to the provision of aid by the Government of the Commonwealth of Australia to the armed forces of the United States and the manner in which such aid will be correlated with the maintenance of those forces by the United States Government.

1. While each Government retains the right of final decision, in the light of its own potentialities and responsibilities, decisions as to the most effective use of resources shall, so far as possible, be made in common, pursuant to common plans for winning the war.

2. As to financing the provision of such aid, within the fields mentioned below, it is my understanding that the general principles to be applied to the point at which the common war effort is most effective, is that as large a portion as possible of the articles and services which each Government may authorize to be provided to the other shall be in the form of reciprocal aid so that the need of each Government for the currency of the other may be reduced to a minimum.

It is accordingly my understanding that the United States Government will provide, in accordance with the provisions of, and to the extent authorized under, the Act of March 11, 1941, the share of its war production made available to Australia. The Government of Australia will provide on the same terms and as reciprocal aid so much of its war production made available to the United States as it authorizes in accordance with the principles enunciated in this note.

3. The Government of Australia will provide as reciprocal aid the following types of assistance to the armed forces of the United States in Australia or its territories and in such other cases as may be determined by common agreement in the light of the development of the war:

(a) Military equipment, ammunition and military and naval stores.

(b) Other supplies, material, facilities and services for the United States forces except for the pay and allowances of such forces, administrative expenses, and such local purchases as its official establishments may make other than through the official establishments of the Australian Government as specified in paragraph 4.

(c) Supplies, materials and services needed in the construction of military projects, tasks and similar capital works required for the common war effort in Australia and in such other places as may be determined, except for the wages and salaries of United States citizens.

4. The practical application of the principles formulated in this note, including the procedure by which requests for aid by either Government are made and acted upon, shall be worked out as occasion may require by agreement between the two Governments, acting when possible through their appropriate military or civilian administrative authorities. Requests

by the United States Government for such aid will be presented by duly authorized authorities of the United States to official agencies of the Commonwealth of Australia which will be designated or established in Canberra and in the areas where United States forces are located for the purpose of facilitating the provision of reciprocal aid.

5. It is my understanding that all such aid accepted by the President of the United States or his authorized representatives from the Government of Australia will be received as a benefit to the United States under the Act of March 11, 1941. Insofar as circumstances will permit appropriate record of aid received under this arrangement, except for miscellaneous facilities and services, will be kept by each Government.

If the Government of the United States concurs in the foregoing, I would suggest that the present note and your reply to that effect be regarded as placing on record the understanding of our two Governments in this matter.

I have the honor to be with the highest consideration, Sir, your obedient servant,

OWEN DIXON.

The Honorable Sir OWEN DIXON, K. C. M. G.,
Minister of Australia.

SIR: I have the honor to acknowledge receipt of your note of today's date concerning the principles and procedures applicable to the provision of aid by the Government of the Commonwealth of Australia to the armed forces of the United States of America.

In reply I have the honor to inform you that the Government of the United States of America likewise accepts the principles contained in the agreement of February 23, 1942, between it and the Government of the United Kingdom as governing the provision of mutual aid between the Governments of the United States and of the Commonwealth of Australia. My Government agrees with the understanding of the Government of the Commonwealth of Australia as expressed in your note of today's date, and, in accordance with the suggestion contained therein, your note and this reply will be regarded as placing on record the understanding between our two Governments in this matter.

This further integration and strengthening of our common war effort gives me great satisfaction.

Accept, Sir, the renewed assurances of my highest consideration.

CORBELL HULL,
Secretary of State of the United States of America.

Agreement with New Zealand

The Honorable CORBELL HULL,
Secretary of State,
United States Department of State,
Washington, D. C.

SIR: As contracting parties to the United Nations Declaration of January 1, 1942, the Governments of the United States of America and New Zealand pledged themselves to employ their full resources, military and economic, against those nations with which they are at war.

In the Agreement of February 23, 1942, between the Governments of the United Kingdom and of the United States of America, the provisions and principles of which the Government of New Zealand considers applicable to its relations with the Government of the United States, each contracting Government undertook to provide the other with such articles, services, facilities, or information useful in the prosecution of their common war undertaking as each may be in a position to supply.

It is the understanding of the Government of New Zealand that the general principle to be followed in providing such aid is that the war production and war resources of both nations should be used by each, in the ways which most effectively utilize available materials, manpower, production facilities and shipping space.

I now set forth the understanding of the Government of New Zealand of the principles and procedure applicable to the provision of aid by the Government of New Zealand to the armed forces of the United States and the manner in which such aid will be correlated with the maintenance of those forces by the United States Government.

1. While each Government retains the right of final decision, in the light of its own potentialities and responsibilities, decisions as to the most effective use of resources shall, so far as possible, be made in common, pursuant to common plans for winning the war.

2. As to financing the provision of such aid, within the fields mentioned below, it is my understanding that the general principle to be applied, to the point at which the common war effort is most effective, is that as large a portion as possible of the articles and services to be provided by each Government to the other shall be in the form of reciprocal aid so that the need of each Government for the currency of the other may be reduced to a minimum.

It is accordingly my understanding that the United States Government will provide, in accordance with the provisions of, and to the extent authorized under, the Act of March 11, 1941, the share of its production made available to New Zealand. The Government of New Zealand will provide on the same terms and as reciprocal aid so much of its production made available to the United States as it authorizes in accordance with the principles enunciated in this note.

3. The Government of New Zealand will provide the United States or its armed forces with the following types of assistance, as such reciprocal aid, when it is found that they can most effectively be procured in New Zealand.

(a) Military equipment, munitions and military and naval stores.
(b) Other supplies, materials, facilities and services for the United States forces, except for the pay and allowance of such forces, administrative expenses, and such local purchases as its official establishments may make other than through the official establishments of the Government of New Zealand as specified in Paragraph 4.

(c) Supplies, materials and services needed in the construction of military projects, tasks and similar capital works required for the common war effort in New Zealand, except for the wages and salaries of United States citizens.

(d) Supplies, materials, and services needed in the construction of such military projects, tasks, and capital works in territory other than New Zealand or territory of the United States to the extent that New Zealand is a more practicable source of supply than the United States or another of the United Nations.

4. The practical application of the principles formulated in this note, including the procedure by which requests for aid by either Government are made and acted upon, shall be worked out as occasion may require by agreement between the two Governments, acting when possible through their appropriate military or civilian administrative authorities.

5. It is my understanding that all such aid accepted by the President of the United States or his authorized representatives from the Government of New Zealand will be received as a benefit to the United States under the Act of March 11, 1941. Insofar as circumstances will permit, appropriate record of aid received under this arrangement, except for miscellaneous facilities and services, will be kept by each Government.

If the Government of the United States concurs in the foregoing, I would suggest that the present note and your reply to that effect be regarded as placing on record the understanding of our two Governments in this matter.

I have the honour to be, Sir,
Your obedient servant,

WALTER NASH,
Minister of New Zealand.

The Honorable WALTER NASH,
Minister of New Zealand.

Sir: I have the honor to acknowledge receipt of your note of today's date concerning the principles and procedures applicable to the provision of aid by the Government of New Zealand to the armed forces of the United States of America.

In reply I have the honor to inform you that the Government of the United States of America likewise considers the provisions and principles contained in the agreement of February 23, 1942, between it and the Government of the United Kingdom as applicable to its relations with the Gov-

ernment of New Zealand. My Government agrees with the understanding of the Government of New Zealand as expressed in your note of today's date, and, in accordance with the suggestion contained therein, your note and this reply will be regarded as placing on record the understanding between our two Governments in this matter.

This further integration and strengthening of our common war effort gives me great satisfaction.

Accept, Sir, the renewed assurances of my highest consideration.

CORDELL HULL,
Secretary of State of the United States of America.

Agreement with French National Committee

TEXT OF NOTE TO GENERAL DAHLQUIST FROM FRENCH NATIONAL COMMITTEE

The French National Committee sets forth below its understanding of the principles governing the provision of reciprocal aid by the United States of America to Fighting France and by Fighting France to the United States:

1. The United States of America will continue to supply Fighting France with such defense articles, defense services, and defense information as the President shall authorize to be transferred or provided.

2. Fighting France will continue to contribute to the defense of the United States of America and the strengthening thereof and will provide such articles, services, facilities, or information as it may be in a position to supply.

3. The fundamental principle to be followed in providing such aid is that the war production and war resources of Fighting France and of the United States of America should be used by the armed forces of each in the ways which most effectively utilize available materials, manpower, production facilities, and shipping space. While each retains the right of final decision, in the light of its own potentialities and responsibilities, decisions as to the most effective use of resources shall, so far as possible, be made in common, pursuant to common plans for winning the war.

4. As to financing the provision of such aid, within the fields mentioned below, it is the Committee's understanding that the general principle to be applied, to the point at which the common war effort is most effective, is that as large a portion as possible of the articles and services to be provided by each to the other shall be in the form of reciprocal aid.

It is accordingly the Committee's understanding that the United States Government will provide, in accordance with the provisions of, and to the extent authorized under, the Act of March 11, 1941, the share of its war production made available to Fighting France. Fighting France will provide on the same terms and as reciprocal aid so much of its war production made available to the United States as it authorizes in accordance with the principles enunciated in this note.

5. Within the territories under the control of Fighting France, or within the same theater of operations, the National Committee will provide the United States or its armed forces with the following types of assistance, as

such reciprocal aid, when it is found that they can most effectively be procured in territory under the control of Fighting France:

(a) Military equipment, munitions, and military and naval stores.

