

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE August 4, 1941.

TO Secretary Morgenthau

FROM Miss Michener *AMM*

You asked, at noon today, that we secure from the Office of Production Management monthly data, beginning with July, 1940 and running through July, 1941, showing the number of planes manufactured (or delivered) for military purposes, excluding civilian purposes, in each of the following categories:

- 4-engine bombers
- 2-engine bombers
- pursuit ships
- training ships
- flying boats

You were not interested, you said, in whether these planes were manufactured for the United States or for other countries.

You asked that the information be supplied you by Tuesday, August 5, if possible, and otherwise by Wednesday, August 6, 1941.

STRICTLY CONFIDENTIAL

## Deliveries of Airplanes, Monthly, July 1940 to date

Month	Military						Total military airplanes delivered	Commercial transports	Total airplanes delivered
	Bombers		Pursuits	Other		Trainers			
	Flying boats	Other 4-engine bombers		Other 2-engine bombers	military tactical airplanes				
July 1940		2	112	162	42	251	569	25	594
Aug.		9	70	149	55	276	559	23	582
Sept.	2	9	13	152	54	367	597	75	672
Oct.	4	17	29	192	65	411	718	43	761
Nov.	5	7	66	250	92	349	769	39	808
Dec.	10	11	132	262	28	421	864	21	885
Jan. 1941	20		122	261	73	520	1,001	27	1,028
Feb.	12	13	165	203	103	452	948	24	972
Mar.	12	10	205	232	85	575	1,119	42	1,161
Apr.	12	27	244	286	110	696	1,375	31	1,406
May	19	12	255	253	78	703	1,320	22	1,342
June	25	9	249	226	190	775	1,474	16	1,490
July	41 <u>1/</u>	<u>2/</u>	<u>2/</u>	<u>2/</u>	<u>2/</u>	<u>2/</u>	<u>2/</u>	<u>2/</u>	1,460 <u>1/</u>

August 5, 1941.

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

Source: Office of Production Management, Aircraft Section.

1/ Preliminary.2/ Not available.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE August 4, 1941.

TO Secretary Morgenthau  
FROM Miss Michener *AMM*

Attached is the chart giving a "Comparison of Price Movements of 20 'War' Stocks and 20 'Peace' Stocks", which you asked Mr. Haas to have prepared.

TREASURY DEPARTMENT

280 ✓

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## List of Selected "War" Stocks and "Peace" Stocks

## "War" Stocks

Allis Chalmers  
American Car & Foundry  
American Locomotive pfd.  
American Smelting  
American Woolen pfd.  
Anaconda Copper  
Baldwin Locomotive  
Bendix Aviation  
Bethlehem Steel  
Climax Molybdenum  
Consolidated Aircraft  
Douglas Aircraft  
International Paper pfd.  
Kennecott Copper  
Lockheed Aircraft  
Glenn L. Martin  
New York Shipbuilding  
Republic Steel  
Savage Arms  
U. S. Steel

## "Peace" Stocks

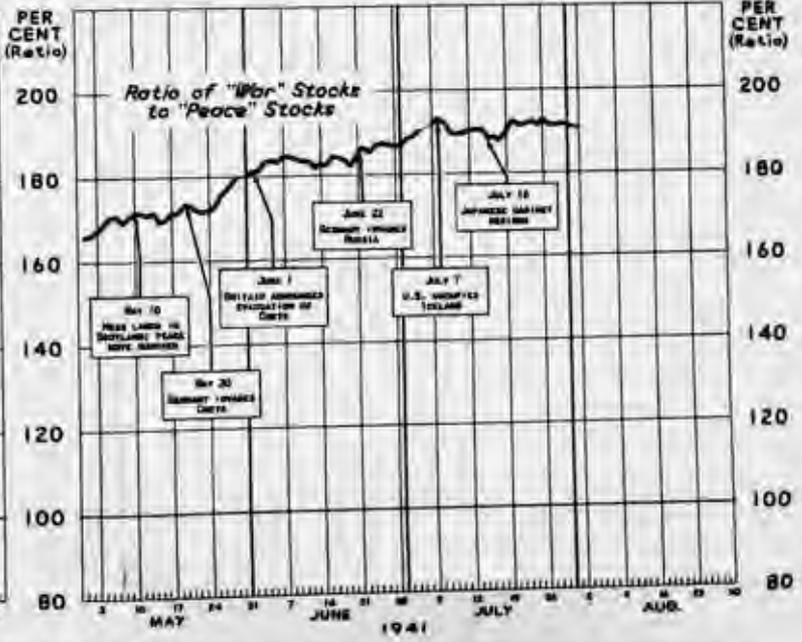
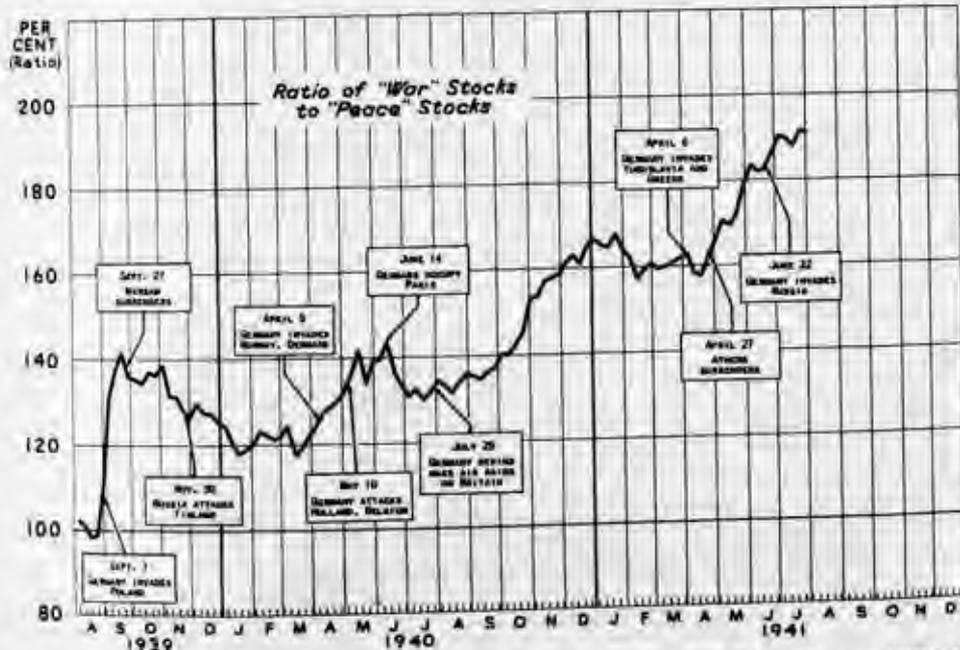
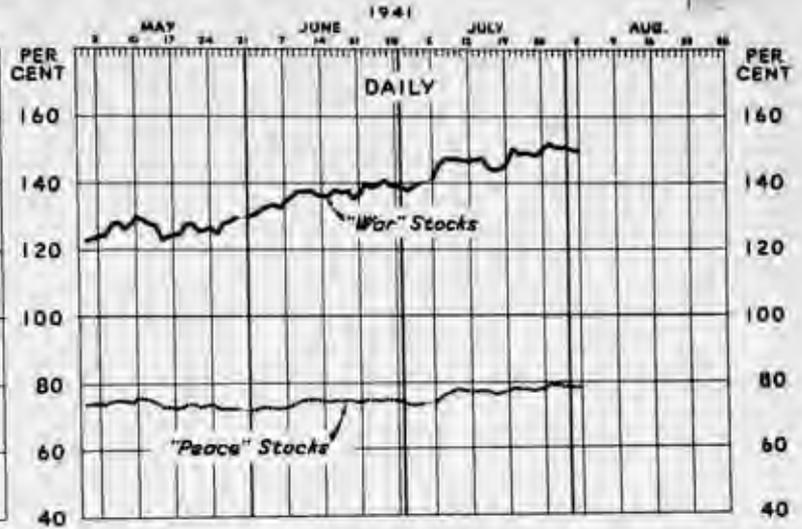
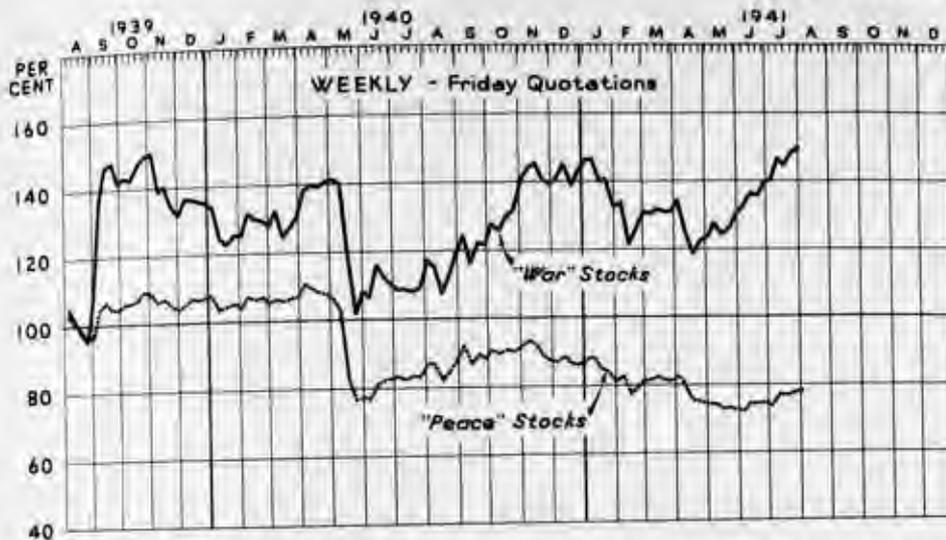
American Airlines  
American Home Products  
American Tobacco B  
Chrysler Corporation  
Commercial Credit  
Consolidated Edison  
Corn Products Refining  
Fajardo Sugar  
General Foods  
General Motors  
Libby-Owens-Ford  
Loew's Inc.  
Montgomery Ward  
Paramount Pictures  
Parke, Davis & Company  
Public Service of N. J.  
South Porto Rico Sugar  
U. S. Gypsum  
U. S. Rubber  
F. W. Woolworth

# COMPARISON OF PRICE MOVEMENTS OF 20 "WAR" STOCKS AND 20 "PEACE" STOCKS\*

August 1939 = 100

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Office of the Secretary of the Treasury  
Bureau of Economic Warfare



\* Stocks selected on basis of relative benefits from long war vs short war;  
Indexes are weighted averages of price relatives.

August 4, 1941  
2:45 p.m.

RE FOREIGN FUNDS PERSONNEL

Present: Mr. Gaston  
Mr. Foley  
Mr. Pehle  
Mr. Thompson

H.M.Jr: Pehle, I have got Gaston here because I don't know how this thing is going to end up. I know already, I know what your excuse is going to be. I would gamble on it, anyway. You need the men because you have got to wait for investigations, is that the answer?

Pehle: Yes.

H.M.Jr: What is the story?

Pehle: Well, when we started hiring people --

H.M.Jr: I haven't talked to Gaston, so you have got to tell it all. My point is that through one of my special agents I find out that they have got some people that they have got no business having out there, and I know you are way behind and I think it is terrible to put people on and let them go to work in Foreign Funds and have them around there for weeks and then investigate them.

Go ahead. I raised this point.

Gaston: Yes.

Pehle: Well, when we started in Foreign Funds, all of that was exclusively handled by the Administrative Assistant's office.

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H.M. Jr: Who is that?

Pehle: Well, Thompson's office.

H.M. Jr: Should he be in on this?

Foley: Yes, because this is a personnel problem.

Pehle: I think so.

H.M. Jr: Go ahead.

Pehle: He hired the people and - I mean, we recommended the top people. The clerks and stenographers were all hired directly by him. Since we got over at the Raleigh Hotel, and as time has gone on, we have taken over more and more of that type of function. We select all our reviewing staff and we now select almost everybody.

We request the Administrative Assistant's office to make investigation at the time that they are taken on. We have never seen the results of the investigations unless they were unsatisfactory, so we don't have any way of knowing how many people we have that have never been completely investigated or not.

(Mr. Thompson entered the conference).

H.M. Jr: Norman, I raised the point that I don't believe anybody should go to work in Foreign Funds unless they have had an investigation. Now, I know he has got people on there that have been there weeks, if not months, who have not been investigated.

Thompson: Yes. They are all under investigation.

H.M. Jr: But the point I make is, hell, put a spy in there for a month, and that is all he needs.

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- Thompson: Of course, the situation prior to July 1 was that we just about couldn't operate that way.
- Fehle: We had in June, Mr. Secretary, put on an enormous number of people prior to going on Civil Service on July 1.
- Thompson: We did, in each case order a character investigation on every one coming in, and whenever there was any question we would throw the person aside until the investigation was completed, and all the investigations in show that they were all right.
- H.M.Jr: Well, how many has he got on now that have not been investigated?
- Thompson: I imagine there are thirty or forty.
- Fehle: I don't know, because we don't get the reports back. I would like to say though, that I have found that there are certain people on our staff that we have not investigations on. It was sheer delinquency on our part.
- Thompson: Well, we probably have them under investigation, because I send the Secret Service a request every time you make an appointment.
- Fehle: Well, that is what I thought.
- H.M.Jr: You mean you do investigate them?
- Thompson: Oh, yes.
- H.M.Jr: Well, now, Norman, let's go through his whole list - that isn't the first thing. Let's start out, I don't want anybody to go to work for Foreign Funds until he has been investigated. Do you agree with me on that, Ed?

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Foley: Well --

H.M.Jr: From now on.

Thompson: They all came under Civil Service July 1.

Pehle: we can get speedy investigation --

Foley: That is the thing, Mr. Secretary.

H.M.Jr: All right, John, if you don't get it, come and see Papa, you see. I am laying down the rules and giving you a chance - if you are not getting it, come in and see me, because I would a damn sight rather do this than do the OPM. We have got a whole flock of investigations for OPM, and God knows what happens to those, but I want to keep my own nest clean. I am not going to worry about OPM. Now Herbert has got a whole flock of people and we will do our own people first.

Foley: Right.

H.M.Jr: But I am saying that beginning today, nobody else goes to work in your place until he has got a satisfactory investigation, and that takes care of it beginning with today.

Thompson: I think it actually started July 1, because they have all been Civil Service since July 1.

H.M.Jr: How many people are there that haven't been investigated?

Thompson: I can check that.

H.M.Jr: Do you know?

Foley: I know on my people. I have got eight lawyers that I find have not been investigated. This was the time when the request for the investigation was made, and this is the time they went to work.

H.M.Jr: Request, seven, twenty-four, went to duty - what is seven? That is July.

Foley: Yes, July.

H.M.Jr: Well, July fifteen. You know it is a joke. They talk about - they bring up at staff meeting about a poor fellow who happens to have a mother in one of these countries, but here are eight people.

Thompson: They are all under investigation.

H.M.Jr: But damn it, they shouldn't be working.

Foley: Well, everyone of those eight people, Mr. Secretary, I have seen and I have got recommendations from fellows like Ros Magill or professors in law school, the deans of the law schools, and everything else. On my people, we make our own investigation before we recommend to Norman that they be put on.

H.M.Jr: Listen, Ed, the point of this is, I don't think anybody would argue with me that it has been loose. John Pehle is entitled to people who are a hundred per cent investigated because I hold him responsible, and if there are any leaks, I jump both hobnailed feet on his neck, and if you don't mind my saying it, John, if you will excuse my language, to permit these people to be working and expose your personal reputation to have somebody sabotage you, and I am telling you that if you don't do it after I have talked to you, I think - well, I think you are a smart fellow and I don't think you will stand for it, and I wouldn't stand for it because I hold you personally responsible, and just one bad leak and I will raise hell, and you come around and say to me, well, this and that, and I will say, "Well, John, there is no excuse, I won't accept it." One warning is

enough. And you just raise hell around here until you have got every single man in your place investigated, so that you can say to me, "Mr. Morgenthau, everybody is investigated. I am giving you the right to come in any morning or afternoon and see me, and if you don't get it, it is just your own fault, but if there is a bad leak or a scandal, I will look to you.