(b) Other supplies, materials, facilities, and services for the United States forces, except for the pay and allowances of such forces, administrative expenses, and such local purchases as its official establishments may make other than through the official establishments of Fighting France as specified in paragraph 6.

(c) Supplies, materials, and services, except for the wages and salaries of United States citizens, needed in the construction of military projects, tasks, and similar capital works required for the common war effort in territory under the control of Fighting France, or in the same theater of operations, to the extent that such territory is the most practicable source of supply.

6. The practical application of the principles formulated in this note, including the procedure by which requests for aid are made and acted upon, shall be worked out by agreement as occasion may require through the appropriate military or civilian administrative authorities. Requests by the United States forces for such aid will be presented by their duly authorized authorities to official agencies of Fighting France which will be designated or established in the areas where United States forces are located for the purpose of facilitating the provision of reciprocal aid.

7. It is the Committee's understanding that all such aid accepted by the President of the United States of his authorized representatives from Fighting France will be received as a benefit to the United States under the Act of March 11, 1941. Insofar as circumstances will permit, appropriate record of aid received under this arrangement, except for miscellaneous facilities and services, will be kept by each.

If the Government of the United States concurs in the foregoing, the present note and a reply to that effect will be regarded as placing on record the understanding in this matter.

TEXT OF NOTE TO FRENCH NATIONAL COMMITTEE FROM GENERAL DAHLQUIST

The Government of the United States of America agrees with the understanding of the National Committee, as expressed in the English text of the Committee's note of today's date, concerning the principles and procedures applicable to the provision of aid by Fighting France to the armed forces of the United States of America and, in accordance with the suggestion contained therein, that note and this reply will be regarded as placing on record the understanding in this matter.

SEP 18 1942

Dear Mr. Shanefield:

I am writing to thank you for the estimates of payments to be made to Canada by the Navy Department, the War Department, and the Maritime Commission, which you transmitted in your letter of September 8, 1942 to the Secretary.

Very truly yours,

(Signed) H. D. White

H. D. White
Assistant to the Secretary

Mr. Hale Shanefield,
Executive Secretary of
American Section,
Joint War Production Committee,
Social Security Building,
Room 9735,
Washington, D. C.

9/18/42 Mailed by Mr. White's office.

DK:rl 9/17/42

JOINT WAR PRODUCTION COMMITTEE
 CANADA AND UNITED STATES
 UNITED STATES SECTION
 COMMERCE BUILDING
 WASHINGTON, D. C.

SECRET

SECRET

SEP 1942

The Honorable
 The Secretary of the Treasury

Dear Mr. Secretary:

The Joint War Production Committee has secured estimates of payments for munitions and other war material and services to be made to Canada by the United States Navy Department, the War Department, and the Maritime Commission during the first and second quarters of the fiscal year 1943. These estimates of payments run to about \$350,000,000 in the second half of 1942.

No information was secured from Metals Reserve, although the Canadian Department of Munitions and Supply has estimated recently that in the calendar year 1942, the total sales of metals to the United States would equal \$141,000,000 (United States). This is an estimate of sales, merely, and would be affected by the lag in payments, or, by advance payments.

The following table gives forecasts of payments by the three reporting agencies:

	1942	
	July to September	October to December
Navy Department	\$ 11,075,000	\$ 15,175,000
War Department	92,000,000	128,000,000
Maritime Commission	54,000,000	52,000,000
TOTAL	\$157,075,000	\$195,175,000

These estimates may well prove too high. They are based upon schedules of deliveries embodied in the contracts awarded to War Supplies Limited. Our experience has been that these schedules have been too optimistic. In fact, they have generally been revised downward almost every month. Balancing against this tendency to overestimation is the factor of payments which may be made on account of contracts not yet negotiated. Furthermore, some contracts make provision for advance payments, if the

Canadian Government so requests. This is true in the case of the corvette contract, which provides for advance payments of over \$50,000,000 on the request of the Canadian Government, while the accompanying table assumes a regular distribution of payments over the term of the contract. Another uncertainty is introduced in the figures because the assignment of munitions to this country is determined each month in Ottawa and may greatly affect the estimates of payments by changing actual deliveries as compared with the schedule of deliveries.

The Economics and Statistics Branch of the Department of Munitions and Supply has recently estimated the value of production for United States and Canada in the third quarter of 1942 as \$127,000,000 and in the fourth quarter of 1942 as \$146,000,000. These figures are to be compared with our tabular totals of \$157,000,000 and \$195,000,000, respectively, although there are large possibilities of error to balance against this discrepancy.

It is hoped, however, that the estimates as here tabulated and interpreted will be of some value in the survey of Canada's dollar position. We have made arrangements to supply you in the future with quarterly estimates of payments to Canada at about the beginning of each quarter.

Sincerely yours,

Hal T. Shenefield

Hal T. Shenefield
Executive Secretary

SEP 18 1942

My dear Mr. Acheson:

This is in reply to your letter of August 22, in which you summarize the number of foreign service communications from Buenos Aires which relate to freezing laws, remittances, etc., which should have been transmitted to the Treasury Department, and the number which were actually transmitted.

I understand that all of the communications have now been received, and that the procedure for transmitting cables and dispatches in which the Treasury Department has an interest has been changed and that in the future all such dispatches and cables will be sent to us promptly. I wish to thank the officials in your Department for their cooperation in making these arrangements.

In the conference held in my office on August 6, it was understood that Mr. Cochran would prepare a report on his mission to Argentina and that this report would be made available to us. We would appreciate receiving any report or other data prepared by Mr. Cochran, as well as any other reports which may be prepared, relating to the mission.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Photostat file - Diary

The Honorable Dean Acheson, Orig. File to Dr. White's office direct
Assistant Secretary of State.
Department of State.

HG:JED:mcc - 9-15-42

White Paper
6



DEPARTMENT OF STATE
WASHINGTON

reply refer to
1840.51 Frozen Credits/7026

August 22, 1942

My dear Mr. Secretary:

In connection with the conversation which I had with you some days ago when Mr. Norman Armour and I called at your office, I have had a careful check made of Foreign Service communications from Buenos Aires upon matters relating to economic and financial controls over Axis interests, including freezing laws, remittances, etc. Of twenty-nine communications received on these subjects during the period checked, twenty-one had been forwarded to the Treasury Department prior to the making of the check. Six have been subsequently forwarded to the Treasury Department and the distribution of the remaining two is under investigation.

I have issued instructions that copies of all communications pertaining to the foregoing subject matters shall be promptly transmitted to you upon their receipt.

Sincerely yours

Dean Acheson
Dean Acheson
Assistant Secretary

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

SEP 17 1942

Personal and Confidential

My dear Mr. Price:

This is to acknowledge receipt of your letter of September 12, 1942, with which there was enclosed a copy of a letter of the same date transmitted to the Secretary of State in reference to the transmission of certain messages abroad.

Your cooperation in advising us of this matter is appreciated and it will receive the careful attention of this Department.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Mr. Byron Price,
Director, Office of Censorship,
Washington, D. C.

JWPehle:mgt 9/16/42

BJS

THE OFFICE OF CENSORSHIP
WASHINGTON

BYRON PRICE
DIRECTOR

September 12, 1942.

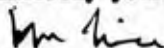
PERSONAL AND CONFIDENTIAL.

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

My dear Mr. Secretary:

Enclosed is a copy of a letter I am
sending today to the Secretary of State in
further reference to the transmission of messages
abroad through various media of the Catholic
Church. I also am sending a copy to the Attorney
General.

Sincerely yours,



Byron Price,
Director.

Enclosure

CONFIDENTIAL

September 12, 1942

Honorable Cordell Hull,
Secretary of State,
Department of State,
Washington, D. C.

Dear Mr. Secretary:

Recently many messages have been coming to the attention of the office of the Chief Cable Censor transferring large sums of money to Vatican City.

We are advised that on June 14, 1941, the Treasury Department issued General License No. 44, licensing as a generally licensed national the Roman Curia of the Vatican City State and all persons acting for and on its behalf. We are further advised that the Vatican City State has not been designated in Executive Order No. 8389 as amended, and the General License No. 44 was issued because nearly all those domiciled in the Vatican City State are Italian nationals, and as such are subject to the terms of Executive Order No. 8389 as amended, except as released by the General License No. 44. Further, the Vatican City State, as a generally licensed national, is subject to the additional restriction of General Ruling No. 11, which prohibits any transaction involving any trade or communication with an enemy national.

It appears that the General License No. 44 is very broad, and that under it any individual acting in the United States for or on behalf of the Vatican City State is considered a generally licensed national, even though he may be a national of a country mentioned in the Executive Order, and the same would appear to apply to any individual or firm acting for the Vatican and domiciled outside of the United States, provided such individual or firm is not an enemy national. A great number of these cables are addressed to the Instituto Opere Religiose Citadel Vaticano, which, we understand, is the fiscal agent of the Vatican City State. It is, therefore, obviously acting on behalf of the Vatican City State, and would come within the scope of General License No. 44, unless excluded by General Ruling No. 11.

We are also informed that under General License No. 44 the Treasury Department does not require a report on any transaction, and therefore does not have any knowledge of the transactions handled under this license, except such as is received on a voluntary basis through such sources as Censorship. Apparently the funds transferred under this General License are mingled with the accounts of the Vati-

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September 12, 1942

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Secretary of State,
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Washington, D. C.

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CONFIDENTIAL

- 2 -

can State and obviously not then under further control of our Government and would be subject to transfer to enemy territory as completely as any other Vatican funds. This could include exchange from American dollars to German marks or any other enemy currency, and the Treasury Department advises us that they do not know whether this is being done or not.

Recent press releases indicate that Catholic leaders in occupied territory are caring for children on a non-sectarian basis, and because of that the arrest of some of the priests has been reported. We do not know where the funds used by these priests came from, but it appears safe to assume that at least some of the money was transferred from this country through the Vatican.

We have also noted that one of the remitters to the Vatican has the same name as a party described in our records as a Nazi sympathizer.

In addition to the types of messages above described, there has been another type transferring a large number of Mass intentions from religious Orders in this country to the Vatican and to dioceses in Europe for the purpose of having these Masses celebrated. The number being sent to the Vatican indicates clearly that these Masses would not be said exclusively by the Vatican City priests, but would in turn be transmitted to priests in various countries.

It is our understanding that each of these Mass intentions carries a contribution made at the church where it is originally requested, and that it is the normal policy of the Church to transfer these contributions to the pastor of the Church in which the Mass is ultimately celebrated. If this be true, it would appear that the obvious intention is to ultimately transfer the contributions accompanying these requests either directly or through the Vatican to the parish of ceremony. It is quite possible that such transfers are already being effected indirectly.

Under this arrangement, the question arises as to whether or not the priests sending these Mass intentions are acting on behalf of the Vatican and would, therefore, come under License No. 44. We feel that they are not, particularly in the cases where the Mass intentions are not sent through the Vatican. We further believe that these messages come within the category of the negotiation of an ultimate transfer of funds, and that some of them unquestionably represent negotiations for an indirect transfer of money to enemy or enemy occupied territory. If this be true, we believe these messages would require a license.

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We naturally have no question whatever regarding the desirability of these messages from a spiritual standpoint, but just as naturally we do question the possible financial aspect of the problem and its probable resultant aid and comfort to the enemy.

We completely realize the question of political policy involved as well as the financial angle respecting the transfer of funds and credit; we are not satisfied with the situation from a standpoint of national security.

Should the Department of State effect a policy of permitting the Vatican Government to transfer such funds and communicate in respect to such transactions, we feel that every safeguard should be taken to assure that such will not result in aid and comfort to the enemy. We are frank to say the question perplexes us. We know of no existing method for transferring funds, or communicating with respect thereto, for the support or relief of missionaries or other religious groups now trapped in enemy controlled territory. Censorship would not pass communications addressed to them and filed normally through commercial sources, except upon duly authorized license plus the approval of same by the Department of State.

We feel it unwise to permit the passage of messages such as one, from some priest in the United States unknown to us to some unknown priest in Spain, transferring several hundred masses. If such is to be permitted and it is considered a proper function of the Catholic Church we feel it desirable that all such messages be directed through a single responsible source - that source should be the Department of State or the Apostolic Delegate. We might suggest that we have eliminated the general sending or receiving of messages by the various Red Cross Chapters throughout the country. They are now all being handled by the office of the Chief Cable Censor directly with National Red Cross Headquarters. It should be considered that if all such transactions and communications are to be handled by the Apostolic Delegate that the Delegate has diplomatic code privileges and there will be virtually no censorship on such transactions, and resultantly less information regarding them available to our Government.

It might be added that we have recently called to the attention of the Department of State two transit messages from the Japanese Delegate to the Vatican to a Japanese Minister in South America. Both of these messages were in code and the preamble of each indicated "VAT GOVT". This may have been an error in transmission, but the justifiable inference was that Vatican Government Code was being used for communications between these parties.

Honorable Cordell Hull

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In the absence of some definite national policy controlling this situation, we are considering the advisability of cancelling all such messages and permitting the passage of none of them unless, in each instance, formal application has been made for and license granted to communicate.

Sincerely yours,

Byron Price,
Director.

NOT TO BE RE-TRANSMITTEDCOPY NO. 13BRITISH MOST SECRET
U.S. SECRETOPTEL No. 325

Information received up to 7 A.M., 18th September, 1942.

1. NAVAL

No report has been received of any further attack on the Russian convoy which is estimated to be 25 miles North of the WHITE SEA entrance at six A.M. today. One of H.M. trawlers was attacked and sunk yesterday by two Focke Wulfs 190 off DUNGENESS. During the operations on TOBRUK on the 13th to 14th, four motor torpedo boats and two motor launches were lost.

2. MILITARY

MADAGASCAR. On the morning of the 17th, the Vichy delegates refused our armistice terms. In the North mopping-up operations continue in the MAROMANDIA area. On the road to TANANARIVE, our advanced elements engaged a small enemy force five miles south of ANDRIBA.

3. AIR OPERATIONS

WESTERN FRONT. ESSEN. 232 aircraft, including 111 heavy, dropped about 190 tons of high explosive and 287 tons of incendiaries, including one 8,000 lb. and 71 4,000 lb. bombs. Broken cloud and heavy ground haze greatly hindered identification but pathfinders assisted with flares. A good concentration of fires was reported in the ESSEN area and many others over a wide extent. One large fire was seen in the approximate position of Krupps and one exceptionally large explosion was reported in the Target Area. Anti-aircraft fire was intense over the objective and over the Dutch coast.

17th. Hampdens attacked a convoy off Southwest NORWAY hitting a 6,000 vessel with two torpedoes and a 2,000 ship with one torpedo. Beaufighters west of BREST shot down one four-engined Focke Wulf and two Junkers 88. One Beaufighter is missing. Four enemy aircraft crossed the south coast, one was destroyed and another damaged. Two Spitfires are missing.

17th/18th. 21 aircraft were despatched sea mining 6, shipping BORDEAUX 11, leaflets 4, one aircraft is missing. Nine enemy aircraft operated off the East coast. One was destroyed and two damaged. One Boston is missing from Intruder operations.

EGYPT. 15th/16th. TOBRUK HARBOUR was again bombed. 16th. R.A.F. and U.S. Liberators hit two ships with bombs at BUNGRAZI. In the Battle Area, two enemy aircraft were destroyed, one probably destroyed and seven damaged for the loss of one fighter.

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CRETE. U.S. Liberators hit one ship and possibly a second at SUDA BAY.

MALTA. 16th/17th. Two enemy fighters were destroyed, three probably destroyed and three damaged. One Spitfire is missing, pilot safe.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE Sept. 18, 1942

TO Secretary Morgenthau

FROM Mr. Hoflich

Subject: Of Possible Interest: Article and Map on Russian Oil

You may be interested in the brief article "Axis drive to Caucasus imperils Russia's main oil supply" in the ~~attached~~ copy of World Petroleum for September, 1942 (page 22) and the accompanying oil map of Western U.S.S.R. (page 23).

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Saturday, September 19, 1942.

Press Service
No. 33-34

The Secretary of the Treasury today announced the final subscription and allotment figures with respect to the current offering of 0.65 percent Treasury Certificates of Indebtedness of Series C-1943 and of 1-1/4 percent Treasury Notes of Series C-1945.

Subscriptions and allotments were divided among the several Federal Reserve Districts and the Treasury as follows:

<u>Federal Reserve District</u>	<u>Treasury Certificates of Indebtedness, Series C-1943</u>		<u>Treasury Notes, Series C-1945</u>	
	<u>Total sub- scriptions received</u>	<u>Total sub- scriptions allotted</u>	<u>Total sub- scriptions received</u>	<u>Total sub- scriptions allotted</u>
Boston	\$ 76,828,000	\$ 58,265,000	\$ 205,103,500	\$ 89,810,000
New York	796,913,000	598,856,000	1,395,075,400	591,894,900
Philadelphia	68,155,000	51,767,000	147,486,000	65,798,000
Cleveland	91,585,000	69,792,000	174,296,200	79,256,200
Richmond	70,531,000	53,606,000	198,923,800	87,804,800
Atlanta	56,161,000	42,791,000	252,202,500	123,290,000
Chicago	507,208,000	382,903,000	532,806,300	237,871,800
St. Louis	73,301,000	56,025,000	98,781,900	48,189,300
Minneapolis	41,878,000	32,466,000	65,357,100	32,978,100
Kansas City	57,960,000	44,248,000	107,355,300	49,976,000
Dallas	40,831,000	31,181,000	107,966,800	49,430,300
San Francisco	111,132,000	83,827,000	347,384,100	148,241,000
Treasury	-	-	3,900,000	1,638,000
TOTAL	\$1,992,483,000	\$1,505,727,000	\$3,636,638,900	\$1,606,178,400

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 19,
1942

TO Secretary Morgenthau
FROM Mr. Haas
Subject: The Patman Plan and Other Methods of Borrowing
from the Banks at No Interest or Less than the
Market Rate

SUMMARY

- (1) Representative Patman (in H. R. 6391) proposes that no further interest-bearing securities shall be issued to any bank receiving demand deposits, nor shall any such bank increase its holdings of such securities beyond the amount held on December 31, 1941. All further borrowing from banks would be done by the issuance of noninterest-bearing bonds to the Federal Reserve Banks. The issuance of interest-bearing securities to non-banking investors would continue as at present.
- (2) The Patman plan would require considerable technical amendment before it could be put into practice. If it were so amended, however, it would be no more inflationary than is the present method of borrowing and would result in a substantial interest saving to the Treasury. Bank earnings would be reduced, and it might be necessary to subsidize some or all of the banks.
- (3) The same objectives as those sought by the Patman plan could be accomplished by a system of direct allocation to commercial banks of securities bearing no interest or a low rate of interest. As compared with the Patman plan, such a plan would have the advantage of avoiding any direct subsidy to the banks.