Pehle: That is clear.

H.M.Jr: O.K.?

Pehle: Yes, sir.

H.M.Jr: Will you take that?

Pehle: I certainly will.

H.M.Jr: All right.

Pehle: I would like to mention the Federal Reserve Bank because all of the information we have is pretty much in the hands of the Federal Reserve Banks except the confidential material we get from the British, and some of the FBI material. They do their own investigating. I have raised the question with them as to whether it is adequate, and they feel it is adequate.

H.M.Jr: What do you want?

Pehle: I would like to have Secret Service or whoever else Mr. Gaston will designate, make a report on the adequacy of their investigation. That will be satisfactory.

H.M.Jr: Well, I again repeat, I can only look to one man. You can have anything that you want,

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H.M.Jr: Well, I again repeat, I can only look to one man. You can have anything that you want,

John, anything that you want, but I can't be holding a flock of people responsible for the secrecy and for the honesty of that office. I can't hold Ed responsible. But I hold you. So if you don't - if you don't get everything you want, there is nobody to blame but yourself. If something breaks tomorrow, I am not going to jump on you, but if something breaks in a month or two, and I find - and so forth and so on, so it is up to you to get busy and if you want the Federal Reserve, and if you are not satisfied with their investigation, - we pay for the people, so why the hell shouldn't we investigate them. I wouldn't be mealy mouthed, because especially in as much as the President said at Cabinet he is going to give us alien property custodianship, and I want to keep our reputation - he said until further notice he is going to give us alien property custodianship. It is to be with us.

- Easton:        Do you want to get some more investigators? We haven't got money for them.
- H.M.Jr:        Again, it doesn't interest me. I want results. It is up to you fellows - I have laid down the law, and the rest of you are to go out and if you get stuck, come and see the old man, and he will help you out.
- Easton:        All right. I ought to figure out with Norman where we can steal some money to start in training men.
- H.M.Jr:        Well, as I say - I mean, I am not trying to - you understand me.
- Easton:        Oh, yes.
- H.M.Jr:        I am not trying to be --
- Easton:        I understand perfectly.

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- H.M. Jr: I mean, I knew you had a big stake in this, and that is why I asked you in, so whoever it is, Norman, whether it is you or you (Foley) or you (Pehle), I want results, because we just can't afford --
- Pehle: I agree with you.
- H.M. Jr: .... to have somebody plant a spy on us. We just can't afford it.
- Thompson: The people on the Civil Service register presumably will have been investigated.
- H.M. Jr: Now, don't kid me.
- Thompson: By us. We make the investigations for them for all the people we put on our rolls.
- H.M. Jr: Now, listen, Norman, do you want to take that regular Civil Service investigation?
- Thompson: They will give us the names and our agents will make the investigation.
- Foley: I think this ought to be a special kind of an investigation.
- H.M. Jr: Why, that is the point I am making. Not a regular Civil Service. It should be special. How many billions of dollars have you got there, roughly?
- Pehle: Four.
- H.M. Jr: This shouldn't be just the regular Civil Service. It isn't whether a fellow pays his bills and whether the butcher and the baker and the doctor says he is all right, it is what does he think, what has he got inside him. Does he want to lick this fellow Hitler, or does he want to sit down and do business with him,

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that is what I want to know, and ordinary Civil Service doesn't - I want to know, does this fellow hate Hitler's guts or does he like him, that is what I want.

Foley: That is right, and that is the basis on which these fellows in Bernie's shop, Mr. Secretary, have been interviewed and have been taken.

Pehle: There is information they can take commercial profit of. We had a case the other day where one of the reviewers which we had, who had been thoroughly investigated, while this Silesian-American case was in the office, bought a bond, knowing that the case was in the office.

H.M.Jr: What did you do with him?

Pehle: We fired him.

H.M.Jr: Is it posted on the bulletin board?

Pehle: We didn't post it.

H.M.Jr: Why didn't you post it?

Pehle: Because we are drafting regulations that will apply to all employees of Foreign Funds which will restrict all their security purchases and their relations with everybody on the outside similar to SEC's regulations.

H.M.Jr: Listen, John, take my regulations that I put into Internal Revenue. Now, I have been all through this business.

Pehle: I didn't know that.

H.M.Jr: Well, take my regulations that apply to Internal Revenue agents and find out the investigation I put them through on their bank accounts and all the rest of it. Elmer Irey

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is back, he is well again. Ask him how I investigated the purchasing agents I took over from Harry Hopkins. I let one out of three or one out of four go. When I first came in here, the income tax fellows, I found - I took the hundred richest men in the United States, and I found that the same agent four years running examined the same rich man each time for four years, of the hundred richest persons. Then I went in and looked into not only their bank accounts but their stock accounts, and their commodity accounts. We went all through that in Internal Revenue and I think it is clean, and if you put in the same rule and put them to the same test - an examining agent of the Internal Revenue, is that what you call him?

Thompson:

Yes.

H.M.Jr:

If you will put in the same test with them - put it side by side with SEC, but I think if you will put in the same test, your boys will stay clean, and if they live up to those - they can't even take a five cent package of gum as a present or a pair of theater tickets.

Pehle:

That is what I want.

H.M.Jr:

Now, the whole business, I don't think that SEC would be one half as strict as I am.

Pehle:

We will take your rules.

H.M.Jr:

And the rules and the regulations that apply to the examining agents of the Internal Revenue. If you put those into effect, I wouldn't worry, and talk with this fellow (Gaston), talk with Irey and get - invite Harold Graves to spend an evening with you, because he went all through that.

Pehle:

All right.

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H.M.Jr: Get Harold Graves to spend an evening with you, because he went all through that.

He (Pehle) Norman, ought to have somebody some place so he doesn't have to worry about this. He has got a lot of responsibilities, and there should be somebody, somewhere, who is a first-class investigator, who will go in and take this burden off of him. He hasn't got time to do it all. Is this your job?

Thompson: Yes. I think it is pretty well in hand, because I send them to Frank Wilson, and he is having the investigations made by Secret Service.

H.M.Jr: Does this come under Gaston?

Thompson: We cover all the --

Gaston: Normally these investigations have been going through. They always have gone through the Administrative Assistant, and he refers them to whoever can handle them to the best advantage. That is what generally goes for ordinary Treasury investigations, isn't it?

Thompson: Yes.

H.M.Jr: Well, Norman, it isn't good enough, make it gooder.

Thompson: Yes, sir.

Pehle: I think it would be much better if we had a Revenue man investigate these cases instead of Secret Service.

H.M.Jr: Chief Wilson is a Revenue man.

Pehle: He doesn't investigate them.

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- H.M.Jr: I am saying to you, Norman, it isn't good enough and this thing has got to be a hundred per cent. O.K.?
- Thompson: I have been worrying about it myself, particularly these people who have come on subject to investigations.
- H.M.Jr: Nobody goes on from today on unless he is first investigated.
- Thompson: That is right.
- H.M.Jr: And I don't want to have a standard Civil Service investigation.
- Thompson: Well, I probably used the wrong words.
- H.M.Jr: If I could name them, I would tell them to you, but I can't name them.
- Foley: Can we have priorities for these people, Mr. Secretary?
- H.M.Jr: If you don't ride Norman to death until you get the results, Pehle isn't half the man I think he is.
- Thompson: If a case should come up where it is urgent to get quick action, would you object to putting a man on a preliminary report?
- H.M.Jr: What does that mean?
- Foley: They phone in from the field and say he is O.K., but they are writing up the report and it will be a few days before it comes in.
- H.M.Jr: Listen, let's get this thing straight. I hold Pehle responsible that his organization is as clean as it is humanly possible to make it.

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You have got to make it that way, Norman, and I don't care how you do it.

Thompson: Yes, sir.

August 4, 1941  
3:02 a.m.

HMJr: Hello. John?

John  
Sullivan: Yes, sir.

HMJr: Go ahead.

S: They have two hours of debate on this question. One hour has just expired.

HMJr: Yeah.

S: None of the boys who usually can tell about these things care to make any prediction. The State Delegations are split among their parties. It's the funniest lineup that's ever been seen up here, I guess.

HMJr: Uh huh.

S: My guess is that it's going to be retained in the bill by a very small majority.

HMJr: I see. Are you talking from a speakeasy?

S: Pretty much.

HMJr: What?

S: Pretty much.

HMJr: Can you hear the boys laughing?

S: No, not very well. I guess Foley can't be there.

HMJr: Can you hear Foley now?

S: Oh, we caught the fairy at last.

HMJr: Yeah. Well - all right. The market's closed, so let them go ahead and vote.

- 2 -

S: How'd it close?

HMJr: I don't know.

S: (Laughs) Well, I'll - when I get anything  
I'll call you. I just thought you'd like  
to.....

HMJr: I do. Call me again.

S: Righto, sir. Good-bye.

August 4, 1941  
4:15 p.m.

HMJr: Hello.

John  
Sullivan: Hello.

HMJr: Well, I saw on the ticker the vote.

S: Well, you got it pretty quickly. What was it?

HMJr: A hundred seventy-nine to a hundred thirty-five.

S: Well, that was the division. Then they had - that was a standing vote.

HMJr: Yeah.

S: Then they had the division.....

HMJr: Yeah.

S: .....which has just been completed.....

HMJr: Yeah.

S: .....at one ninety-seven to one thirty-nine.

HMJr: Yeah.

S: They're now having a roll call which will probably take - oh, about a half an hour.

HMJr: Yeah.

S: I'll call you if you want to get it, or I won't bother you unless there's a change.

HMJr: Unless there's a change, I wouldn't bother.

S: Righto.

HMJr: That throws the committee down, doesn't it?

- 2 -

S: Yes. I think that also it will leave us about three hundred short.

HMJr: Yeah.

S: Because I don't think they're going to take anything else now.

HMJr: I see. All right.

S: They may change their minds. If there's anything important, I'll call you. Otherwise, I shall not.

HMJr: Thank you, John.

S: Righto.

August 4, 1941  
4:25 p.m.

HMJr: Hello.

Secretary  
Wickard: Yes, Secretary Wickard.

HMJr: Claude? Henry Morgenthau.

W: Yes, Henry.

HMJr: I went off on the deep end at my press  
conference on your cotton.

W: On cotton?

HMJr: Yeah.

W: What did you say?

HMJr: Oh, I said I thought it was terrible to  
freeze this cotton and they ought to leave  
it liquid so that you could sell it when  
there was a demand for it.

W: Well, I want to not only thank you, but  
congratulate you. I hope that we'll never  
get around to that sort of a policy.....

HMJr: Well, I.....

W: .....of holding the stuff up and trying  
to put the price through the roof; because  
I think it would be a boomerang. It will  
hit the farmers sooner or later and be a  
very difficult situation when it does.

HMJr: Well, I was pretty positive about it; and  
I thought I'd tell you.

W: Well, I'm going to have a press conference  
this week, and I think I'll back you up -  
rather, I won't back you up - I'll chime in  
and say that's my opinion.

HMJr: Righto.

- 2 -

I am very much concerned about that, Henry, because it seems to me that there's such a thing as killing the goose that laid the golden egg. Now, we had in the law, the parity of the fair price, and it's awfully hard to talk against something, because just the minute you did, they say, "Don't you believe in following the law?" Well, that puts you over the barrel. But now, we are creating a law and a policy in this country that I don't think anybody can defend except a few short-sighted, foolish people. So that's the reason why I'm really ready to go to bat on the thing; and I've worked on farm organizations here for quite a spell, and I believe I've got them to a place where either they will be against this thing or they won't support it, which gives me a little confidence that we can get the President to veto on this thing sustained by a good majority and teach some of those people a lesson who have been going around, what I call, running a big bluff.

You see what they do, they tack something on some place where you can't veto it, and then they say, "Well, we told you you couldn't veto it." Well, this thing you're talking about now, we have a few things in there we'd like to get through, but this is so important that I'd be in favor of taking a good, big healthy crack at it, and I think we ought to help the President to prepare a strong message pointing out what it would mean to our fiscal policy and I don't believe that some of these people who are so close to it could stand the fire.

HJr: Well.....

Hr: Okay. Thanks for calling.

HJr: Good-bye.

Hr: You bet.

August 4, 1941

Mayor LaGuardia wants the Treasury to take over complete guarding of all ships in the New York harbor and release his police for other jobs. Jokingly, I said, "I have got to consult my lawyer." He said, "The trouble with your lawyers is, they are nothing but "semicolon lawyers." He said, "Often when I look at a semicolon closely, it is nothing but a fly speck." So I said, "We have got trained flies over in the Treasury. They can lay semicolons."

TO: "

8/14/41

303

Mrs. McHugh

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I told the Secretary at the 9:30 conference today that we could not do this without more men and more boats and if we were to do it in New York we would be taking on responsibility for the same thing in all other ports. I suggested that I could have Dempwolf or Daylis talk to LaGuardia and go over the situation with him and the Secretary agreed.

HEG



From: MR. GASTON

August 4, 1941

MEMORANDUM TO MR. GASTON

FROM: THE SECRETARY

Please speak to me about whether or not we have enough Coast Guard men to take over the guarding of all ships in the New York harbor and would we want to do it.

August 4, 1941

Mrs. Henry Morgenthau, Jr.  
Hopewell Junction  
New York

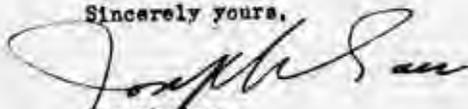
Dear Mrs. Morgenthau:

Among Mr. Morgenthau's numerous papers I came across a record entitled "Morgenthau Expedition 1913". It seemed to me that if this material were properly edited and prefaced with an explanation of the objective of the trip and how the Scofield-Morgenthau observations on farming conditions throughout the United States, nearly four decades ago, might be of interest to the student of agricultural conditions today, it would result in a truly valuable manuscript.

I have had the manuscript retyped. From Mr. Morgenthau's snapshot album of the trip, I tentatively selected some thirty interesting period-photographs. And I am photostating the original map for the trip outlined on a United States base map by Mr. Morgenthau.

Before anything more is done with this material, I should like to have you look through the script and let me have your reaction.

Sincerely yours,



Joseph Gier

August 4, 1941

Mrs. Henry Morgenthau, Jr.  
Hopewell Junction  
New York

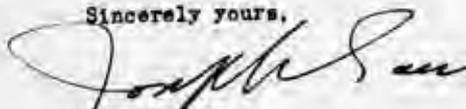
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Before anything more is done with this material, I should like to have you look through the script and let me have your reaction.