Secretary Morgenthau - 2

In accordance with your request, the following analysis has been prepared of the proposal of Representative Patman for the issuance of noninterest-bearing bonds to the Federal Reserve Banks and of other proposals for securing the same objective -- i.e., of eliminating or reducing the interest cost to the Treasury of borrowing from commercial banks.

I. What Representative Patman Proposes

Representative Patman has introduced two bills* providing for the issuance of noninterest-bearing securities to the Federal Reserve Banks. The two bills differ in their details, but present the same general plan. H. R. 6391, the more comprehensive of the two, may be briefly summarized as follows:

- (1) The Secretary of the Treasury, with the approval of the President, may issue noninterest-bearing, non-negotiable bonds to the Federal Reserve Banks.
- (2) No further interest-bearing securities may be issued to any bank receiving demand deposits; nor shall any such bank hold, at any time, any amount of interest-bearing United States securities in excess of the amount held by it on December 31, 1941.
- (3) No further dividends shall be paid on the stock of the Federal Reserve Banks. After the Federal Reserve Banks have accumulated a surplus equal to their paid-in capital stock, all further earnings shall be paid into the general fund of the Treasury.

II. Analysis of the Patman Proposal

(1) Every dollar borrowed by issuing noninterest-bearing bonds to the Federal Reserve Banks, as Representative Patman proposes, would result in the creation of a dollar of bank deposits. This would, of course, be inflationary, but no more inflationary than the sale of an equal amount of interest-bearing securities to commercial banks.

(2) Representative Patman leaves the door open for paying interest on securities sold to non-banking investors. Assuming that every effort would still be made to do this even if his proposal should be adopted, the point of inflationary deposit-creation cannot be logically urged against it.

* H. R. 6391, introduced January 19, 1942, and H. R. 7230, introduced June 15, 1942.

Secretary Morgenthau - 3

(3) The obvious advantage of the proposal is that it would result in a substantial saving of interest to the Treasury. Since this advantage is by no means inconsiderable, it is well worth analyzing the further effects of the proposal.

(4) For every dollar of additional deposits which commercial banks would receive as a result of the sale of noninterest-bearing bonds to the Federal Reserve Banks by the Treasury, they (the commercial banks) would receive per contra a dollar of reserves. These reserves would yield no interest and about four-fifths of them would be "excess". The effect of this would be to decrease bank earnings while increasing the capacity of the banks to acquire earning assets other than Government securities. This would naturally cause the banks to strike out in all directions for additional earning assets -- i.e., to endeavor to drum up new loans and to buy up outstanding State, municipal and corporate securities. If this were allowed to happen, it would be highly inflationary; and no provision is made in either of the Patman bills for preventing it. Such provision might easily be made, however, either by direct control of bank loans and investments or by increasing reserve requirements, or both. If such provision were made, borrowing under the Patman plan would be no more inflationary than borrowing by the sale of an equal amount of interest-bearing securities to commercial banks.

(5) If the precautionary measures just discussed were adopted, the net effect of the plan would be to decrease bank earnings. This is, of course, merely the other side of the interest saving to the Treasury.

(6) The gross earnings of banks serve the two purposes of (a) paying their expenses and (b) providing a return on their capital funds. The first of these purposes (insofar, at least, as it pertains to the mechanical handling of deposits) is socially necessary and would have to be met by the Government if it were not met by the banks. The second purpose -- that of providing a return on capital funds -- is also necessary if a privately owned banking system is to be continued. Bank earnings are now adequate for both of these purposes. For the calendar year 1941 -- the latest period for which data are available -- the "net current earnings" (after taxes) of all member banks amounted to \$429 millions. This was the highest since 1931 and amounted to about 7.4 percent on their capital funds.

Secretary Morgenthau - 4

(7) The sale during the next several years of a large volume of interest-bearing Government securities to commercial banks would increase their gross earnings substantially but would increase their expenses only slightly. It would result, therefore, in record-breaking bank earnings during a time of national crisis. The Patman plan would prevent this and, if modified as previously suggested, would be no more inflationary than present borrowing practices.

(8) Since commercial banks make no "sacrifice" in lending money to the Government, the only valid criterion of the interest which they should be allowed to receive is enough to cover their expenses and allow them a reasonable return on the stockholders' investment. Under the Patman plan the banks would receive no interest whatever on future Government borrowings. If earnings from other sources should prove inadequate for the purposes just outlined, it would be necessary either to subsidize some or all of the banks directly or to permit them to expand their other loans and investments. Such an expansion (for the purpose of maintaining bank earnings) would be inflationary beyond present borrowing methods.

III. Other Methods of Borrowing from the Banks at No Interest or at Less-than-Market Rates

All borrowing which involves the creation of bank deposits is ultimately done from the persons holding the deposits. It is they who forego current consumption and thereby make a "sacrifice". The Patman plan places two "middlemen" -- the Federal Reserve Banks and the commercial banks -- between the ultimate borrower and the ultimate lenders. It would be possible to apply essentially the same system with only a single "middleman" -- the commercial banks.

In such a case, Government securities bearing no interest, or a rate of interest less than the market, would be "allocated" to commercial banks. The advantages and disadvantages of such a plan, as compared with the Patman plan, may be summarized as follows:

- (1) The Patman plan involves borrowing from the "central bank". Although such borrowing is no more intrinsically inflationary than

Secretary Morgenthau - 5

borrowing from commercial banks (provided, of course, that proper precautions are taken, as outlined in the preceding section), it is traditionally associated with the idea of inflation. A system involving the direct allocation of Government securities to commercial banks might, therefore, cause less fear psychology than would borrowing directly from the Federal Reserve Banks.

- (2) A system of direct allocation of noninterest-bearing securities to commercial banks, on the other hand, might arouse more antagonism on the part of the banks than would be caused by the Patman plan (which accomplishes the same objective indirectly by increasing the noninterest-bearing "reserves" of the commercial banks).
- (3) Direct allocation of securities to commercial banks would involve a number of complexities with respect to criteria of allocation, etc. The same complexities would be involved, however, in controlling the excess reserves created by the Patman plan.
- (4) An advantage of direct allocation is that the matter of allowing the banks a "living wage" could be taken care of by allowing a small amount of interest on securities directly allocated.

The problem of allowing the banks a "living wage" is complicated by the fact that such a "wage" would vary a great deal between banks -- being generally higher for the smaller banks. This could be taken care of in a system of direct allocations if two securities were used -- say one at 1 percent, and another at 1/8 of 1 percent -- and different proportions of the two securities were allocated to different banks, depending upon their individual circumstances.



TREASURY DEPARTMENT

WASHINGTON

709 12th St., N. W.

WAR
SAVINGS STAFF

September 19, 1942

To: The Secretary of the Treasury

From: James L. Houghteling

Mr. Gamble tells me that you recently inquired regarding the work being done among American Federation of Labor unions by the Organizers put at our disposal by President William Green.

The American Federation of Labor is made up of 105 National or International Unions. It is also organized geographically into 49 State Federations and 802 City Centrals. It has 1,923 paid Organizers, of whom 560 are attached to the National Unions while 1,363 work through the state and city bodies.

The four War Savings Staff deputies covering this field, working closely with the four regional Representatives of the A.F. of L. who are volunteer members of our staff, are following the established procedure of the A.F. of L. in mobilizing these Organizers through the officers of the City Centrals and other labor units who supervise their activities. The weekly reports which I receive indicate that contacts with the 802 City Centrals and the state and national bodies are being made as rapidly as time will permit. This is a large field, as the reported membership of the American Federation of Labor now exceeds 5,500,000 members. My personal contact with American Federation of Labor leaders convinces me that they are all enthusiastic about our War Bond Program, and that we are covering the field thoroughly and effectively.

James L. Houghteling



September 19, 1942

Dear Mrs. Roosevelt:

In response to your request to Secretary Morgenthau, I am attaching a description of the Ruml plan as compared with the comparable features of the present law and the current tax bill. I am also attaching copies of my radio talk of September 1, 1942, in opposition to the Ruml plan, and a further statement on the plan. This statement contains an example on page 2 which may help you to follow my explanation.

It is not easy to explain the somewhat complicated Ruml plan, but please understand that if the enclosed explanation is not sufficient I shall be only too glad to supplement it in any way you may desire.

Sincerely yours,

(Signed) Randolph Paul

Randolph E. Paul
General Counsel

Mrs. Eleanor Roosevelt,
The White House.

Attachments

RB:REP:mv

THE RUMEL PLAN

The purpose of the Rumel plan, which it accomplishes in part, is to get and keep the individual taxpayer out of debt to the Government. In brief, an individual would pay quarterly during each year a tentative tax for that year based on the previous year's income, and on the following March 15 he would make a final settlement for the year, adjusting any underpayment or overpayment.

Under the original plan the income tax on 1941 income would be forgiven. The tax paid during 1942 would be considered not a tax on 1941 income but a tentative tax on 1942 income. On March 15, 1943, the income tax return covering 1942 income would be filed and any excess of actual tax due above amounts paid in 1942 would be paid at that time. If the amount of actual tax due on 1942 income proved to be less than the payments made in 1942, the difference would be refunded to the taxpayer or offset against his tax on 1943 income.

At the same time, March 15, 1943, that this settlement of 1942 taxes was made, the taxpayer would start paying a tentative tax on 1943 income. This tentative tax would be based on his actual income for 1942, computed at whatever rates the law provided for 1943 income. The taxpayer would have the privilege

- 2 -

of paying this tentative tax in quarterly instalments. On March 15, 1944, he would file a return of his actual income for 1943 and pay the balance due if his actual tax exceeded his tentative tax, or receive a refund or tax offset if his actual tax was less than the tentative tax. At the same time he would compute and start paying his tentative tax for 1944 based on 1943 income. This process would continue from year to year.

If the taxpayer's income remained the same from year to year, his payments during each year would be exactly the same as they are under the present arrangement. At his death, however, little or no tax would be owed to the Government, while under the present arrangement the tax owed at death would be approximately the tax on one year's income.

If the taxpayer had no income in any year, he would continue during that year to pay tentative tax on the basis of the prior year's income but would be allowed a refund the following March.

If a person's income remained the same from year to year, he would not owe the Government tax at the end of any year. If his income were higher than in the previous year he would, at the end of the year, owe the Government tax on the amount of the

- 3 -

increase. If his income were lower than in the previous year, the Government would, at the end of the year, owe him tax on the amount of the decrease.

It is understood that Mr. Ruml has publicly revised his plan in some particulars, but no statement of these revisions has been received.

Revisions of the Present Law
and Funding Tax Bill

Under the present law a return is filed on March 15 for the income of the previous year and the tax may be paid in four quarterly instalments if desired. The Treasury recommended that for persons receiving wages, salaries, or dividends, part of the tax be collected at source. For example, the employer would withhold part of the tax from wages and remit it to the Government as part payment of the employee's tax. This proposal was accepted by the House. The Senate Finance Committee, however, eliminated this feature. It imposed an additional tax of 5 percent on gross income, called the "Victory" tax, to be withheld at the source on wages and salaries.

September 15, 1942

HR:dad

TREASURY DEPARTMENT

240

INTER OFFICE COMMUNICATION

SEP 19 1942

TO Secretary Morgenthau
FROM Randolph Paul

This is in further reference to the editorial "Has the Little Fellow a Chance" which appeared in Josephus Daniels' newspaper of September 6, 1942, which editorial you wanted inserted in the Congressional Record.

Mr. Shea has reported that two sessions have passed and Colonel Halsey has not had the editorial placed in the Record. Shea does not know which Senator Colonel Halsey requested to make the insertion, but believes the reason for the omission might possibly be the sentences in the editorial as follows:

"There would have been no danger from this ingenious and deceptive plea if the framers of the measure in its successive stages of preparation had sternly sat down upon all exemptions and favors for the rich and followed in spirit - and mostly in letter - the early recommendations of the Treasury Department. * * The committee hardly gave decent treatment to President Roosevelt's suggestion of a ceiling of \$25,000 on the income of any person or corporation, and lent a favoring ear to the voices of Privilege, 'Pray have me excused.'"

Have you any further instructions? It may be we can get Representative Cannon of Missouri to insert it in the House Record in view of his remarks of July 9th, copy of which is attached.

R20

The SPEAKER pro tempore. Under a previous order of the House, the gentle-

USE

man from Missouri (Mr. CANNON) is recognized for 15 minutes.

Mr. CANNON of Missouri. Mr. Speaker, during the consideration of every general revenue bill which has been before the House in the last 30 years—and I speak from personal observation—effort has been made to impose a sales tax. Regardless of whether the House happened to be under the control of the Republican Party or the Democratic Party, each revenue bill presented has been the subject of prolonged and determined attacks in an effort to include in its provisions some form of a sales tax. Whether the measure was brought up under a closed rule under which amendment and debate were restricted or whether under one of those open rules for the consideration of bills by schedules, pungently described by Champ Clark as "popgun bills," invariably the committee and the House have been bombarded with proposals to lay a tax upon the distribution of every commodity manufactured for barter or sale.

So it is not surprising to find that although last week the Committee on Ways and Means, by an emphatic vote, rejected all proposals to write a sales tax into the bill which comes before us next Wednesday, persistent efforts are being made to prevail upon the committee to reverse its decision or to modify the rule providing for the consideration of the bill as to admit a sales-tax amendment.

Within the last few days metropolitan newspapers, trade journals, and releases by reporting agencies, have urged the adoption of a tax of this kind and in some instances have gone so far as to insist that a sales tax is indispensable.

As a final effort, Members of the House found on their desks when the mail came in this morning a questionnaire intended to develop expressions of sentiment which can be used to bring pressure to bear on the committee to secure a vote on a sales-tax amendment.

Mr. NELSON. Mr. Speaker, will the gentleman yield?

Mr. CANNON of Missouri. I yield to my colleague the gentleman from Missouri.

Mr. NELSON. I can speak for only one member of the Committee on Rules, but as one member I say that I shall stand for a rule such as has always been used when revenue bills have come in. We can get a satisfactory revenue bill only by having a closed rule. Furthermore, as I recall, when the sales-tax proposition was up here a few years ago it was properly defeated in this House. My colleague the gentleman from Missouri made one of the first speeches in opposition to the sales tax. I think I made the second speech in opposition to the sales tax. My opinion then is my opinion now, that a sales tax taxes a man not on what he has but on what he has to have.

Mr. CANNON of Missouri. I am glad to have the gentleman from Missouri make that statement. I recall very well his invaluable cooperation with other Members in initiating the fight against the tax when it was last voted on in the House, and the large part he had in bringing about its defeat.

I am gratified to note his opposition to any modification of the rule with a view to admitting the amendment. I trust his position is indicative of the attitude of the entire committee and that a rule will be finally formulated under which the program drafted by the committee, after long and exhaustive consideration, can be brought before the House under a special order providing for prompt and expeditious consideration.

Mr. Speaker, there is one fact that stands out in all the welter of propositions and counterpropositions relative to a sales tax which have been before the House in the last half century; there is one fact that stands out like the headlight of a locomotive on a moonless night whenever the subject is broached, and that is the fact that notwithstanding this continuous and insistent agitation through the years, a Federal sales tax has never been collected in the United States. From the day the first bill raising revenue was passed in the early days of the infant republic down to the present time, Congress has consistently rejected this dubious method of financing the Government. Even in the most crucial emergencies, in the darkest days of the Civil War; in the face of unprecedented demands upon the Treasury during the World War, when revenue was desperately needed, although the imposition of a sales tax was vigorously advocated, never, then or at any other time in the fiscal history of the United States, has the Federal Government assessed a tax of this character. The proposition raised by the questionnaire before us this morning proposes to reverse a fiscal policy as old as the Republic itself.

And there is sound reason back of it. There is a fundamental economic justification for the long and uninterrupted maintenance of this historic policy of Government finance.

The sales tax is the most iniquitous, the most illogical, the most unscientific, the most uneconomic, and the most un-American tax that could be levied. It is a tax on consumption, a tax on the poor, a tax on the wage earner, a tax on those least able to pay. It is a tax on children, and it taxes a family in proportion to the number of children it rears.

It is inflationary and difficult of enforcement. It is expensive and requires elaborate administrative machinery. It pyramids, and is easily shifted. It can be passed on to the consumer or taken out of the wages of labor. In fact, it saddles its greatest burdens on labor. It increases the cost of necessities, curtails employment, and reduces the purchasing power of the wage scale.

It is discriminatory. When the millionaire buys a pencil, a razor blade, or a package of cigarettes, he pays no more tax on them than the pensioner whose income is \$1 a day. The housewife buying a paper of pins, a cake of soap, or a can of baking powder, pays the same tax for the support of the Government whether she lives in a novel or a mansion.

The sales tax violates every orthodox principle of taxation. It is not a tax in proportion to ability to pay; or in

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proportion to benefits received. It adds to the cost of every necessity with no relation to income. It increases the price of the swaddling clothes of the infant, the wedding gown of the bride, the weeds of the widow, and the simple garments of the aged. It taxes the primer in the school, and the Bible in the church. It takes shoes from children's feet; drives the rain through shattered roofs of tenements; snatches healing medicaments from the fevered brow of pain; and denies the bier of the veteran the lost tribute of the flag beneath which he served. From poverty and penury and toll it takes its inevitable and relentless toll in order that wealth and power and profits may go untaxed.

Oh, they say that the Government needs the money. That is the alibi of the highwayman—he needs the money. And we do need the money; but why not take it from those to whom it means the mere writing of a check, the casual foregoing of dividends, the discontinuance of profiteering prices, rather than from those who rear the children which constitute the future state.

It is to be hoped that the committee will steadfastly maintain the position which it has taken against all efforts to impose this reprehensible tax on the men who earn their daily bread in field and factory. Such a policy should have the support of the House, the support of the Congress, and I am certain would have the support of the American people.

[Here the gavel fell.]

LEAVE TO ADDRESS THE HOUSE

SEP 19 1942

Secretary Morgenthau

Randolph Paul

This is in further reference to the editorial "Has the Little Fellow a Chance" which appeared in Josephus Daniels' newspaper of September 6, 1942, which editorial you wanted inserted in the Congressional Record.

Mr. Shea has reported that two sessions have passed and Colonel Halsey has not had the editorial placed in the Record. Shea does not know which Senator Colonel Halsey requested to make the insertion, but believes the reason for the omission might possibly be the sentences in the editorial as follows:

"There would have been no danger from this ingenious and deceptive plea if the framers of the measure in its successive stages of preparation had sternly sat down upon all exemptions and favors for the rich and followed in spirit - and mostly in letter - the early recommendations of the Treasury Department. * * The committee hardly gave decent treatment to President Roosevelt's suggestion of a ceiling of \$25,000 on the income of any person or corporation, and lent a favoring ear to the voices of Privilege, 'Pray have me excused.'"

Have you any further instructions? It may be we can get Representative Cannon of Missouri to insert it in the House Record in view of his remarks of July 9th, copy of which is attached.