Sincerely yours,



Joseph Gaer

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE August 4, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Official sales of British-owned dollar securities under the vesting order effective February 19, 1940:

	No. of Shares Sold	\$ Proceeds of Shares Sold	Nominal Value of Bonds Sold	\$ Proceeds of Bonds Sold
July 28	9,418	271,187	N11	N11
29	5,452	147,930	35,000	27,579
30	3,148	85,734	22,000	14,070
31	10,259	224,517	27,500	19,088
Aug. 1	5,495	128,878	52,000	40,894
2	100	5,966	N11	N11
	<u>33,872</u>	<u>864,212</u>	<u>137,500</u>	<u>101,631</u>
Aug. 2, 1941 Gift to Treasury	<u>20</u>	<u>48</u>		
	<u>33,892</u>	<u>864,260</u>		
Sales from Feb. 22, 1940 to July 26, 1941	<u>9,647,250-1/2</u>	<u>275,877,457</u>	<u>44,377,216</u>	<u>36,482,193</u>
Total Feb. 22, 1940 to Aug. 2, 1941	<u>9,681,142-1/2</u>	<u>276,742,717</u>	<u>44,514,716</u>	<u>36,583,824</u>

Rights sold:

July 28	20,000	\$24,625
29	20,000	\$24,625
30	11,071	\$13,804
31	<u>222</u>	<u>273</u>
	51,293	\$63,327
Sights sold week ending July 26	<u>3,000</u>	<u>\$37,640</u>
Total	54,293	\$100,967

**TREASURY DEPARTMENT**  
**INTER-OFFICE COMMUNICATION**

DATE August 4, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

**STRICTLY CONFIDENTIAL**

Official sales of British-owned dollar securities under the vesting order effective February 19, 1940:

	\$ Proceeds of Shares Sold	\$ Proceeds of Bonds Sold	Total	
July 28	271,187	Nil	271,187	
29	147,930	27,579	175,509	
30	85,734	14,070	99,804	
31	224,517	19,088	243,605	
Aug. 1	128,878	40,894	169,772	
2	<u>5,966</u>	<u>Nil</u>	<u>5,966</u>	
	864,212	101,631	965,843	
Aug. 2				
Gift to Treasury	<u>48</u>		<u>48</u>	
	864,260		965,891	
Sales from				
Feb. 22, 1940 to				
July 26, 1941	<u>275,877,457</u>	<u>36,482,193</u>	<u>312,359,650</u>	
Total				
Feb. 22, 1940 to				
Aug. 2, 1941	<u>276,741,717</u>	<u>36,583,824</u>	<u>313,325,541</u>	313,325,541
\$ proceeds of non-vested securities sold				
July 21 to July 26, 1941			300,000	
\$ proceeds of non-vested securities sold				
Sept. 1, 1939 to July 19, 1941			<u>229,700,000</u>	
\$ proceeds of non-vested securities sold				
Sept. 1, 1939 to July 26, 1941			<u>230,000,000</u>	<u>230,000,000</u>
			<u>GRAND TOTAL</u>	<u>543,325,541</u>
Rights sold: July 28	20,000 rights	\$24,625		
29	20,000	24,625		
30	11,071	13,804		
31	<u>222</u>	<u>273</u>		
	51,293	83,327		
Rights sold during				
week ending July 26	<u>3,000</u>	<u>37,640</u>		
Total	54,293	\$100,967		

August 4, 1941.

CONFIDENTIAL

Dear Mr. Knobe:

I have pleasure in acknowledging the receipt, on behalf of Secretary Morgenthau, of your letter of July 31, 1941, enclosing your compilation for the week ended July 23, 1941, 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.

Faithfully yours,

H. Merle Cochran  
Technical Assistant to the Secretary.

L. W. Knobe, Esquire,  
Vice President,  
Federal Reserve Bank of New York,  
New York, New York.

HMC:dm: 8/4/41

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FEDERAL RESERVE BANK OF NEW YORK

July 31, 1941.

CONFIDENTIAL

Dear Mr. Secretary: Attention: Mr. H. Merle Cochran

I am enclosing our compilation for the week ended July 23, 1941, 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/ L. W. Knoke

L. W. Knoke,  
Vice President.

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

Enclosure

Copy:alm 8-4-41

STATEMENTS OF BRITISH AND FOREIGN ACCOUNTS  
[In Millions of Dollars]

Week Ended July 23, 1941.

Strictly Confidential.

PERIOD	BANK OF ENGLAND (BRITISH GOVERNMENT)								BANK OF CANADA						
	D E B I T S				C R E D I T S				Net Incr. (+) or Decr. (-) in Balance	D E B I T S			C R E D I T S		
	Total Debits	Gov't Expenditures (a)	Other Debits	Total Credits	Proceeds of Sales of Gold	Securities Original (b)	Other Credits (c)	Total Debits		Gov't Expenditures (3)	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	266.3 (a)	416.6 (a)	448.7	1,093.6	900.2	196.2 (a)	+229.0
1940															
Aug. 29 - Oct. 2	166.8	244.8	72.5	308.9	271.5	6.0	31.4	- 7.9	8.5	4.4	4.2	1.3	-	1.3	- 7.3
Oct. 3 - 30	196.7	167.8	28.9	196.5	160.5	6.0	32.0	+ 1.8	0.5	0.3	0.2	0.5	-	0.5	-
Oct. 31 - Nov. 27	241.0	201.1	39.2	259.5	210.0	16.0	31.5	+ 18.5	0.8	0.1	0.7	0.7	-	0.7	+ 0.1
Nov. 28 - Dec. 31	254.6	204.8	27.8	198.0	111.4	26.0	60.6	- 36.6	2.1	-	2.1	0.6	-	0.6	- 1.5
Warwick Branch Dec. 1 - 31	2,282.2	1,425.6	1,356.72	793.1	2,109.3	108.0	575.6	+ 10.8	675.3	421.4	456.9	1,098.4	900.2	196.2	+229.1
1941															
Jan. 2 - 29	197.4	162.7	34.7	259.9	176.2	52.0	31.7	+ 62.5	1.7	-	1.7	0.5	-	0.5	- 1.2
Jan. 30 - Feb. 28	184.6	137.8	26.9	101.4	26.8	84.0	48.2	- 53.2	0.2	-	0.2	0.2	-	0.2	-
Feb. 29 - Apr. 2	229.7	157.6	38.1	237.9	103.7	72.0	62.2	+ 8.2	0.7	-	0.7	1.6	-	1.6	+ 0.9
Apr. 3 - Apr. 30	126.0	101.9	24.1	218.9	125.6	15.0	78.3	+ 32.9	0.9	-	0.9	0.9	-	0.9	-
May 1 - May 28	122.6	90.6	32.0	91.0	6.3	32.0	52.7	- 31.6	0.3	-	0.3	0.8	-	0.8	+ 0.4
May 29 - July 2	140.5	113.8	26.7	105.1	1.9	11.0	92.8	- 35.4	21.5	-	21.5	0.9	-	0.9	- 20.8
July 3 - July 30															
July 31 - Aug. 27															
Second year of war (8/29/40-8/27/41)															
Aug. 28 - Oct. 1															
Oct. 2 - Oct. 29															
Oct. 30 - Dec. 3															
Dec. 4 - 31															
Week Ended:															
July 2	29.9	27.5	2.4	9.9	0.1	-	9.8	-20.0	-	-	-	0.1	-	0.2	+ 0.2
9	24.5	15.7	8.8	12.5	-	1.0	11.5	-12.0	-	-	-	-	-	-	-
16	21.5	17.1	4.4	13.9	-	2.0	16.9	- 2.6	-	-	-	0.1	-	0.1	+ 0.1
23	25.0	20.7	4.3	18.2	-	3.0	15.2 (f)	- 6.8	0.4	-	0.4	0.1	-	0.1	- 0.3

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

(See footnotes on reverse side)

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

England (through June 19, 1940) \$7.6 million  
England (since June 19, 1940) \$46.9 million

Week ended July 23, 1941  
Accumulation from July 6, 1940 \$ 162.7

million  
million

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



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

Week Ended July 23, 1941.

Monthly  
Domestic

PERIOD	STATEMENTS OF CANADIAN ACCOUNTS									STATEMENTS OF AUSTRALIAN ACCOUNTS						
	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		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	Net Incr. (+) or Decr. (-) in Balance
First year of war (8/29/39-8/28/40)*	323.0	16.6	306.4	504.7	412.7	20.9	38.7	38.4	+181.7	31.2	3.9	27.3	36.1	30.0	6.1	+ 4.9
1940																
Aug. 29 - Oct. 2	44.3	-	44.3	49.9	16.4	-	27.3	0.2	- 0.4	8.7	2.5	6.2	8.0	6.7	1.3	- 0.7
Oct. 3 - 30	26.7	-	26.7	28.6	14.0	-	14.3	0.3	+ 1.9	10.1	7.5	2.6	7.9	6.5	1.4	- 2.2
Oct. 31 - Nov. 27	35.2	-	35.2	69.6	49.2	-	16.7	3.7	+ 34.4	3.1	0.6	2.5	3.6	2.1	1.5	+ 0.5
Nov. 28 - Dec. 31	48.0	-	48.0	60.6	42.5	-	13.7	4.4	+ 12.6	4.8	-	4.8	6.8	4.8	2.0	+ 2.0
War period through Dec. 31, 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	+ 4.6
1941																
Jan. 2 - 29	33.7	-	33.7	33.9	16.9	-	15.0	2.0	+ 0.2	4.8	-	4.8	6.8	5.1	1.7	+ 2.0
Jan. 30 - Feb. 26	31.1	-	31.1	24.3	14.3	-	6.8	3.2	- 6.8	5.0	1.7	3.3	3.2	0.6	2.6	- 1.8
Feb. 27 - Apr. 2	60.9	-	60.9	46.0	23.1	-	19.1	3.8	- 14.9	5.2	0.8	5.0	13.7	12.5	1.2	+ 7.9
Apr. 3 - Apr. 30	34.9	-	34.9	35.9	12.5	-	10.5	12.9	+ 1.0	2.8	-	2.8	5.9	4.6	2.3	+ 3.1
May 1 - May 28	39.2	-	39.2	25.6	15.8	-	0.5	9.3	- 13.7	5.4	-	5.4	4.9	4.1	0.8	- 0.5
May 29 - July 2	45.2	-	45.2	48.2	16.3	-	-	31.9	+ 5.0	10.1	-	10.1	3.8	4.2	1.3	- 4.2
July 3 - July 30																
July 31 - Aug. 27																
Second year of war (8/29/40-8/27/41)																
Aug. 28 - Oct. 1																
Oct. 2 - Oct. 29																
Oct. 30 - Dec. 3																
Dec. 4 - 31																
WEEK ENDED:																
July 2	10.3	-	10.3	2.9	2.5	-	-	0.4	- 7.4	2.2	-	2.2	0.4	0.2	0.2	- 1.8
9	1.9	-	1.9	5.8	3.9	-	-	1.9	+ 3.9	1.2	-	1.2	0.1	-	0.1	- 1.1
16	9.1	-	9.1	6.2	3.3	-	-	2.9	- 2.9	2.4	-	2.4	5.4	4.8	0.6	+ 1.0
23	7.5	-	7.5	3.5	3.1	-	-	0.2	- 4.0	2.4	-	2.4	0.5	-	0.5	- 1.9

Weekly Average of Total Debits Since Outbreak of War  
Through July 23, 1941 \$ 7.4 million

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

Regraded Unclassified

A23

313

## MEMORANDUM

BRITISH SUPPLY COUNCIL IN NORTH AMERICA

FROM \_\_\_\_\_

TO Mrs. Henrietta Klotz

Compliments of E.N. Gray

AIRCRAFT SHIPPED TO U. K. AND OVERSEAS COMMANDS

TYPE	DESTINATION	ASSEMBLY POINT	By Sea during Week Ending July 12, 1941	By Air during Week Ending August 3, 1941.
<u>ELL</u>				
Airacobra	U. K.	U. K.	6	—
<u>MURTISS</u>				
Tomahawks	Middle East	Port Sudan	5	—
<u>UNITED</u>				
Chesapeake	U. K.	U. K.	4	—
<u>DOUGLAS</u>				
Boston III	U. K.	U. K.	6	—
<u>LOCKHEED</u>				
Hudson V	U. K.	U. K. (via Gander)	—	16
Hudson III	U. K.	U. K. (via Gander)	—	19
<u>TOTALS</u>			21	35

British Air Commission,  
August 4, 1941.

August 4, 1941

Dr. Feis

Mr. Cochran

Will you kindly send the following cablegram at Treasury expense:

"American Embassy,  
London.

At President's personal and confidential request Treasury Department would like to have Alfred Lunt or another outstanding actor recite Kipling's poem 'The Islanders' this month on 'Treasury Hour' program to promote sale of Defense Bonds. This program is broadcast every Wednesday evening eight to nine Eastern Standard Time on nationwide Columbia Broadcasting System hook-up and has third largest radio audience in United States. Could you get immediate clearance from copyright owners, A. P. Watt and Sons, Limited, Hasting House, Norfolk Street, W. C. 2. Would appreciate quick reply."



HMC:dm: 8/4/41



TREASURY DEPARTMENT  
WASHINGTON

August 4, 1941

Memorandum for THE SECRETARY:

The following report is made of Stamp sales  
at "Treasury House":

July 1-August 2	\$25,081.65
August 3	<u>264.25</u>
Total	\$25,345.90

GRAVES

August 4, 1941

To: The Secretary ✓  
Mr. Adams  
Mr. Callahan  
Mr. Dietz  
Mr. Graves  
Mr. Houghteling  
Mr. Kuhn  
Mr. Mahan  
Professor Odegard  
Mr. Olney  
Mr. Paige  
Mr. Powel  
Mr. Sloan

From: Mr. Duffus

Mr. Howard Dietz has advised that through July 15th, 6,813 theatres have run "America Preferred".

The prints are still being played and will be shown in many more theatres in coming months.



DEFENSE SAVINGS STAFF

TREASURY DEPARTMENT  
WASHINGTON

Aug. 4, 1941

Mr. Harold N. Graves,  
Assistant to the Secretary,  
Treasury Department Building,  
Washington, D. C.

Dear Mr. Graves:

We are not sending out any fifteen,  
twenty-five, or fifty word announcements for  
August.

If you desire, you may use the short  
announcements sent you for use during July.  
Please communicate with me at once if you wish  
to have another set forwarded to you.

Many thanks for your continuing coopera-  
tion.

Sincerely yours,

*Vincent F. Callahan*

Vincent F. Callahan,  
Chief, Radio Section,  
Defense Savings Staff.

## MEMORANDUM FOR THE SECRETARY.

August 4, 1941.

MAIL REPORT

The outstanding group of letters during the past week has been that dealing with the tax anticipation notes. By the end of last week, 70 letters and 2 telegrams had been received, all expressing approval and pledging the fullest cooperation. Monday morning, the 4th of August, 106 letters were in the first mail. There was not a "sour note" in the lot. The letters not only promise cooperation, but express the promise in a vigorous and enthusiastic manner, with only one or two that sound at all perfunctory. The banks will "cooperate to the fullest extent"; "cooperate with pleasure"; "be delighted to do everything possible", etc.

A few individual comments follow:

"We believe this type of financing is very sound and shall urge all our customers to take advantage of these notes."

"Want you to know we are most happy to cooperate with you in this, and every way possible in which we may help in the staggering problem which you have of financing the defense program."

"We feel these notes do fill a real need, and it will be a distinct advantage if the small taxpayer, as well as the large taxpayer, avails himself of the opportunity."

An individual investor writes - "Not much of an investment case can be made out of non-transferrable bonds coming due in ten years when the price level is going up every day. Wholesale national investment in such bonds cannot be promoted as long as the dollar you pay for today may be worth less in terms of bread and butter as time goes on."

Edward S. Bentley, New York City. Regrets that the new tax anticipation notes can be used only in payment of income taxes, and not for other taxes. At the present time Federal estate taxes are not payable until 16 months after death, and there is no benefit to the estate in paying ahead of time. He is executor of an estate which will be required to pay a Federal estate tax of some \$300,000. He would like to buy tax anticipation notes, but finds this is impossible. Suggests a broadening of the scope of such tax anticipation notes.

Memorandum for the Secretary.

August 4, 1941.

Williamson Fell, President, U. S. Trust Company of New York City. Treasury Department's circulars containing information concerning the issuance of Treasury Notes Tax Series A-1943 and Tax Series B-1943, contains no reference as to their availability for the purpose of paying Federal Estate taxes. Suggests that if it has not already been done, consideration be given to the use of these notes for this purpose. Both corporate and individual executors have accumulated vast sums as a reserve for the payment of Federal Estate taxes, and he feels quite certain many millions of dollars would immediately be available for the Government's use if executors were permitted to anticipate their Federal tax payments through the purchase of Treasury Tax Notes.

Charles Jackson of Boston will buy new tax notes as duty in emergency but would feel more enthusiasm if buyers of large certificates received same interest as those buying for smaller amounts. Is it necessary to favor smaller taxpayers to induce them to put up their money to help the Government?

There are a number of comments on the radio programs - mostly favorable, although there are a few protests.

Rabbi Joseph Kauch, Louisville, Ky., has followed radio programs with close interest. Very enjoyable for thinkers and cultivated people, over the heads of the masses. Concert singers, novelists, professors not the right ones to dramatize an appeal to the average American family. Take a page from propoganda technique of enemies who speak to men, women and children, effectively playing on emotions. Don't handle Hitler with kid gloves; be brutal, frank and stir our citizens to a high pitch of patriotism.