(Initialed) R.E.P.

kfa

September 19, 1942.

My dear Senators:

Secretary Hergenthan read your letter of September 17, 1942, before leaving town today. He requested me to answer it at once so that you should know promptly the views of the Treasury with respect to matters contained in your letter.

I am enclosing several press releases which indicate the action which the Treasury Department has taken recently with respect to silver. Such action, as you will note, is completely consistent with the understanding which Secretary Hergenthan has had with you and the Senate Special Silver Committee.

Secretary Hergenthan is unable to agree with the suggestion in your letter that there is any understanding which requires the Treasury Department to oppose a bill on silver introduced by any Senator or Representative acting on his own initiative. The Treasury Department in no way initiated or sponsored the Bill introduced by Senator Green of Rhode Island.

The Treasury Department has not as yet completed its study of Senator Green's Bill. Accordingly, the Treasury is not in a position to advise you at this time of the report which it will make with respect to the Bill which the Treasury sends to the Committee.

I have read this letter to the Secretary over the telephone and he has approved it.

Sincerely yours,

(Signed) H. D. White

H. D. White,
Assistant to the Secretary.

Honorable Pat McCarran,
United States Senate,
Washington, D. C.

Enclosures

HW:HR 9/19/42
1

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE
Thursday, September 17, 1942

Press Service
No. 33-32

Secretary Morgenthau said today that the Treasury is making arrangements for the sale of approximately 5,000,000 ounces of silver to industrial users certified by the War Production Board as in urgent need of silver for immediate use in war production.

The silver which the Treasury is arranging to sell is free silver, classified as "silver ordinary". This class of silver has been accumulating over a long period and is composed in part of silver purchased for coinage prior to the Silver Purchase Act of 1934, in part of silver contained in gold deposits, in part of recovered bullion which was lost in the melting and coining processes, and the balance of silver in excess of the amount estimated to be contained in mutilated coins. For many years prior to the passage of the Silver Purchase Act of 1934, small quantities of this class of silver were sold and used in medals which the Mints manufactured for private organizations. The Treasury has legal authority to sell the amount now on hand. The Silver Purchase Act of 1934 imposes no limitations on this type of sale.

This silver has been put aside for use in the event of an emergency. The Treasury has been informed by the War Production Board that there is at present an acute shortage of silver available for the manufacture of essential war materials. The War Production Board has requested that the 5,000,000 ounces of "silver ordinary" be used to alleviate this shortage.

The Treasury plans to sell this silver at the price of 45 cents an ounce to those industrial users with high priority ratings who are recommended by the War Production Board.

As previously announced, approximately 1,350,000,000 ounces of free silver have already been made available by the Treasury for use in war plants, under arrangements where-by the silver will be returned after the war. The remaining 1,550,000,000 ounces of silver held by the Treasury have been monetized and are a reserve against silver certificates.

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Washington

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TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS
Monday, August 31, 1942
8/29/42

Press Service
No. 33-0

Secretary Morgenthau said today that the Treasury is making every effort to put all available silver into urgent war uses.

The Treasury has stocks of 2,900,000,000 ounces of silver of which 1,550,000,000 ounces have been monetized and are a reserve against silver certificates. The balance constitutes "free" silver, all of which is being lend-leased for use in war plants where it will release 40,000 tons of copper for war uses.

Substantial quantities of this free silver are already being delivered to war plants producing aluminum and magnesium.

No new purchases of foreign silver have been made since November, 1941, Mr. Morgenthau said, and the delivery of newly-mined domestic silver acquired under forward purchase contract has been postponed, thus permitting such silver to go into industrial uses. Two of the largest silver refiners are already taking advantage of this postponement and are delivering newly-mined domestic silver to industrial users.

Until recently, Secretary Morgenthau said, silversmiths could meet all of their needs by buying foreign silver at about 35 cents an ounce. However, in the past year there has been an enormous increase in the use of silver in industries. The metal is used extensively in the production of aircraft, ordnance, naval vessels, and for other war purposes. Silver coinage has increased in many countries as a result of the war. Silversmiths are also using larger quantities of silver because copper and other scarce metals can no longer be used as a base for silver-plated ware.

Mr. Morgenthau said the supply of foreign silver has been falling off, and the 100,000,000 ounces a year being imported from Mexico and Canada are inadequate for the present demand. American silversmiths, eager for the metal, have bid up the price to 60 and 65 cents an ounce in Mexico. To prevent the diversion of the foreign silver from high priority uses, the War Production Board has issued an order restricting the purchase of silver abroad to licensed importers.

- 2 -

As an added inducement to foreign shippers, the Office of Price Administration recently raised the ceiling price on foreign silver to 45 cents an ounce in contrast to the 35 cent level which the Treasury maintains.

Another order of the War Production Board, effective October 1, restricts the use of foreign silver to high priority purposes.

The Office of Price Administration has also set the ceiling price for newly-mined domestic silver at 71.11 cents an ounce plus freight charges, compared to the Treasury price of 71.11 cents an ounce fixed by law, thus making it more profitable for such silver to go to manufacturers instead of the Treasury.

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Washington

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United States Senate

COMMITTEE ON APPROPRIATIONS

Sept. 17, 1942

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

My dear Mr. Secretary:

Some days ago, Senator Green of Rhode Island introduced a bill, a copy of which I enclose here. The bill is S. 2768.

In my judgment, the introduction of this bill at this time is ill-advised, and can only lead to a legislative battle of no mean magnitude. The Bill is not in keeping with the provision of our understanding as regards existing silver statutes.

The Senators who are interested in silver met with you, as you will recall, on two or three occasions. It was the general understanding that you would, through the Reconstruction Finance Corporation, release to the War Production Board, for use by war industrials, certain silver, commonly known as free silver, to be used by the war industrials for non-consumptive use such as bus-bars and the like. The silver thus released by the Treasury was to remain the property of the Government and was to be returned to the Government when the emergency is over.

We were all quite specific for the clear understanding that the silver released by the Treasury was not to go into consumptive use.

I respectfully emphasize that there is no occasion for legislation on this subject at this time. Those industrialists who really and honestly want silver for consumptive uses such as silverware, jewelry, and the like, can get the silver for their use if two things were done, namely, first, to remove the restrictions now imposed prohibiting the importation of silver by other than the government and by removing the price ceiling of 45¢ recently put on by the Office of Price Administration; or, secondly, by the Secretary of the Treasury deferring commitments and permitting those who want silver in the industries to buy it from domestic producers at a price not in excess of 71.1.

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United States Senate

COMMITTEE ON APPROPRIATIONS

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EVERARD H. SMITH, CLERK
JOHN W. R. SMITH, ASST. CLERK

Secretary Morgenthau - 2

Mr. Donald Nelson on two occasions before our silver group made known the imminent necessity for silver in non-consumptive uses in industry, especially to release copper so much needed presently in the war. Mr. Nelson has made known that all of the 47,000 tons of silver known as free silver was necessary for this purpose.

You and your counsel have very frankly stated to our silver group that there was no law now existent by which you could release other than the free silver.

It is hoped that in keeping with the spirit of our agreement, your Department may see fit to report unfavorably on S. 2768.

Thank you for your courtesy and cooperation, and my kindest regards to you.

Sincerely,

Walter McCarran

enc.

September 19, 1942

My dear Mr. Stettinius:

At Mr. Morgenthau's request, I am sending you herewith a photostat of a letter which he received from Secretary Ikes.

*Letter dated
9/18 on oil refineries
for Russia*

Mr. Morgenthau is out of town for the weekend, but he will be back here on Monday, and if you have any suggestions or comment to make in regard to this matter, he would be glad to have you contact him at that time.

Sincerely yours,

(Signed) H. S. Klotz^m

H. S. Klotz,
Private Secretary.

Honorable E. R. Stettinius, Jr.,
Administrator,
Lend-Lease Administration,
515 22nd Street, N.W.,
Washington, D.C.

*Sent By Messenger 10:00 - Mannus.
Envelope marked "Confidential"*

OFFICE OF
PETROLEUM COORDINATOR FOR WAR
WASHINGTON

SEP 18 1942

My dear Mr. Secretary:

In view of the various questions which have recently arisen relating to the efforts of my Office to assist the Russians in securing equipment and processes for the construction and operation of refineries in the Soviet Union, I wish to make clear for your information the functions and responsibilities of my Office in connection with these negotiations.

From the outset, we have endeavored to have made available to the Russians all the technical information possessed by American companies which might assist the Russians in any way in selecting those processes and equipment most suitable to meet their needs. We have assumed no responsibility whatsoever for the selection of any particular equipment or process since we have believed that these were matters for the Russians themselves to decide. Such selections have been made solely by the Russians and not by us, as our files show and as I know they themselves will confirm.

With respect to the cost of acquiring either the rights to use, or the engineering and technical data and assistance necessary to construct the refineries and operate the processes selected by the Russians, these are financial and legal questions for Lend Lease and Treasury Procurement in which my Office has no interest. We are only anxious that whatever arrangements you and Lend Lease may decide upon be consummated as quickly as possible in order that the Russian requirements shall be satisfied as once.

We shall be happy, of course, to continue to provide you and the representatives of the Soviet Government with any technical assistance which may be needed.

Sincerely yours,

(Sgd.) HAROLD L. ICHEM

Petroleum Coordinator for War.

Hon. Henry Morgenthau, Jr.