Miss Julia St. John, Miami, Florida, refers to radio discussion between Secretary and men representing several national groups. "It was appalling that you practically repudiated the idea of thrift brought up by one participant; and in spite of the fact that many leaders have openly allied themselves with waste and malversation, thrift is still an excellence to which you avoided approval." Feels that the only way for the Government to get honorable money is by taxation. Refers to Defense Bond Quiz -- asks that this question and answer be explained. Q. By buying all the Defense Bonds I can, do I do anything to keep down taxes? A. Yes. The more money raised by borrowing, the less need be raised by taxation.

- 3 -

Memorandum for the Secretary.

August 4, 1941.

Newton A. Paine, Woonsocket, R. I. The radio programs sponsored by the Treasury on Tuesday evenings are without a doubt the best he has ever heard. "Nothing in the newspapers has stirred people and made them feel like going to the bat for their country as much as these programs."

O. J. Rousseau, Warrington, Florida. As citizen, taxpayer, disabled veteran, and purchaser to the utmost of his ability of Defense Bonds, expresses resentment and disgust of poor taste of Master of Ceremonies on radio program lampooning a General of the United States Army (Lear). Should not be tolerated on programs sponsored by Government. Apology to the General in question should be extended, and those who participate in program warned against libbing the caricatures of this sort.

Mary L. Brady of Brooklyn, N. Y., writes, "Up to the last broadcast the entertainment has been excellent, but I am forced to protest against the appearance of Jack Benny on the last program. How can one respect an Administration which sanctions the appearance of a smuggler of jewelry on a program that calls for financial support of the Government? The 'smutty by-play' with Claudette Colbert was enjoyable, perhaps to people of low moral tone. That might be expected from some commercial source, but we have the right to expect that a Government sponsored program be on a high and decent level. Past performances show that this is possible. Dorothy Maynard, the colored soprano; Alexander Woolcott's beautiful reading of Irving Berlin's autobiography; and the song "Any Bonds Today" as rendered by Barry Wood all testify to that."

There continues to be a great many comments upon the Defense Bonds. The principal objection to buying them seems to be the Administration's extravagance. Many complain of the difficulty of getting them in the office hours during which they are on sale.

Howard W. Theall, Vallejo, Calif. Suggests that the Defense Bonds read "Payable on Demand" instead of "After 60 Days". Feels that a number of citizens cannot afford to wait 60 days to cash a bond in case of an emergency, and if this could be changed, it would help the sale of these bonds to the "little fellow".

William Harrison, Associate Editor, Boston Chronicle, Boston, Mass. Expresses his sense of satisfaction, shared by many Bostonians who heard the invigorating lecture delivered at the Harvard University Summer School last Thursday, July 24th, by Mr. William Pickens of the Defense Savings Staff. He was so moved by this talk that he wrote an editorial on the Defense Savings Bonds and Stamps and is sending a copy to the Secretary under separate cover.

Memorandum for the Secretary.

August 4, 1941.

John C. Werner, Cincinnati, Ohio, has recently noted in the press references to a forced savings plan which is receiving consideration in Washington, which would require the compulsory purchase of Defense Bonds. Feels that there are many citizens who cannot afford to invest from their current earnings in such schemes of forced saving to provide the Government with funds to carry on its war or defense efforts. If the Government had been less prodigal with the taxpayers' money during these recent years, we would not find ourselves in a situation where any such scheme would be given a thought. His economic situation is such that every dollar of his earnings is tagged, and he has absolutely no funds with which to purchase bonds, even granting that he be willing to do so.

Harry Rosset, Chicago, Ill. The bond drive can easily be trebled by using the right sales procedure. In survey has found most people employed during the hours the post offices and banks are open. Suggests the following: have more accessible purchasing centers; material available enabling one to enclose check or money order near time clock in factories; organize salesmen who in their normal duties can spread word of mouth publicity and pass out leaflets. Offers his assistance in every way possible to help.

Reade Tilley, Clearwater, Florida. Offers suggestion to increase the sale of defense stamps -- that all postal clerks and mail carriers act as salesmen. "Listening to your broadcast of tonight provoked this letter; it was an excellent program, Mr. Secretary." Claims that he purchased the first \$100 bond sold locally, is buying \$5 worth of stamps each week and is giving a 25¢ stamp with each \$5 purchase in his store.

Herbert Lee, Santa Cruz, Calif. States that he purchased Liberty Bonds but so far no Defense Bonds, for the following reasons: No dividends on his stock in Armour and Company for last 3 1/2 years due to taxes caused by wastefulness of the Administration; against shipment of oil to Japan; protests Secretary Ickes' attack on the Aluminum Company of America. Refers to the report that the U. S. Navy advertised surplus aluminum for sale at auction without even calling for bids at the time when the drive was on for old aluminum. "Such things are depressing to people who would be only too eager to help if they could be convinced that self-denial would do some good."

A. Mendelsohn, Cleveland, Ohio. States that he bought \$25 in Government Savings Stamps and sold them to his employees. "Out of 18 employees, 8 bought bonds and 15 never bought bonds or stamps in their life". Today they come to him and ask for these stamps and he is selling about \$60 each week. Feels that all citizens would invest in these stamps if they were "easier" to purchase. Suggests that a means be worked out whereby every head of a business would do the same thing with a view to furthering the sale of these stamps and bonds.

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Memorandum for the Secretary.

August 4, 1941.

H. A. Strauss, St. Joseph, Mo. Travelling salesman, has \$25 worth of Defense Stamps, starting books with 10¢ stamps, and is giving them as tips. Averages \$5 a day. Suggests we release news item on this. (Does not mention one already used about Gail Johnston doing this with 25¢ stamps every time he gives a tip.)

U. B. Utley, owner Twin City Daily Times, Morehead City, N. C., has exerted every effort to cooperate with Administration, often hearing the comment locally, "You may be patriotic, but it is bad newspaper policy". Has run over \$2,000 worth of space devoted to defense material. Believes many papers have not become aware of patriotic necessity for doing this. "If any time you feel like a good fishing trip, they are biting good down this way, and shooting is good in the fall and winter."

Edwin Kahn, Newark, N. J., employed in defense work, Picatinny Arsenal. Lives 38 miles from work. Cannot reach Post Office before closing time. Recently rushed off after getting paycheck to Post Office at Dover, reaching there few moments after 5. Was curtly told bonds not sold after 5. Tried to explain to clerk that with other workers at Picatinny, could only come after working hours. Woman walked away while he was talking.

Six protests from firms having merchandise on board "Tatuta Maru", and other Japanese boats, enroute from China, Japan and French Indo China. All want to know what this Government proposes doing to protect the interest of American importers, and stress fact that imports are not Japanese goods and will cause terrific loss to American firms - no loss to Japan.

General comments follow:

Henry D. Steinmetz, New York City, suggests that demoralising effect of inflation can be used against Germany by counterfeiting small denominations mark notes and scattering over that country. Counterfeiting currency not a new weapon. Both sides used it in Civil War and British counterfeited Continentals during Revolution. Could now be tried on large scale because of airplane distribution.

Peter A. Buss, U. S. Maritime Training Station, Ft. Trumbull, New London, Conn. "Please send me a snowball from the frozen assets of Germany as my share for the defenseless sinking of the 'Robin Moor'". - Member of crew.

Memorandum for the Secretary.

August 4, 1941.

"American Mother" sends life insurance notice saying no further interest, and cut in dividends because of taxes on Company. Costs of food, clothing, schooling, etc., going up - interest and dividends down. Very hard on the middle classes.

K. E. Collins of Nashville, Tenn., says a boost in Social Security tax is indicated. Most men with jobs from whose salaries deductions are made are Union members who have obtained more money through strikes against defense program. Why should thousands whose wages have remained stationary, though prices of all sorts are rising, suffer a reduction in pay to give financial benefits to Union members? "The only way we can counteract the unfair treatment extended by pro-labor Administration is to register our disapproval at the polls."

Elmer H. Schwarz, New York City. A special reissue of the old "V" nickel might be an extremely useful adjunct at this time in connection with the "V" campaign. "It was the five cent piece first issued in 1833 bearing the Goddess of Liberty on one side and a large V on the reverse side".

Similar suggestion from S. Dan Gunderson, Sarasota, Florida. (Letter addressed to Sen. Claude Pepper and referred to the Secretary from that office.) In 1910, the U. S. Mint issued a five cent piece with a large "V" across the face. Opportune time to bring this design into play again, on \$5 bills as well as the five cent piece, all with the idea that we over here are victory minded, both as regards the occupied countries and our own war efforts.

There is a greatly increased number of suggestions that the Government hold a national lottery, and many have worked out plans in detail.

There is the usual violently anti-British and anti-convoy post card and letter campaign, as well as the campaign against the joint income tax return.

There are many suggestions as to raising money with the possibility of taxes on horse racing, bingo parties, slot machines, and other gambling devices leading all others. There are also many suggestions that Defense Stamps be given for change, used as Christmas seals, etc.

Letters referred from the White House July 1 to July 31 numbered 517, as against 406 for the same period last year. 316 were answered in the Correspondence Division; 196 referred. Last year 250 were answered; 148 referred.

*J. F. Forbush*

EXPORTS OF PETROLEUM PRODUCTS, SCRAP IRON AND SCRAP STEEL  
FROM THE UNITED STATES TO JAPAN, RUSSIA, SPAIN, AND GREAT BRITAIN  
AS SHOWN BY DEPARTURE PERMITS GRANTED

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Week ended August 2, 1941

	JAPAN	RUSSIA	SPAIN	GREAT BRITAIN
<b>PETROLEUM PRODUCTS</b>				
Fuel and Gas Oil (including Diesel Oil)	--	--	61,000 Bbls.	723,899 Bbls.
Crude -				
Blended or California High Octane Crude*	--	--	--	--
All Other Crude	--	--	--	64,000 Bbls.
Gasoline -				
Gasoline A**	--	31,548 Bbls.	--	464,486 Bbls.
Gasoline B*	--	--	--	103,000 Bbls.
All Other Gasoline	--	--	--	--
Lubricating Oil -				
Aviation Lubricating Oil***	--	--	1,845 Bbls.	26,634 Bbls.
All Other Lubricating Oil	3,418 Bbls.	--	15,100 Bbls.	603 Bbls.
Tetraethyl Lead***	--	--	--	--
"Boosters", such as Iso-Octane, Iso-Heptane, or Iso-Pentane	--	--	--	--
<b>SCRAP IRON AND SCRAP STEEL</b>				
Number 1 Heavy Melting Scrap	--	--	--	500 Tons
All Other Scrap	--	--	--	1,925 Tons

Office of the Secretary of the Treasury, Division of Research and Statistics. August 4, 1941.

Source: Office of Merchant Ship Control, Treasury Department.

\* Any material from which by commercial distillation there can be separated more than 3 percent of aviation motor fuel, hydrocarbon or hydrocarbon mixture - President's regulations of July 26, 1940.

\*\* Aviation Gasoline.

\*\*\* As defined in the President's regulations of July 26, 1940.

D R A F T

*Last draft*  
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August 4, 1941

~~9 A. M.~~  
*4 P. M. - Meeting postponed*

SUGGESTED STATEMENT OF THE SECRETARY OF THE TREASURY  
BEFORE THE SENATE COMMITTEE ON FINANCE

Mr. Chairman and members of the Committee: I am here today to give my support to the pending tax bill H. R. 5417 designed to produce \$3,500,000,000 annually in additional revenue for the defense of our country.

When, on April 24, I made my statement before the House Ways and Means Committee on this Bill the defense program was about \$39 billion including the lend-lease appropriation. Since that time there have been further authorizations and appropriations so that the total program at the present time has risen to \_\_\_\_\_ billion dollars. Of course, not all of this amount is going to be spent in the present fiscal year, but as these appropriations are spent the fiscal problems of the Government and the economic effects of the defense program will both increase.

Our great problem in providing for the defense of the nation is fundamentally the problem of production; of actually building planes and tanks, ships and guns with the labor, management, machinery and raw materials which we have in our country. As we increase this

production we shall find that it will be necessary to divert to defense production more and more of the resources now engaged in satisfying our civilian needs and wants. The pinch of scarce resources and plants is already being felt and it may be expected to become more aggravated.

Rising prices.

At the same time as this diversion of production is taking place, the amount of purchasing power in the hands of the people of the country will continue to increase due to the large amounts being spent by the Government and to resultant fuller employment. The result of the pressure of this increased purchasing power on the limited amounts of goods and services for which it may be spent threaten, in the absence of vigorous action, to sweep us into a spiral of rising prices.

Apparently we are at the same point in price history as in 1916 -- on the edge of inflation.

The pattern of price rises during the past two years roughly resembles the price movement during the first two years of World War I -- little rise in the cost of living, a moderate rise in the wholesale price index and a sharp rise in the prices of basic commodities.

Since the beginning of the war, September 1939, the wholesale price index has risen from 65 to 87 or about

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16 percent. The greater part of this rise has occurred during the past five months.

The cost of living index has increased 5½ percent since September 1940. Half of this increase has occurred in the past two months.

The price index of 28 basic commodities has increased 48 percent during the same period, despite the fact that the prices of many basic raw materials have been controlled by the Office of the Price Administration and Civilian Supply. This increase constitutes a major danger signal of inflation which must not be ignored. The wholesale price index always lags greatly behind the index of basic commodities, while the cost of living index does not show anything like the full effects of inflation until long after the seeds of inflation have taken deep root.

Forces making for price rises.

The forces making for further price rise are both potent and persistent:

(1) The Budget estimates defense spending during the fiscal year 1942 will be \$15 billion or two and one half times as much as in the fiscal year of 1941. This increased estimate does not take account of extensions of the defense program made after June 1 and of additional sums needed for lend-lease.

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(2) More important in its bearing on the danger of inflation than the figures for expenditures of the coming year are the estimates of deficit spending. The net deficit for the fiscal year 1942 as estimated by the Director of the Budget will be \$12.8 billion compared with \$5.1 billion for the previous fiscal year. This assumes the present tax structure. If the \$3.5 billion tax bill which is before you is passed by Congress at an early date the deficit will be reduced by about \$2 billion (the amount of revenue yield in the fiscal year 1942 of the \$3½ billion total) but it will still be over \$10½ billion. Again this estimated deficit does not take account of the expansion of the defense program after June 1, 1941.

(3) The inflationary force of the Federal deficit has been supplemented during the past year by an expansion of bank credit. Total bank loans expanded by an estimated \$3 billion or about 20 percent during the fiscal year just past. This rise moreover has been proceeding at an accelerated pace.

(4) Prices will be increasingly stimulated by

- (a) the shortage of materials for civilian goods
- (b) increased absorption of idle capacity in many industries and
- (c) further increases in agricultural

prices and wages.

Also making for further price increases are the heightened obstacles to imports such as reduced ship space, higher shipping costs and cutting off of normal foreign sources of supplies.

Although there are some factors in the situation operating to check the inflationary trend, such as surplus stocks of some agricultural commodities, unemployed labor resources and partially employed production facilities, most of these factors were present in the fiscal year 1941 in greater degree and yet did not serve to restrain price rises even though the forces making for price rises were then much weaker.

Steps already taken to check inflation.

Some important steps have already been taken or are being taken to check inflation. Congress has made provision for the Treasury to sell Defense Savings Bonds and Stamps and so to absorb for the defense program funds which might otherwise be used for civilian purchase of goods. This very important program is well under way.

The Treasury Department has also launched a plan for selling tax anticipation notes which will facilitate the prepayment of income taxes and will more promptly withdraw purchasing power represented by such taxes.

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The Office of Price Administration is making every effort to obtain the cooperation of producers and distributors in limiting price rises.

Additional measures necessary.

These measures to restrain price rises, although they have unquestionably been helpful, are inadequate to meet the situation confronting us. We have gone only a small part of the way it will be necessary to go. We must attack the problem on all fronts if we are successfully to check inflation.

My purpose in talking to you today about this subject of inflation is primarily to indicate the ways in which the tax program can be designed to help minimize the dangers of inflation. Tax legislation, however, will not, by itself, solve the problem. The control of inflation is too great a load for fiscal policy alone to carry.

Accordingly before discussing taxation I wish to refer briefly to other lines along which action should be taken.

(1) The Office of Price Administration should be given the statutory power to fix prices where necessary. The legislation which the President has requested is essential. Price rises cannot be controlled when inflationary forces are at work without effective power

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to impose price ceilings enforced by direct penalties. The mere possession of such power tends to make its exercise unnecessary.

The attempt to prevent unwanted price increases by fiat, however, is bound to break down here as it has elsewhere unless it is accompanied not only by an adequate fiscal program to absorb buying power, but also by other methods.

(2) Vigorous steps should be taken to increase the supply of goods required for military and civilian needs. Increased output is in itself a major objective of our defense program and the most effective and desirable method of preventing inflation. There should be further exploration of the possibilities of inducing expansion of production facilities and labor supplies where such response could not be expected to occur automatically.

(3) There should be authority to provide systematic priorities of scarce supplies among industries making civilian goods. In order to obtain a fair distribution of scarce supplies among consumers it may later prove necessary to extend the rationing to ultimate consumers.

(4) Extension of the general controls over bank credit may be found desirable.

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(5) Establishment of controls over the entire field of consumer credit will undoubtedly be necessary.

(6) Controls over capital expenditures should be provided.

(7) It may be found desirable to extend the Social Security Program along lines which would increase the flow of funds to the Treasury from current incomes during the emergency and would increase the outflow of funds when needed in the post defense period.

(8) There should be a reduction of the Federal lending and underwriting program, such as nonemergency housing expenditures and mortgage guarantees.

(9) Nonessential Federal expenditures should be reduced. In my statement before the Ways and Means Committee I pointed out the desirability of reducing such expenditures by one billion dollars. An appeal should also be made for economy in State and local governmental expenditures and for curtailment of their borrowing for nonemergency expenditures. Such curtailment would not only cut down expenditures during this period but would build up a back log of desirable projects for the post-defense period when public works expenditures may be badly needed to maintain the economy.

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Fiscal policy for inflation control.

Even with these controls in operation -- and I urge upon you the necessity of placing them in operation -- a strong fiscal policy for inflation control is necessary. The tax bill before you is an important step. When I appeared before the Ways and Means Committee in April, I recommended a tax bill to yield \$3.5 billion of revenue annually above the yield of the existing tax structure. If at that time I could have foreseen the accelerated rise in prices and the great increase in the defense program which have since taken place, I should have asked for more than \$3.5 billion.

The Ways and Means Committee of the House has labored long and well on this bill and I am not suggesting that you increase the total amount of revenue which it provides. To increase its revenue yield substantially might result in delay, and passage of the bill is important.

When this bill has been passed, however, and you and the members of the Ways and Means Committee have had an opportunity to enjoy a well deserved rest from the arduous labors which it has entailed, I hope you will undertake, as the Treasury has already undertaken, to make a new survey of our tax system. It is now some

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years since the tax system has been examined with respect to the many technical changes which from time to time are found necessary as a result of experience, new court decisions, and other new situations. Both the taxpayers and the Government suffer as these uncorrected faults accumulate. Such matters have been kept out of the present bill in order to expedite its passage and not to complicate the issues which it involves, but they should be taken up yet this fall. In addition to correcting the faults in our tax structure, it will again be necessary in the light of the present program for defense expenditures and the threat of inflation to increase further the revenue power of the tax system either late this year or early next year.

From present indications, if the control measures which I have mentioned are placed into operation, and if the tax bill is promptly passed providing not less than \$3.5 billion of new revenue, it is my hope that the situation will remain fairly healthy until the early date when another tax bill designed to absorb substantially more purchasing power can be considered and passed.

Excess profits tax.

Within the \$3.5 billion revenue scope of the present tax bill there appear to be several possibilities for

discouraging inflationary price rises. The first of these is in the field of excess profits taxation. In recent months there has been a noticeable tendency for various groups including business men, farmers and laborers, to endeavor to secure higher rates of return in profits, prices and wages. Such efforts cannot be criticized in normal times. At the present time, however, with the existing pressures for inflation, widespread efforts to increase profits, prices, and wages will result not only in larger purchasing power and thus still greater pressure on our limited supplies of civilian goods, but also in higher costs for the defense program and for goods which civilians purchase. These higher costs in turn necessitate increases in prices and these in turn give rise to new demands for higher wages and higher prices. The spiral goes up and up.

If we are to expect to stop or prevent this spiral we must be able to show those who receive modest incomes from their labor or their production that excessive profits are not being received by great corporations.

The present excess profits tax places special heavy taxes on profits which are in excess of the profits received during the years prior to the defense program.

This is all to the good, -- is indeed essential. It is, however, not enough. A corporation may make 50 percent profit on its invested capital and not be subject to the excess profits tax if the profit is not in excess of 95 percent of its average profits during the base period years 1936 to 1939. This basic weakness is found in the present law and also in the bill before you.

This is not a matter of minor importance. Substantial numbers of companies are in the high-profit group. One out of five profit-making corporations with assets of \$1,000,000 and over averaged more than 10 percent net income on their reported equity capital during the years 1935 to 1938 and one out of twenty-five companies averaged more than 30 percent. These companies can continue to earn profits at virtually these rates without paying excess profits tax under either the present law or the Committee's tentative plan.

Failure to apply excess profits taxation to such excess profits is unfortunate also because of the uneven way in which competing businesses are affected. Concerns which have been making high returns in the base period years are given a competitive advantage over newly organized concerns or concerns which have been struggling to establish themselves. They may

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receive free from excess profits tax a much higher rate of return than their new and growing competitors. The effect is to confirm monopolies in their control and to protect well established businesses against competition.

Moreover the capacity of a corporation to pay taxes is affected by the rate of its return on its investment. The highly prosperous, well established corporation which has been making 30, 40, 50 percent or more on its invested capital has a much larger ability to pay taxes than a corporation which has been earning only 3, 4, or 5 percent on its invested capital even though the dollar incomes of the two companies are the same. Heavy taxes on high rates of profit will not cause the business receiving them to be liquidated or discontinued for lack of a minimum necessary profit, which may occur when heavy taxes are imposed on meager profits. Application to corporations of taxation in accordance with ability to pay calls for higher taxes on the profits of those corporations which have the higher rates of return.

Defense excise taxes.

In more normal times excise taxes have little to recommend them except the fact that they produce revenue. In a period such as this, however, excise taxes may in certain cases promote a more positive objective, namely, to reduce the demand of producers and consumers for

scarce commodities which compete with the defense program and to absorb wind-fall profits which result from scarcity of supply relative to demand.

The achievement of this objective is not a simple matter. It would be unwise to impose numerous excise taxes at low rates. The result would be to clutter up the tax system while not effecting the desired control. It is not possible to handle in the same manner all commodities which it is desired to tax. Some may require one kind of treatment and others another kind. Nevertheless, the further use of excise taxes to divert consumption and to reduce wind-fall profits should be seriously considered by your Committee.

For example, the tax on passenger automobiles might well be made much higher than the 7 percent adopted by the House. The production of passenger automobiles will undoubtedly have to be greatly restricted. Reductions as great as one-half have been mentioned. It will be extremely difficult under such circumstances to prevent retail price rises on automobiles. A high excise tax will help to prevent these higher prices from giving unwarranted wind-fall profits to dealers and middlemen. Such taxes will not likely increase the prices of automobiles to consumers much beyond what they otherwise would be with the restricted supply; to the extent they

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do increase prices they will reduce the need for rationing purchases by consumers.

Personal exemptions.

One feature of the bill before you which has received less public attention than it deserves is the fact that the base has been broadened to add about 2,000,000 new taxpayers. This was accomplished by beginning the surtax at the first dollar of surtax net income. The 10 percent earned income credit in effect increases the exemption from normal tax. Since this credit is not applicable in computing the surtax, the bill has in effect reduced the exemption of single individuals by \$88, of married couples by \$222, and of married couples with 2 children by \$311.

In the early stages of this bill the Treasury Department took the position that in view of this substantial broadening of the base personal exemptions should not be further lowered. Equitable taxation requires that taxes be placed on ability. Small incomes have very little taxpaying ability, and this little is decreased as the cost of living rises.

However, the threat of rising prices has become so great that a change of policy is indicated. If the cost of living rises substantially the effect will be to tax small incomes much more than would an income tax

at the rates provided in this bill. If the direct taxation of these incomes will help, as we believe it will, in preventing inflation it will be a great service to the very groups which would be made newly subject to the tax.

Accordingly, in the light of the developments of the past few months it is our recommendation that the personal exemptions of both single and married persons be substantially reduced so that the income tax will reach a much larger percentage of the national income and will affect a much larger percentage of the persons of the country than it does at present.

Alternatives to taxation more onerous.

In closing my remarks I desire to point out that although this is a very heavy tax bill the alternatives to heavy taxation are much more onerous. Rising debts and rising prices would take much or more away from our people both now and in the future than higher taxes now will take. Our defense program is an absolute necessity. It must be paid for. It should be finally paid for now insofar as possible, thus reducing the necessity for higher taxes later when they may be harder to pay and less willingly paid than now.

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE August 4, 1941

TO: Secretary Morgenthau

FROM: Prepared by: Mr. Daggit, Mr. Murphy, and Miss Michener

SUBJECT: The Business Situation,  
Week ending August 2, 1941.

Summary

(1) Weekly business indexes have moved up to record high levels. The New York Times index in the week ended July 26 rose 1.8 to 133.3, which is 0.5 above the previous peak reached at the end of June. During the same week, Barron's weekly index of business activity advanced 1.7 to a new record high at 141.0.

(2) Commodity prices have continued to move higher. The BLS all-commodity index in the week ended July 26 rose 0.5 to 88.3, thus exceeding the 1937 peak and reaching the highest level since 1930.

(3) Prevention of price inflation threatens to be a more difficult task than during the last World War period. Wages and food prices have been rising at a more rapid pace than during the World War. The greater scope and speed of the rearmament program, together with the prospective vast increases in Government expenditures, are among other factors which may make the problem more difficult than in the earlier period.

(4) The shortage in the supply of iron and steel scrap has become more critical, and threatens to cause a reduction in steel operations. Although the steel operating rate last week rose to 99.6, within a fraction of the peak reached at the end of June, the rate scheduled for this week is 1.3 points lower. The OPM has placed pig iron production under full rationing control.

(5) Our new orders index in the fourth week in July rose sharply to a record high. Both steel and textile orders reached new peak levels.

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### Commodity prices still rising

The BLS all-commodity index (nearly 900 commodities) continued to advance in the week ended July 26, and reached 68.2 -- a figure 0.5 above the previous week and the same amount above the 1937 high. As a result the index now stands at the highest level since 1930, and is 18.4 percent higher than in August 1939, when it stood at 75.0.

The prices of both foodstuffs and raw industrial materials showed further rises in the two weeks ending August 1. (See Chart 1, top section.) Industrial raw materials touched new highs, while foodstuffs approached the peak levels reached near the end of June. During the two weeks mentioned, particularly sharp advances occurred in silk, print cloth and coffee. (See Chart 1, lower section.) The rise in silk prices was, of course, due to the crisis in Japanese-American affairs, while the gain in print cloth prices reflected the raising of the price ceiling for that item by OPACS. The jump in coffee prices was due to Brazil's stepping up the minimum export price by about 1-3/8 cents per pound.

The President's message to Congress on price control last week was followed by substantial declines in prices of certain commodities, particularly cotton. However, a strong recovery occurred at the end of the week when the provisions of the proposed price legislation became known.

### Comparison of present price situation with World War

There is much evidence to indicate that the job of preventing price inflation in the months immediately ahead will be more difficult than during the corresponding period after the beginning of the World War. This conclusion is suggested by a comparison of price influences during the two war periods, which indicates (1) that the inflationary pressure on prices now is at least as great as in the summer of 1916, and (2) that from now on the pressure is likely to increase more rapidly than it did after the summer of 1916, since the armament program is in a more advanced stage, and the additional defense expenditures projected for the immediate future are of far greater magnitude. Prices in recent months have been rising as rapidly as during the first half of 1916. (See Chart 2, upper section.) This situation confirms the urgent need of a completely-planned price control program for the duration of the present emergency.

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(1) Wage spiral may be difficult to prevent. In view of the rapidly rising wage trend, combined with rising living costs, it is becoming increasingly evident that a wage spiral may be difficult to prevent. Comparable wage data for the World War are not available, but it is of interest that average hourly earnings of factory workers have risen 14.5 percent since August 1939. (Latest figures are for May.)

Food prices, which are by far the most important item in living costs, have risen noticeably faster than during the World War. (See Chart 2, lower section.) The recent sharp upturn in living costs is already bringing further pressure for wage increases.

(2) Production restrictions will tend to raise prices. The sharp rise in World War prices, which began near the end of 1915 (refer to Chart 2), started shortly before industrial output had reached its then maximum. At present, the FRB index has not yet begun to level out (see Chart 3) but output in a number of important industries (steel, automobiles, textiles) has probably already reached its present limit. The real test of the price structure will probably come (as it did during the World War) when total production can be expanded no further, whether due to lack of physical capacity, shortages of materials and labor, or Government restrictions on civilian goods production.

(3) Large money supply, steadily rising, is a strong inflationary influence. The supply of money (bank deposits) is essentially a more potent inflationary influence than it was during the World War, constituting this year roughly 80 percent of the national income as compared with perhaps 60 percent in 1916.

The rapid increase in deposits, somewhat similar to that during the World War, gives added significance to the monetary factor. Total deposits have increased steadily since the beginning of the war, gaining about \$11 billions over the 2-year period. During the first year, gold imports were largely responsible, while during the second year the increase was due entirely to increased loans and security holdings, reserves actually decreasing slightly.

In the World War period, as during the present war, bank loans and security holdings in the first year of the war expanded only moderately. In the second year, however, total bank holdings of Government and other securities increased 15.5 percent and total loans increased 13.3 percent.

For the present year, the June 30 figures for all banks are not yet available. Weekly reporting member banks in 101 leading cities, however, show an increase in holdings of

Government and other securities between June 26, 1940 and June 25, 1941, of \$2,309 millions or 18.5 percent. Total loans of these banks in the same period increased by \$1,889 millions or 22.4 percent. The increases in loans and security holdings of all banks in the United States, however, have been substantially less rapid than those for weekly reporting member banks, according to our estimates.

The greatest increase in bank loans recently has been in the loans for commercial, industrial and agricultural purposes, which are still rising rapidly. (See Chart 4.) These affect commodity prices directly, since such loans are largely made for the purpose of buying goods and materials.

(4) More concentrated defense program creates greater inflationary hazard. The present defense program will tend to put a greater strain on prices than was exerted by our World War program, for a number of reasons:

(a) Greater mechanization of the Army, together with the greater requirements for airplanes and ships, will put a relatively heavier demand on industrial capacity and raw material supplies than during the World War. While capacity has been expanded since the World War, the expansion has been necessitated by increased consumer requirements.

(b) Our armament program is getting under way sooner and more rapidly than during the World War.

(c) The magnitude of the increase in prospective expenditures in the present fiscal year contrasts markedly with the increase in expenditures during the fiscal year 1917, which would be comparable in point of timing. Against the prospective increase of \$9.5 billions in total expenditures for the fiscal year 1942, the increase in 1917 amounted to only \$1.7 billions. A difference in price levels has not been a factor in this comparison, since general commodity prices at the beginning of the two fiscal years were at very nearly the same levels.

(5) Although it has been argued that present surpluses of labor and industrial capacity, together with relatively large supplies of farm products, will tend to prevent inflation, there is considerable doubt whether these will be of any material assistance. A surplus of labor would tend to

prevent inflation (a) if it were effective in keeping wages down, and thereby preventing the development of a "wage spiral", or (b) if it were effective in bringing about an increased production of those goods for which prices have tended to rise most strongly. The recent marked increase in both wages and prices indicates that the present labor surplus has been of minor effectiveness as an inflation control.