Secretary of the Treasury.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE
SEP 19 1942

TO Secretary Morgenthau
FROM Randolph Paul

Herbert Karl Friedrich Bahr, who was recently convicted of conspiracy to commit espionage for Germany and sentenced to 30 years' imprisonment, was apprehended in the possession of \$1,500 in United States currency which was concealed under the inside label of a cigar box, \$500 in Portuguese currency, \$200 in United States currency on his person, and \$500 worth of photographic equipment. The money and property were seized by customs inspectors and turned over to the Department of Justice for use as evidence in the trial. Mr. Bahr, through his counsel, plans to file motion for the return of the currency and property.

The provisions of Executive Order 8389 have been called to the attention of the United States attorney who prosecuted Mr. Bahr and the clerk of court who now has custody of the money and property. They have been informed that this money and property may not be returned or disposed of in any way without a Treasury license. In addition, the Federal Reserve Bank of New York has been instructed to block all accounts of Mr. Bahr that can be found.

R.P.

TREASURY DEPARTMENT
OFFICE OF THE SECRETARY

September 19, 1942

CONFIDENTIAL

Received this date from the Federal Reserve Bank of New York, for the confidential information of the Secretary of the Treasury, compilation for the week ended September 9, 1942, showing dollar disbursements out of the British Empire and French accounts at the Federal Reserve Bank of New York and the means by which these expenditures were financed.



1c-9/22/42

NOT TO BE RE-TRANSMITTEDCOPY NO. 13U.S. SECRET
BRITISH MOST SECRETOPTEL NO. 326.

Information received up to 7 a.m. 19th September.

1. NAVAL.

Photographic reconnaissance yesterday showed TIRPITZ in the Narvik area. No communication has been received from the convoys to and from Russia during the past 24 hours. It is assumed that both are proceeding unmolested. A crane lighter and coal lighter were sunk in Dartmouth Harbour yesterday morning by enemy aircraft.

2. MILITARY.

MADAGASCAR. Our columns from Majunga have continued their advance though delayed by road blocks and damaged bridges. Leading elements reached a point 25 miles North of Ankazobe yesterday and a small column of our forces reached Sofia ferry about 90 miles East North East of Majunga on the 17th. Operations against Tamatave were carried out early on the 18th after the local Governor had refused our ultimatum. After a brief bombardment the French Forces hoisted the white flag and our landing was carried out without incident. By midday our troops were in control of the town and railway station. Repairs have been carried out at the aerodrome and obstructions cleared from the harbour. The Chef de Region is cooperating at present but the population as a whole appears indifferent to our presence. Some of our troops are advancing from Tamatave following the Vichy forces most of whom have left for Tananarive.

RUSSIA. In the Rzhev area the Russians are still attacking. The Germans are making progress in their attack on Stalingrad and fighting is going on in the suburbs. Russian resistance is stubborn and in some parts they have made

small but successful counter attacks. The Germans have gained further ground in their advances South of the Terek and may now be trying to wheel Eastwards towards Grozni. Russian forces on the heights overlooking Novorossisk claim to have beaten off all attacks but the situation around the town is obscure.

3. AIR OPERATIONS.

WESTERN FRONT. 18th. 12 enemy aircraft crossed the South coast some of which bombed and machine gunner Dartmouth about midday. The main hall of the Royal Naval College was demolished and damage was done to a factory. 20 persons are reported killed including one service casualty.

18th/19th. 132 aircraft were sent out - Seaming in Bay of Biscay, off Dutch coast and Heligoland, off East Denmark and Baltic ports as far as Konigsberg 115. Intruders 3. Shipping off Dutch coast 13 (including 6 Naval aircraft). Leaflets Vichy 1. 4 aircraft are missing and one crashed. Preliminary reports state that 5 aircraft attacked ships in convoy off the Dutch coast. Intruders attacked locomotives and engine sheds in Northern France.

EGYPT.

16th/17th. Tobruk harbour was bombed.

17th. Sandstorms restricted operations.

MEDITERRANEAN.

17th. A Southbound 2,000 ton vessel was hit and probably sunk off the Tunisian coast by Malta Beaufighters one of which is missing.

BLACK SEA. Information 16th states that scale of Russian Naval aircraft activity has increased with arrival of U.S. aircraft reinforcements. Raids have been carried out on aerodromes and troop concentrations in the Crimea. The Russian Black Sea fleet is now based at Batum which has limited repair facilities for light craft only.

THE UNDER SECRETARY OF THE NAVY
WASHINGTON

19 September 1942

Dear Henry:

Many thanks for your letter of 17 September with which you forwarded two recent broadcasts of the "Voice of the Chief." I find these to be extremely interesting, and I have forwarded them to the Director of Naval Intelligence with the suggestion that he arrange to obtain copies of these broadcasts in case he is not now receiving them.

Sincerely yours,

James Forrestal

James Forrestal

Honorable Henry A. Morgenthau
The Secretary of the Treasury

September 17, 1942

Dear Jim:

I am enclosing herewith a sample of the most recent broadcast of the "Voice of the Chief", which is furnished to us by the Federal Communications Commission.

I thought that this one would be of particular interest to you as it has to do with German submarines.

Yours sincerely,

(Signed) Henry

Honorable James V. Forrestal,
Under Secretary of the Navy.

envelope marked "Personal"
By Messenger 4:25
Harmon

The clandestine transmitter, "Voice of the Chief" broadcasts on September 15, 1942:

"That in spite of superhuman efforts and heavy losses we have come to a complete stop in the desert need surprise no one who knows the filthy conditions under which the comrades have to fight in North Africa.

"Yes, if we had to fight only against the English, New Zealanders and Australians, Indians and other negroes - but they fight not only the Tommy, not only sand, thirst and desert. They must fight at the same time the base treachery, the slovenliness and cowardice of their Italian allies, and they must fight the deception of the community profiteers, who do their filthy business in the ruins of the Italian supply catastrophe, and with all this the comrades are supposed to be victorious, to storm forward and not relax.

"The Italians were unable to bring over anything. They send a convoy with the greatest difficulty, then only a third of it gets through, because the 10 ships are protected by just one miserable destroyer. Their air force doesn't afford any protection at all, and of us they demand that we withdraw our Ju-88's and our Heinkel-111's from the front, in order to fly filthy convoy protection for them.

"And then when some macaroni transport does drip through to Bengazi or Derna, or to Tobruk, it isn't meant for us, no, then it's for the Italian gentlemen. There's salami in it, and Ghianti, or, at best, adulterated Dago fuel with which no one can drive or fly. They mix up everything together, the pigs. And then our fliers wonder when they can't get their machines up with the gravy, and crash at the first take-off.

"But it's not enough that these macaroni defecators leave us sitting in the desert without supplies, with inferior fuel and inadequate transport facilities. Now the community profiteers also come and squeeze out their profit in the bargain, from the collapse of our supply.

"North Africa is now swarming with these so-called War Administration Councilors, Party inspectors and special leaders, who would like to see the shirts off the behinds of the fighting soldiers, if it made them richer.

"They feel a magic attraction in the Italian bad luck; they flock together for commissions and, armed with army orders, they journey to Tunis, Algiers and Morocco to do their buying.

What they buy up is stuff and filth, and what they earn on it stinks to the tropical heavens. But they can make their profit in peace. Rommel needs every old tub, every worn-out tire and every liter of gasoline he can get for his campaign, the Italians weakened him so.

For example, there is a certain Colonel Boese running around now in French Africa with a comet's tail of 40 special leaders who buy motor trucks. This Boese is no novice in the business. Last year already he was on the notorious Daktona (?) Purchasing Commission, which the profiteer Major Dankharst manipulated. With the rusty and painted-over French L.E.W.'s (Lastkraftwagen, or motor trucks), the transport had already collapsed at that time, and now Boese has again sent 4,000 of these terrible filthy pieces of junk.

Boese has the Jewish and Arab auto thieves and garage owners buy up all the discarded Chevrolets and Berliots and Fords of Algeria, and officially pays the highest army prices for them. As a matter of fact, he gets the whole kaboodle for a filthy nothing, and the difference between the real purchase price and the price he estimates for the army, he shares with his Jewish buyers and special leaders.

Herr Dr. Theodor Auer, our so-called Consul General in Casablanca also has his sexy fingers in the business, of course, in so far as he hasn't them in the behind of some lascivious Berber boy.

And these are the purveyors for our people's army, the Auers and Boeses and their community profiteers in army uniform, like Herr Major Dr. Hippel or Herr Capt. Rittmeister.

And with the stuff that the filthy fellows shunt to the front, our drivers must negotiate hundreds and hundreds of kilometers of desert road daily, in order to supply the troops up front, from Derna to Bengazi and back to Derna, and forward to Tobruk and Mersa-Matruh, and again back to Derna.

70,000, 140,000, 150,000 kilometers, the filthy junk has already travelled. Batteries are mended with wire, the springs are rusty, the bearings worn out, the carburetors and spark-plugs worn down, etc.

And the driver must repair everything himself, since the repair stations are always overburdened. On the way, they must even take on additional wreckage, and after ten minutes there they are in trouble themselves.

"The Vlonka (?) road to Derna is one long auto graveyard. And up ahead, at the front, they lie and wait, and nothing comes through, no fuel for the LKW's, no fuel for the flier protection, not even enough water for washing.

"The men get lousy and catch typhus. 315 cases of typhus are already lying in isolation barracks, and every week there are a couple of dozen new ones. If it goes on like this, we can one day shut up shop in Egypt.

"And it would be better if we packed up today rather than tomorrow, it would be better if we packed up Rommel's whole tank army, and over to the Eastern front with it, where every man, and every tank is needed these days.