If our surplus industrial capacity were in industries where it is needed, and if adequate supplies of materials and labor were available, there is no doubt that prices could be more easily controlled. But surplus capacity in cement, plate glass, and bituminous coal, for example, is of little value when the capacity needed to prevent price inflation should be in such industries as aluminum, steel, and shipbuilding.

It is true that the current surpluses of many farm products would normally tend to hold prices down. Nevertheless, the present inflation move has been led by farm and food products, largely as a result of political pressure and the Government's food purchasing program. In view of recent and pending legislation, there is little prospect that these products will exert any restraining influence on the price trend in the months ahead.

#### Weekly business indexes higher

After declining in the early part of July, the New York Times index of business activity in the two weeks ended July 26, scored a recovery that carried it above the previous peak figure reached at the end of June. The gain in the latest week amounted to 1.8 points, and advanced the index to 133.3. (See Chart 5, top section.)

This upward movement was confirmed by Barron's index of business activity which advanced 1.7 points to a new high at 141.0 during the week ending July 26. Barron's index during the first 4 weeks of July has displayed a stronger and more consistent trend than the Times index, averaging about 2 percent higher than in the previous month, whereas the Times index was higher by a much smaller margin.

#### Automobile production still high in July

One of the factors which lent strong support to the Times business index during July has been a less than seasonal decline in automobile production. Following the July 4 holiday week, production remained well above 100,000 units until last week, when the first sizeable cut in output carried the weekly figure down to 62,000. (Refer to Chart 5.)

middle section.) Since nearly all producers are reported to have wound up output of 1941 model passenger cars, a further sharp drop in production is expected during the current week. The outlook for production of 1942 models is confused, due to the divergent views of OPM and OPAOS officials regarding the amount of curtailment to be effected in new model production.

Another factor which contributed to the rise in the Times index during the latter part of July was the continued rise in electric power output to new record levels. (Refer to Chart 5, middle section.) Rains during the month improved the position of hydroelectric power plants in the south-eastern States, and in the latter part of the month subsidiaries of the Commonwealth and Southern Corporation in that area lifted all restrictions on the use of electric current until September 1.

Freight carloadings also have continued to make a strong showing, although they are still slightly below the peak reached at the end of June even after allowance for seasonal factors. (Refer to Chart 5, lower section.)

#### Steel operating rate near peak

After the dip in steel operations during the July 4 holiday week, a rebound occurred in ensuing weeks. However, the operating rate continued 2 or 3 points below the June peak until last week, when operations rose 1.7 points to 99.6 percent of capacity — a figure only 0.3 point below the June peak. (See Chart 5, lower section.) This rate did not hold, however, and operations for the current week are scheduled at 98.3 percent of capacity.

#### Steel scrap shortage more critical

The shortage in steel scrap supplies, which has been troubling the steel industry for some time, is becoming even more critical. Public attention was called to this situation recently when the American Rolling Mill Company and the Wheeling Steel Corporation organized community drives to collect scrap. The latter company's Portsmouth, Ohio, plant is reported to have lost about 1,300 tons of ingot production last week due to lack of supplies of the required type of scrap. Further indications of the tight supply situation were given recently by the President of the Bethlehem Steel Corporation, who stated that the Corporation's Lackawanna plant has not been able to increase its scrap inventory by

a single ton since the opening of the shipping season on the Great Lakes. Normally the plant builds up a large supply of scrap during the shipping season from May to October. The most serious pinch will come during the winter, when scrap collection is hindered by unfavorable weather.

During the past week the Institute of Scrap Iron and Steel revealed that domestic iron and steel scrap consumption in the first half of this year reached a new record high at 29,700,000 tons -- a figure 46 percent above the corresponding period last year.

#### Large expansion in pig iron capacity planned

Plans are reported to have been approved recently by the OPM for an initial expansion in pig iron capacity of 6,500,000 tons -- an increase amounting to more than 11 percent of existing capacity. The expansion program envisages the enlarging of some existing blast furnaces, the rehabilitation of at least three others now inactive, and the building of 10 new furnaces. The expansion program is to be financed by the Defense Plant Corporation and costs are estimated at between \$150,000,000 and \$200,000,000.

Recent trade reports have continued to stress the tight supply situation prevailing in pig iron, and near the end of the week the OPM placed all pig iron production under full rationing control. At the same time all pig iron producers were ordered to set stipulated quantities aside each month for an emergency pool. Moreover, all shipments to customers must be approved by the OPM.

#### New orders index at record high

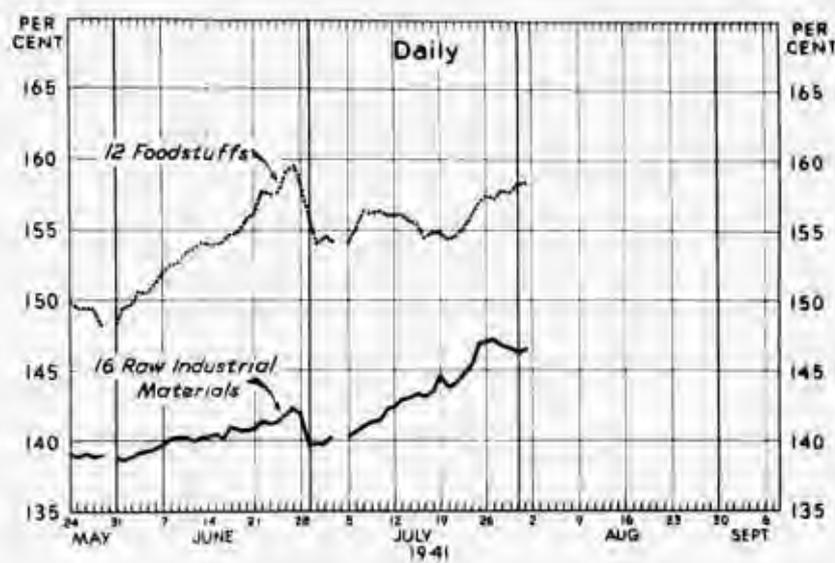
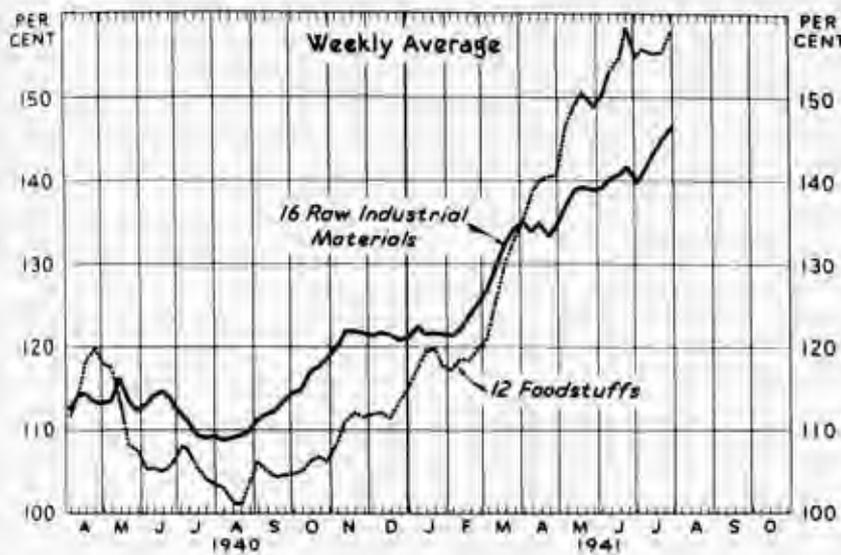
Our index of new orders for the fourth week in July rose sharply to a record high. (See Chart 6.) Both steel and textile orders jumped to record levels while orders for other products in the aggregate rose moderately. New orders for steel rose 67 percent above the previous week and amounted to no less than 205 percent of capacity.

# MOVEMENT OF BASIC COMMODITY PRICES

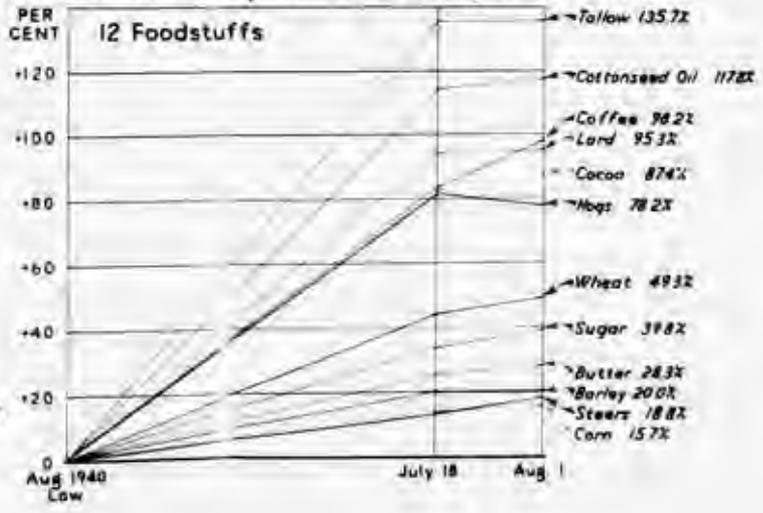
AUGUST 1939=100

345

Chart 1

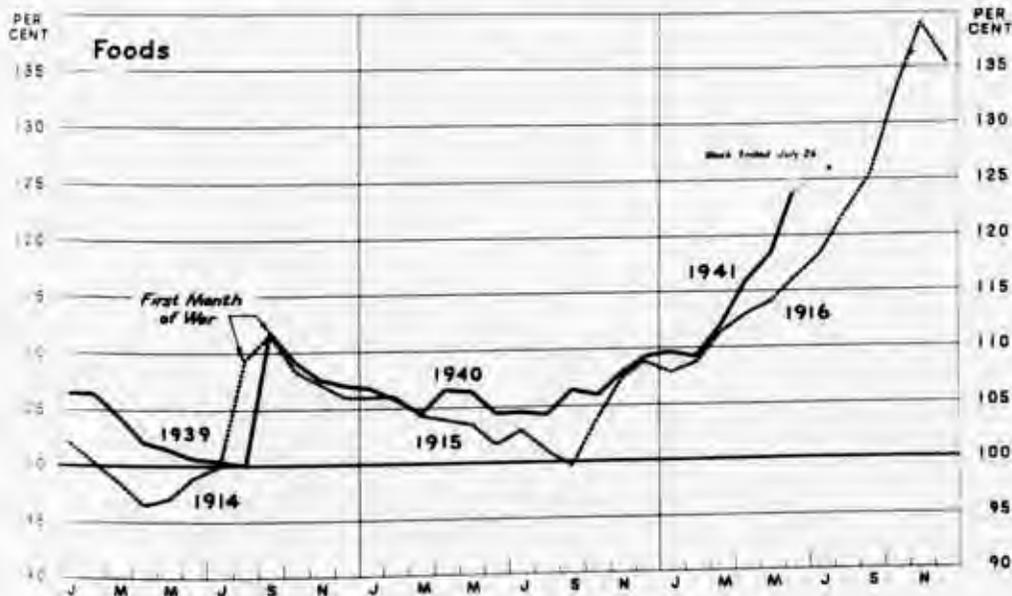
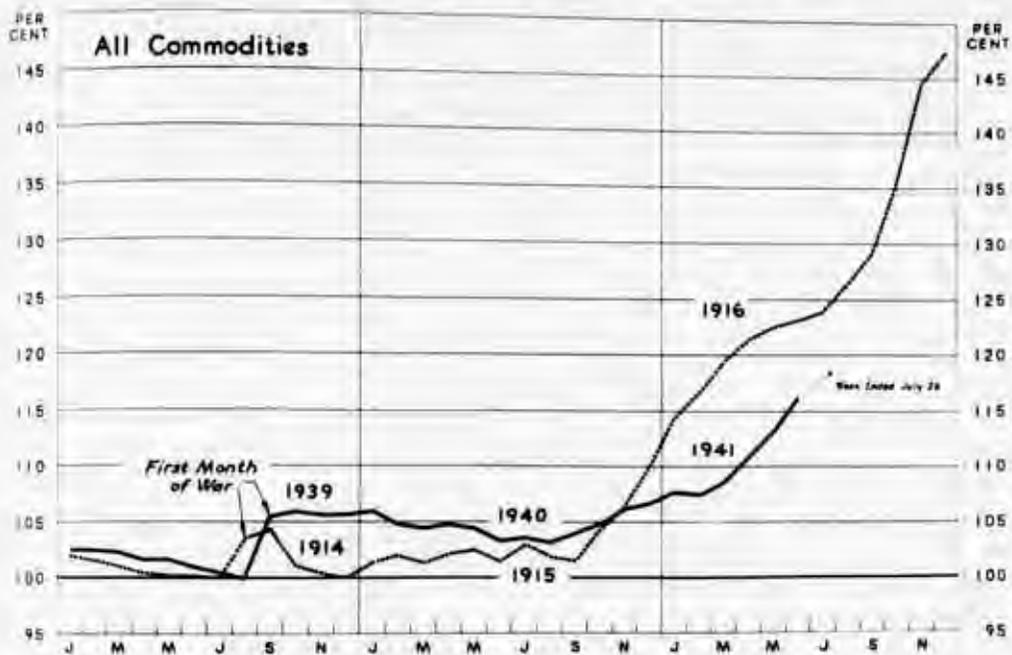


Percentage Change for Individual Commodities, August 1940 Low to July 18 and to August 1, 1941



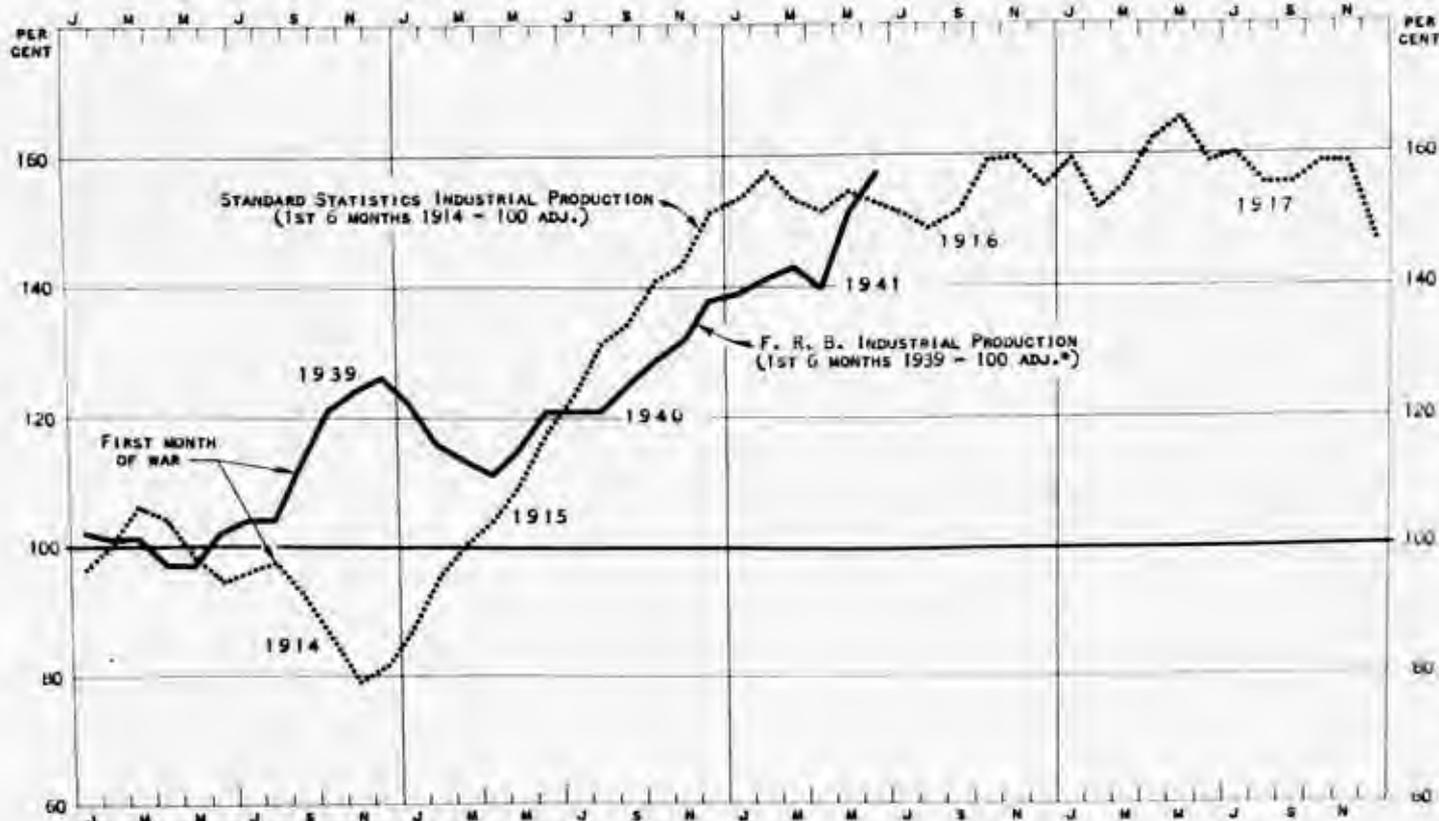
# PRICES, 1939-41 COMPARED WITH 1914-16

July 1914=100 World War Period; Aug. 1939 = 100 Present Period



Source: B.L.S.

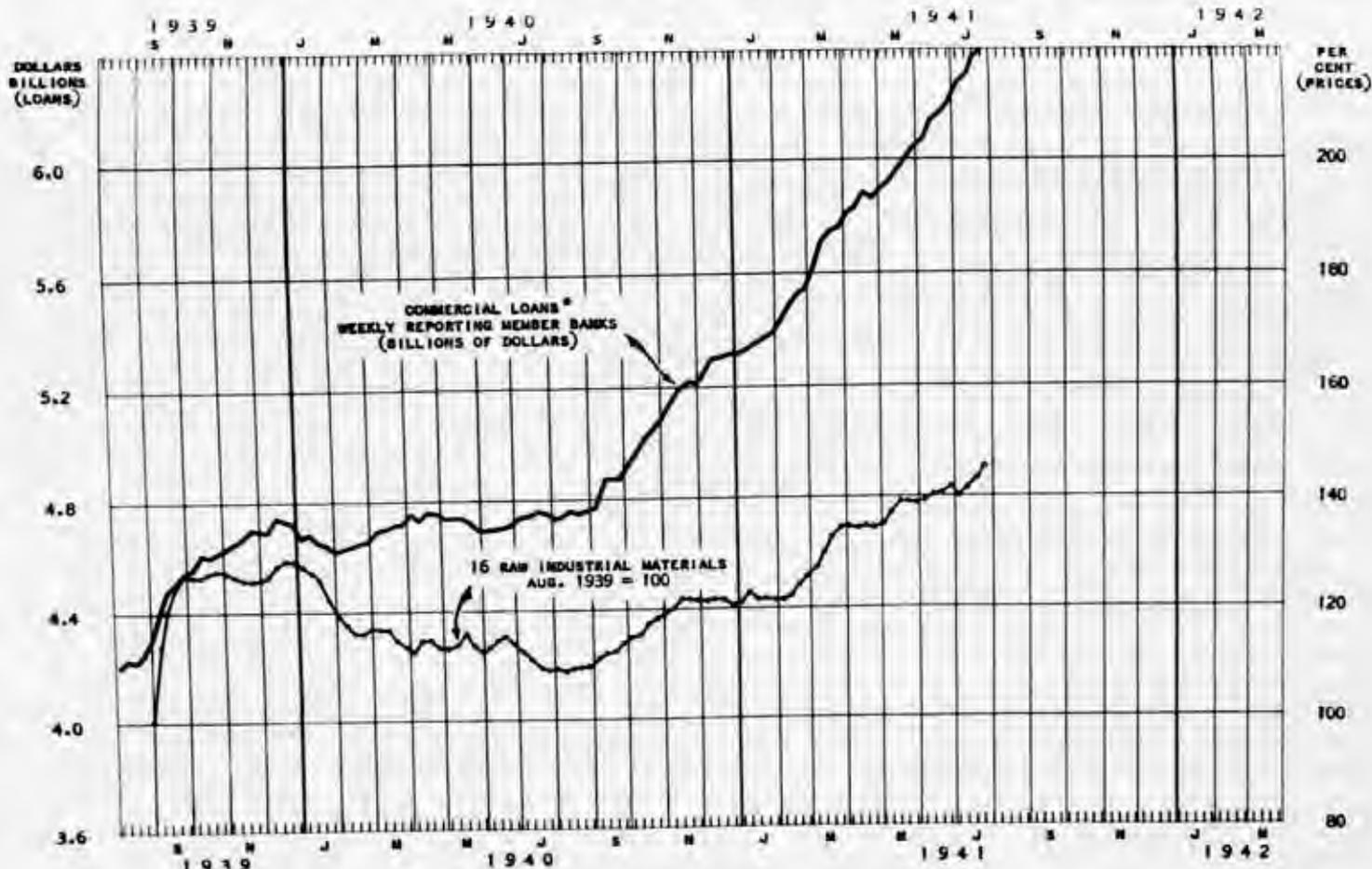
INDUSTRIAL PRODUCTION 1939 TO DATE  
 COMPARED WITH PRODUCTION 1914 TO 1917



\* THIS IS EQUIVALENT TO THE F. R. B. INDEX 1935 - '39 - 100

1941  
 TABLE T

COMMERCIAL LOANS AND INDUSTRIAL MATERIALS PRICES



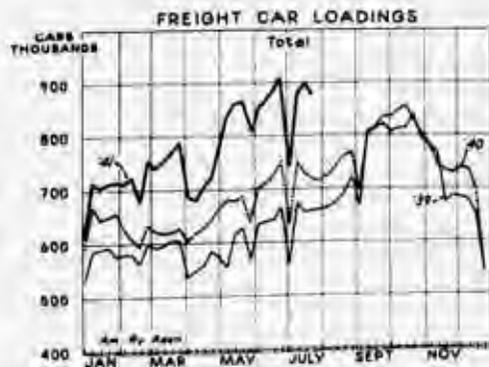
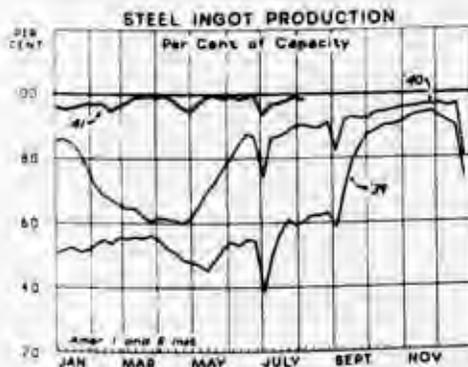
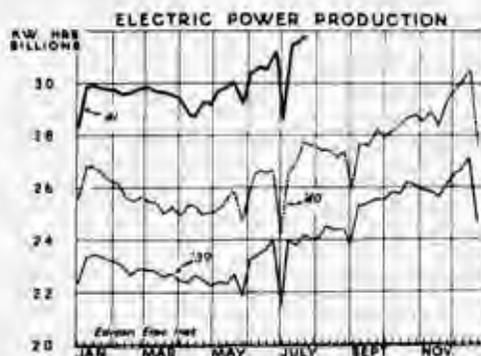
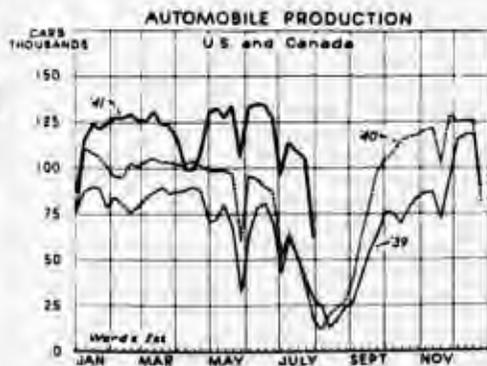
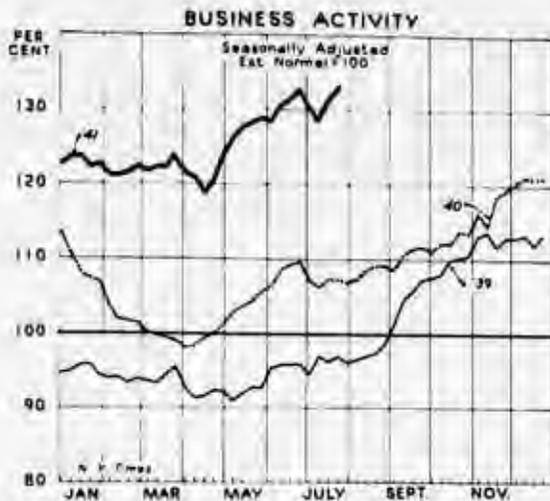
\* COMMERCIAL, INDUSTRIAL, AGRICULTURAL LOANS AND OPEN MARKET PAPER

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

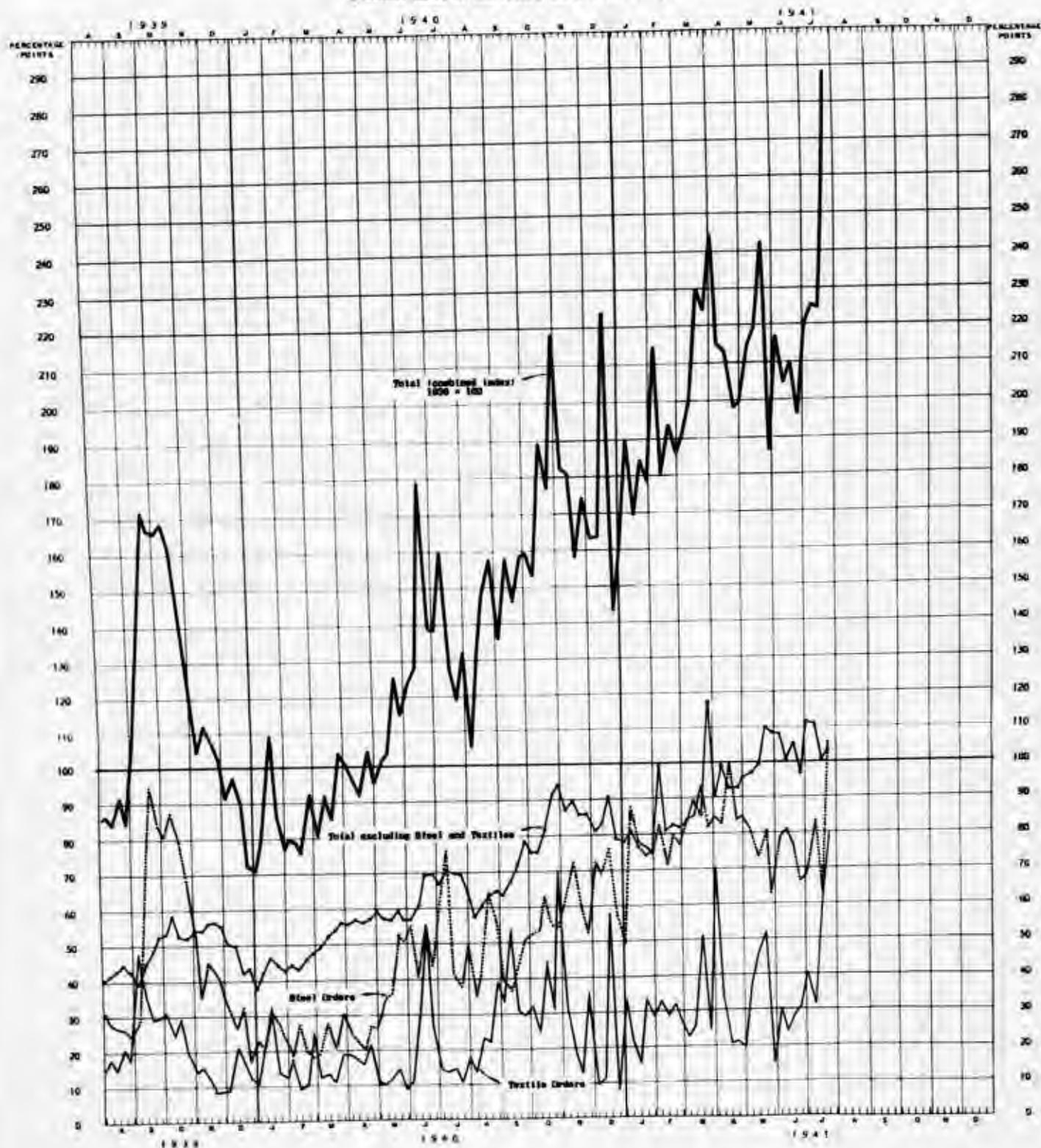
C - 283 - E

Chart 4  
352

## SELECTED BUSINESS INDICES



INDEXES OF NEW ORDERS  
 Combined Index of New Orders and Selected Components



354

August 4, 1941

Under Secretary Bell

Mr. Cochran

When speaking with me by telephone at 12:50 noon Saturday, August 2, Mr. Opie, Acting Financial Counselor of the British Embassy, asked if it would be at all possible for Under Secretary Bell and Mr. Hatchelder to permit him to meet with them early this week to discuss financial arrangements for American bases. Mr. Opie is particularly anxious for this early meeting since an official of the British Colonial Office will be calling upon Mr. Opie again shortly to discuss this question. Incidentally Mr. Opie told me that the rate for sterling currency in New York has risen from \$2.25 to \$2.90 per pound. The Riggs Bank in Washington is selling such currency at \$3.65. Mr. Opie is of the opinion that there must be a considerable buying up of sterling to be carried by air passengers to Great Britain. He is concerned lest this increased price for sterling notes may encourage the smuggling out of sterling currency seized in countries occupied by the central powers, for re-entry into the United Kingdom via the United States.



55005

August 4, 1941

Files

Mr. Cushman

At 12:45 on July 31 Mr. Coyne, Financial Attache of the Canadian Legation, telephoned me before leaving for Ottawa, where he planned to be in the Ministry of Finance for a fortnight.

In answer to my inquiry as to how the Hyde Park arrangement was working, Coyne stated that sales of Canadian products here were satisfactory. Only slow progress was being made on lend-leasing American component parts of Canadian war materials. In this connection, he said that numerous Canadian concerns had purchased well ahead and were still receiving deliveries under these contracts. Furthermore, there is considerable buying for cash because of necessity for speed in obtaining deliveries. Coyne added that some contracts are now being signed which would envisage United States buying from Canada and lend-leasing to Great Britain. Coyne reminded me that Mr. Hopkins had approved this idea after the Hyde Park declaration, and recalled that the idea had received Secretary Morgenthau's approval before Hyde Park.

EMC: dm: 8/4/41

TREASURY DEPARTMENT

357

INTER OFFICE COMMUNICATION

DATE August 4, 1941

TO: Secretary Morgenthau

FROM: Mr. White

Subject: Ecuador's Request for a Stabilization Credit.

1. Ecuador has applied for an Export-Import loan to install waterworks in Quito and Guayaquil (\$6 million), to develop agricultural exports (\$1 million per year for 10 years) and to establish an exchange stabilization fund.

Finance Minister Illingworth has requested a conference with you, presumably to discuss his stabilization proposal.

2. Ecuador's currency -- the sucre -- is pegged to the dollar by means of a system of import permits and exchange rationing. The rationing has been cautious for a year, so excess gold and foreign exchange reserves of about \$2.6 million have been built up. Ecuador's foreign exchange control is similar to Colombia's, but Ecuador has not resorted to multiple rates or, so far as we know, to bilateral exchange-clearing.