"The war will be decided in the East, and not in filthy Egypt, where we Germans have lost nothing, where our comrades hunger, thirst and become infected, because those filthy Italian arses, in gratitude for their armed help are cowardly, base traitors to them.

"This is Gustav Siegfried Eins.

"The Chief spoke.

"We come again every hour until five o'clock in the morning, always at 7 minutes before the hour.

(Federal Communications Commission, September 15, 1942)

The "Voice of the Chief" broadcasts (September 2, 1942):

"Today, I am going to read a report which Admiral Doenitz received from one of our young Commanders, Lieutenant of the Navy, George Stass, from North America, where he is a prisoner of war.

"This report, is the story of the heroic last battle of a young crew of U-boat men and the closeness between the U-boat crew and their commander. This report was declared as dangerous to morale by Commune clique-representatives and propaganda manufacturers. It is intended to surpress it against the will and intentions of Doenitz, because these small jealous Commune dumb-bells did not approve of the fact that a young commander, after swimming around in oil and hardly escaping death, regards it as his duty to openly give account to his Commander-in-Chief about the fate of his men.

"They approved even less of Doenitz's intention to publish the report of Schorsch (nickname for George) Stass, as a fortifying example of unbroken manliness to inspire and encourage our youth to volunteer for service in the U-boat arm.

"But what do these bloated, profane propagandists know about the capacity of our youth for enthusiasm? They thought something like this could possibly have a frightening effect.

"They proposed changes, cuts and distortions. They wanted to change the simple manly report of Schorsch Stass into an insipid, dull propaganda babble. They had hopes that that would be effective. Doenitz said: "No, all of it or nothing at all," and withdrew the report.

"The report follows here, as it was written by Schorsch Stass:

"My esteemed Admiral! I deeply regret that I am not in a position to report back to my Commander in the usual way. Cruel fate has wrenched the weapon out of my hands, a fate which was brought about by the catastrophic mistake of my still inexperienced first watch officer, Lieutenant Otto Schulz.

"I assume that you have received a list of the few survivors through the report of the Red Cross. It is very embittering to us to be prisoners of war, while our comrades at the front continue to do their heroic duty. But even though we have drawn an unhappy lot, we are still grateful that destiny has left us our miserable lives and more so since we had to fight hard for it in those oily, salty waters which, thank God, were at least very warm.

"Heaven had sent such misery and distress to us, but if one has no firm ground under one's feet there is nothing to do but swim.

"With only a few life preservers and some more which we found in the water, only very few of our comrades could stand 50 hours in a heavy sea. The ones who were left adrift drifted altogether 90 sea miles. That is the reason why they were found so late.

"After a few days in a hospital we became human beings again. We lost our boat through a severe navigation mistake by Schulz, for which he probably should not be blamed too severely because he travelled for the first time in difficult waters which were not familiar to him.

"On June first, at 20:15 o'clock we were pressed down to a depth of about 60 meters by an attack by depth charges. Unfortunately, Chief Mate Walluka suffered a severe bruising of his leg during the alarm diving and was put out of commission. Schulz, as the first watch officer, had to take over the navigation.

"In finding his bearings Schulz did not take into account the current (Stromversetzung), which is unusually strong in these waters, and ran the boat on a reef, which, according to our log, was 10 miles away from us. Schulz should have known that the log did not show the true location of the boat.

"In two minutes the control room and the tower were full of water and we were listing 20 degrees to starboard. Eighteen comrades were able to save themselves through the trap door. Fourteen of these died a hero's death in the oil covered waves in the next fifty hours. One of them could not swim. Two got out of their lifebelts to swim ashore, believing in their state of delirium to see land. The others died from exhaustion.

"Our entire nourishment in those fifty hours consisted of an oil-soaked lemon and a cocconut, which Schwab opened by means of unspeakable efforts, with the help of the oxygen bottle from his pocket. Shortly after that, Schwab sank without a sound.

"A special word of appreciation is due my radio mate Baeumers, who lent a helping hand in every situation, with exemplary self-denial, and inspired the despairing ones with an ever new will to live. It was Baeumers, too, who saved me and three other comrades in a state of unconsciousness in a rubber boat which an American plane dropped for us on the third day.

"At this point, may I take the liberty of proposing the following decorations to be awarded.

"The Iron Cross, first class, for the Radio Mate Baeumers.
The Iron Cross, second class, for the machine mate Werner Lieb-

hold, the mechanic Corporal Guenther Vollrat and the sailor Alvin Jungnichel.

"They all fought excellently, as I can, moreover, report with pride about all my comrades, that they knew how to fight and to look death in the face.

"Even though they knew that the tragic mistake of their Eins W.O. (Eins Wachoffizier, or First Watch Officer) could have been prevented, yet they showed by their behavior that they are inspired by the spirit which keeps on fighting even when the battle seems lost.

"With German greetings,

"Respectfully,

"Georg Stass,
1st Lt., at Sea".

"Those are words which a man has written", continues the Chief. "Words which stand so towering high above the filthy sentiments of the propaganda Pharisees, that their miserable thoughts sound like a desecration.

"A propaganda dog like Berndt has the brass to say that this description of a heroic battle to the death is defeatist, and might give the other crews a defeatist attitude.

"He dared to object to the publication, if all indications of the navigation mistake of the first watch officer and the results of his inexperience were not eliminated from the report.

"This fagged-out soul of a bureaucrat, Berndt, holds it necessary to falsify with his shit-methods such a document of proud heroism because he cannot grasp that the report as it is in its unassuming genuineness is a hundred times more effective than all the propaganda which he could ever suck out of his pen.

"Because he is afraid that young German men would be frightened away from the service on U-boats when they learn from the report that aside from heroic deeds, sometimes also mistakes are made, and that these mistakes might be traced to the fact that the new comrades cannot be trained as thoroughly and as long as the old ones.

"Of course that happens. Of course the men today are not trained as they were before the war, but that does not frighten German youth by a long shot. If they were as lousy as the louse Berndt thinks they are, then they could give up anyway.

"The B.D.U. (Crews of German U-boats) needs young, fresh, able and unspoiled officers and men who do not try to be on the safe side, but who attack the enemy courageously, under good conditions and under bad conditions.

"Boys who brave death and who do not ask where it comes from. Boys who are able to materialize that spirit which speaks from the report of Schorsch Stass and his crew.

"But that, the shitpot Berndt and his propaganda spies will never understand, and that is the reason why I have read the report of Schorsch Stass, in order that those will hear it who should hear it, uncensored, unchanged and not falsified.

"Hear Gustav Siegfried Eins.

"The Chief has spoken.

"We return every hour till five o'clock in the morning, always seven minutes before the hour."

(Federal Communications Commission, September 2, 1942)

TREASURY DEPARTMENT

268

INTER OFFICE COMMUNICATION

DATE Sept. 19, 1942

TO Secretary Morgenthau

FROM Mr. Hoflich

Subject: Japanese vessels sunk and damaged

1. The total number of Japanese ships sunk or damaged since December 7, 1941 now stands at 281. A Navy Department announcement issued September 16 lists 258 ships lost or damaged, probably prior to September 4. More recent naval communiques add 23 Japanese ships to the casualties inflicted by American forces. Of these, 10 were sunk and 13 damaged.

2. The Japanese losses announced since September 16 are divided as follows:

- (a) Aleutians - three submarines damaged, two mine-sweepers sunk, three cargo and supply ships damaged.
- (b) Solomons - two cruisers damaged, one unidentified ship sunk and one damaged, three landing craft sunk and many others sunk or damaged.
- (c) By U.S. submarine action - one patrol boat and three freighters sunk; one transport, one tanker, one freighter and one cargo and supply ship damaged.

Table I

Total Japanese Vessels Sunk and Damaged
to September 17, 1942

Combatant Vessels

<u>Type</u>	<u>Sunk</u>	<u>Probably sunk</u>	<u>Damaged</u>	<u>Total</u>
Battleships	0	0	5	5
Aircraft carriers	6	1	4	11
Cruisers	11	3	21	35
Destroyers	26	8	13	47
Submarines	6	0	5	11
Tenders	0	1	3	4
Others	<u>13</u>	<u>2</u>	<u>14</u>	<u>29</u>
Totals	62	15	65	142

Non-Combatant Vessels

Fleet Tankers	10	0	4	14
Transports	24	5	13	42
Cargo and supply	44	3	12	59
Miscellaneous	<u>12</u>	<u>2</u>	<u>10</u>	<u>24</u>
Totals	90	10	39	139
Total all types	152	25	104	281

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Table II

Vessels Sunk and Damaged
Japanese in Major Strategic Areas

I. Aleutian Islands (June 15-Sept.15, 1942)

Type	Sunk	Probably Sunk	Damaged	Total
Cruisers	1	0	5	6
Destroyers	6	1	2	9
Submarines	0	0	3	3
Transports	1	0	4	5
Cargo and supply	1	0	5	6
Minesweepers	2	0	0	2
Miscellaneous	<u>1</u>	<u>0</u>	<u>1</u> <u>1/</u>	<u>2</u>
Total	12	1	20	33

II. Solomon Islands (Aug. 7-Sept.16, 1942)

Battleships	0	0	1	1
Aircraft carriers	0	0	2	2
Cruisers	0	0	4 <u>1/</u>	4
Destroyers	1	1	3	5
Tankers	0	0	1	1
Transports	1	0	0	1
Cargo and supply	0	0	0	0
Miscellaneous	<u>5</u> <u>1/</u>	<u>0</u>	<u>5</u> <u>1/</u>	<u>10</u>
Total	7 <u>1/</u>	1	16 <u>1/</u>	24

1/ Also several additional vessels.