3. The Ecuadorean Government has not indicated the size of the stabilization credit it considers essential. A fund of \$3 million, of which we might supply \$2 million, should be sufficient to ease seasonal or unanticipated dollar shortages.

A stabilization credit probably should be accompanied by a developmental program to improve Ecuador's long-run agricultural export prospects and hence improve her balance of payments.

4. There are some adverse factors which should be considered:
  - (a) Ecuador's external debt record is exceedingly poor.
  - (b) There has been considerable political instability in Ecuador.
  - (c) The Central Bank has suffered from political interference and from lack of cooperation from the banking community.
  - (d) The long-term capital market -- always small -- has deteriorated and both the Government and industry have resorted heavily to Central Bank credit.

**PARAPHRASE OF TELEGRAM RECEIVED****FROM: American Embassy, Rio de Janeiro, Brazil****DATE: August 4, 1941, 3 p.m.****NO.: 1006**

Today, the Director of Exchange was informed by the Manager of the Yokohama Specie Bank at Rio de Janeiro that the parent bank in Japan is interested in the transfer of gold for safe keeping to the Bank of Brazil. The reply which the Director will make is that the Bank of Brazil is not interested in the proposal suggested.

CAFFERY.

EA:PAK

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro, Brazil

DATE: August 4, 1941, 10 p.m.

NO.: 1011

Reference is made to the Embassy's telegram of July 31, 1941, 6 p.m.

Today the manager of the Yokohama Specie Bank was informed by the Director of Exchange that the transfer of dollars to Chile and Argentina can be made only with the approval of the banks (all located in New York City) with which the Bank of Brazil has dollar deposits.

It will be noted that this is in keeping with the Department's suggestions which were made in telegram No. 603, 11 p.m., July 30, 1941. (See second paragraph of telegram.)

CAFFERY

EAIPAK

TO THE  
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MAY 13 1941  
MAY 13 1941  
MAY 13 1941

**CORRECTED COPY -- SECTION ONE**

**PARAPHRASE OF TELEGRAM RECEIVED**

**FROM:** American Embassy, Chungking, China, via W.H.

**DATE:** August 4, 1941, 9 a.m.

**NO.:** 328

THE FOLLOWING IS CONFIDENTIAL--FOR THE SECRETARY OF THE TREASURY FROM FOX.

"There is no compelling reason for immediately organizing board. Fund A is being kept functioning by Rogers, who seeks the advice, through Pei, of the board. At present, steps are being taken for the official organizing in the near future. Arrangements are being made for 20,000,000 contribution by Chinese banks.

"At the present time, Hall-Patch is in Hong Kong. He is ready to report to Chungking if it is necessary. However, at present, he is assisting in observing licensing operations and drafting local regulations in Hong Kong. He would like to go on to Shanghai in order that he might observe conditions in Shanghai. I am having Taylor pass word on to Hall-Patch that Chen thinks well of his going to Shanghai. (This was K.P. Chen's suggestion.) However, Chen believes it would be wise for Hall-Patch to join the board first for a short while.

"Due to the lack of definite information in regard to general licenses, Hong Kong is apparently confused a great deal. Taylor has been instructed to make available to interested parties copies of licenses together with Treasury regulations and executive order. Instructions have also been

been

been given to Campbell and Bruins in Hong Kong and Lockhart to make such data available to the interested persons. It is believed that this will help to relieve the confusion which exists at the present time. I have not received (confidentially) through Taylor copies of Chase and National City telegrams in regard to licensing and freezing."

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PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Chungking, China, via N.R.

DATE: August 4, 1941, 9 a.m.

NO. : 326

THE FOLLOWING IS CONFIDENTIAL -- FOR THE SECRETARY OF  
THE TREASURY FROM FOX.

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Information has been pooled by them from home offices; it appears to be rather confusing and conflicting. Since August 1, Hong Kong has been in the sterling bloc officially. The orders being issued by Hong Kong have merely been copied from English models of such. There is very little British information that is definite which is available in Hong Kong in regard to freezing and licensing. Thus far, no panic has developed in Hong Kong--a healthy attitude of 'wait and see' appears to be emerging.

I am having Taylor proceed to Shanghai (?) Hong Kong bankers, Campbell and Bruins seem to be clear in regard to the general licenses which have been issued. I am instructing Taylor to make sure that (?) they are understood in Shanghai. Taylor has also been asked to observe and report on the licensing operations and the effects of such.

Dr. Kung, at my suggestion, met with the Board on Saturday morning and discussed general licenses, treasury regulations, and executive orders. At the present time, he is pleased with the broad latitude granted to the Chinese Government and the

-3-

Central Bank under license 60. Dr. Kung and Y. E. Koo are particularly interested in how much exchange this will make available to the Government. It is my understanding that Dr. Kung has decided that he himself will handle exchange control through one of the Finance Ministry's committees. (It will be noted that this committee is the same one that handled the allotment of foreign exchange before.)

With regard to the report of June 10, 1941 on the general economic conditions of China, which Ambassador has just made available, it will take time to study such. Of course, the report must be read in the light of the fact that Franklin Ho (although brilliant and well known as an economist) has been under a cloud recently. He was forced to resign his post as Vice Minister of Economics in 1940. This was done after his whole staff had been arrested and accused of irregularity in the handling of public funds. He is virtually under surveillance and custody although he is in active charge of Nankai Institute of Economics at the present time.

You will be interested to learn that, in this connection, (?) has already received (?) reports from economists on the economic problems of China and their recommendations and suggestions as well. With the approval of Chairman Chen, I will have a set prepared for you as soon as I can secure stenographic assistance. In the meantime, I shall forward these (?) it has prepared already. Improvement in the banking system

-4-

(?) (?) has been stressed by many. While I was in Shanghai, this was also the conclusion of the Chinese members of the Board who were touring Chinese cities.

Would it be possible for us to receive some assistance for a few weeks from some Treasury expert who might be among those persons coming to Manila in connection with freezing? At this stage of confusion and uncertainty such assistance would be of great help."

This is the end of the message.

GAUSS

EA:PAK

Copy:bj:8-7-41

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TRB

PLAIN

Tsingtao via N. R.

Dated August 4, 1941.

Rec'd 8:55 a.m.

Secretary of State,

Washington.

Sl, August 4, 9 a.m.

Following for the secretary from the American Chamber of Commerce Tsingtao "in connection with Japanese action of interfering with American rights in China we report the following: (one) All gasoline and oil stocks belonging to American firms frozen and under guard of the Japanese gendarmerie who forbid sales or deliveries. No stocks are thus available for retail consumers with resultant inconvenience to American residents and business men in the conduct of their business.

(Two) Intimidation of Chinese through their Chamber of Commerce with instructions forbidding sale of food products and all other transactions exceeding in value twenty local dollars (which is the equivalent of approximately two United States dollars) to American nationals, as well as orders for the cancellation of American insurance policies.

- 2 -

(Three) Coal deliveries officially ordered stopped to American citizens.

(Four) American Red Cross Famine Relief cracked wheat for International Relief Association Refugee Distribution frozen in Chinese owned warehouse prevention urgent relief work.

(Five) All American exports and imports stopped.

(Six) Permits for travel by rail or steamer most difficult to obtain and only issued in rare instances.

(Seven) Funds needed from frozen deposits to meet payrolls have thus far been refused.

(Eight) All mail for Americans delayed and censored by local Japanese military authorities and all parcels arriving for Americans being detained.

We strongly urge that immediate strong retaliatory action be taken against Japan." Sent to the Department, repeated to Peiping Chungking and Shanghai.

MEYERS.

DJD

Copy:bj:8-11-41

EJ

GRAY

Berlin

Dated Aug. 4, 1941

Rec'd 9:30 a.m., 5th

Secretary of State,  
Washington.

3063, August 4, 11 a.m.

An article by State Secretary Reinhardt of the Finance Ministry published in the DEUTSCHSTEUER ZEITUNG reveals that tax retrenches in the first quarter of the present fiscal year (April to June) adds 7175.7 million marks as compared with 6067.3 million last in the corresponding quarter of the previous year. On the basis of this total increase of more than one billion marks over the first quarter of the previous fiscal year the rate of which is expected to be at least maintained during the rest of the year/<sup>Reinhardt</sup> has revised his estimate of the total 1941-42 tax revenue from thirty billion to over thirty billion marks.

In the same article Reinhardt also denied a number of rumors which have been circulating concerning war time tax increases by making a flat statement that there will be no increase in property taxes, no war surtax on property taxes, no capital levy, no confiscation

-2- #3063, Aug.4, 11 a.m., from Berlin

cation of savings deposits and no increase in inheritance taxes or restrictions on inheritances. He stated that the emphasis in German financing would continue to be placed on income and turnover taxes.

INFORM COMMERCE AND TREASURY.

MORRIS

WSB

COPY

370

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Cairo, Egypt.

DATE: August 11, 1941 5 p.m.

NO. : 1076.

STRICTLY CONFIDENTIAL

There are being prepared the lists of local German, Italian and Japanese firms requested in the Department's circular telegram of July 24.

American suppliers are advising local importers that the latter must provide information concerning their nationality and the nationality of other local firms for whom they are obtaining supplies; that the American suppliers otherwise will be unable to book their orders or to obtain export license in cases where the export license system governs.

It is suggested that in order to avoid unnecessary hardships and delays until such time as the aforementioned lists arrives in Washington that there be communicated to the export license authorities the following facts concerning firms now doing business in this market with the United States Government and that the board be requested to disregard if possible at least for the present the nationality question concerning the importing firm when passing upon requests originating in this market for export license.

(One) There have been sequestered all non-Jewish

German and Italian firms in Egypt and those firms which still operate are controlled by the Government authorities here. In the Cairo consular district only four such firms still engage in business with the United States, those firms being: A. Buccellatti, F. Retelli Gils, Egisiofos, and R. A. Novelli.

(Two) A considerable number of German, Jewish, Italian firms are still doing business with the United States but so far as the Egyptian authorities know, and so far as is known by this Legation and the British Embassy, strong pro-Ally sympathies are held by all these firms.

(Three) No Japanese firms do business with America.

(Four) No American firms in Egypt are known or suspected to hold pro-Axis views by this Legation.

KIRK

DCA:GHK:JBJ

Copy:bj:10-9-41

## TREASURY DEPARTMENT

## INTER-OFFICE COMMUNICATION

DATE August 4, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

**CONFIDENTIAL**

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£31,000
Purchased from commercial concerns	£ 9,000

Open market sterling was unchanged at 4.03-1/2. There were no reported transactions.

In New York, closing quotations for the foreign currencies listed below were as follows:

Canadian dollar	11-1/4% discount
Argentine peso (free)	.2380
Brazilian milreis (free)	.0505
Uruguayan peso (free)	.4380
Colombian peso	.5800
Mexican peso	.2070
Cuban peso	1-1/16% discount

In Shanghai, both the yuan and sterling were unchanged at 5-7/32¢ and 4.02-3/4, respectively.

There were no gold transactions consummated by us today.

As today was a holiday in London there were no prices fixed for silver in that city.

The Treasury's purchase price for foreign silver was unchanged at 35¢. Handy and Harman's settlement price for foreign silver was also unchanged at 34-3/4¢.

We made two purchases of silver amounting to 429,500 ounces under the Silver Purchase Act. Of this amount, 200,000 ounces represented domestic inventory for spot delivery, and 229,500 ounces consisted of new production for forward delivery.

The Federal Reserve Bank's report of July 30, listing deposits of banks in Asia with the New York agencies of Japanese banks, showed that such deposits totaled \$59,120,000, an increase of \$3,355,000 since July 23. Most of the change in deposits took place on the books of the Yokohama Specie Bank's New York agency. The latter's principal dollar liabilities to and dollar claims on Japanese banks in Asia stood as follows on July 30:

-2-

	<u>July 30</u>	<u>Change from July 23</u>
Liabilities: Deposits for Japan and Manchuria.....	\$44,044,000	+ \$4,119,000
: Deposits for China.....	9,968,000	- 367,000
"    : U.S. Treas. Bills, comm. paper, etc.....	20,793,000	- 4,937,000
Claims    : Loans.....	\$22,201,000	+ \$3,628,000
"    : Other - mainly Jap. import bills.....	7,583,000	+ 747,000

From the changes listed above it is apparent that deposits during the week increased at least \$8,565,000 of which \$4,446,000 were paid out.



**CONFIDENTIAL**

374

BRITISH EMBASSY,  
WASHINGTON.

Secret and Personal.

August 4th 1941.

Dear Mr. Secretary,

I enclose herein for your  
personal and secret information a  
copy of the latest report received  
from London on the military situation.

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

*Hanfex*

The Honourable

Henry Morgenthau Jr.,

United States Treasury,

Washington, D.C.

TELEGRAM FROM LONDON DATED AUGUST 4th 1941.

On August 2nd further reinforcements arrived in His Majesty's Ships at Malta from the West. British submarine reports sinking 1600 ton merchant ship off West coast of Sardinia, she was afterwards bombed when at Periscope depth but was only damaged. Now known in outward bound Gibraltar convoy reported attacked West of Spain 9 ships have been sunk but total tonnage only 70,290. Two of these ships had already been detached.

2. German claim concerning attack on West coast convoy August 2nd fantastic. Two attacks by aircraft 1 of which shot down. Total casualties reported 1 British ship 1,110 tons damaged by near miss.

3. On August 2nd, Royal Air Force sank with torpedo fully laden tanker estimated 2,000 tons off Ostend. Merchant vessel estimated 1,000 tons attacked off Norway appeared damaged by near miss as the crew abandoned ship. Off Ben Helder auxiliary vessel estimated at 2,000 tons hit a on on fire and left sinking. Fighter Command report an attack on U-Boat off Cherbourg which was left sinking. On August 1st three Blenheim while attacking shipping Lampedusa harbour claim hits 2 merchant ships of 3,000 tons each.

4. Alexandria attacked night of August 1st - August 2nd by 9 enemy aircraft. Mines and bombs reported damaged by 6 other area.

- 2 -

5. Night of August End.

Strong force of over 200 bombers despatched to Germany. Medium weight attacks made on Hamburg, Kiel and Berlin.

6. Russia.

Fighting continues at the Smolensk and Kiev sectors and no German progress towards Kiev itself. To south some progress towards the Dnieper. River not yet reached. Farther South German attacks South Eastwards against strong Russian resistance.

RESTRICTED

MILITARY INTELLIGENCE DIVISION  
WAR DEPARTMENT  
Washington, August 4, 1941

TENTATIVE LESSONS BULLETIN  
No. 140  
G-2/2657-235

NOTICE

The information contained in this series of bulletins will be restricted to items from official sources which are reasonably confirmed. The lessons necessarily are tentative and in no sense mature studies.

This document is being given an approved distribution, and no additional copies are available in the Military Intelligence Division. For provisions governing its reproduction, see Letter TAG 350,05 (9-19-40) M-B-M.

EMPLOYMENT OF GERMAN PIONEERSSOURCE

The notes contained in this bulletin are based upon a report submitted on May 10, 1941 by an American official observer in Berlin.

Other bulletins have been published from time to time on the operations and employment of the German pioneers. This one is submitted in the hope that it will give a more general picture of the way in which the Germans have organized this highly effective arm.

CONTENTS

1. GENERAL
2. COMMENT

RESTRICTED

RESTRICTEDEMPLOYMENT OF GERMAN PIONEERS1. GENERAL

The book, Das Buch vom Heer, makes the following statement of the mission of German pioneers:

"Before reaching the battlefield, and on the battlefield, the pioneers must increase the mobility of our own units and hinder and cripple the mobility of enemy units; they must break down the enemy defense and assist our own units to advance.

"They shall increase the power of our own defense and weaken the enemy attack, and they shall contribute to decisive victory."

The German military machine is intricate. Its many parts are the various arms and services, which have been taught to cooperate unselfishly for the common good. The infantry is still recognized as the most important part in spite of the spectacular employment of, and the results achieved by, new arms and weapons, particularly those in the field of aviation and motors; in fact, these new methods have been utilized to assist the infantry to accomplish its mission - in reality the mission of the whole force - more quickly and consequently with fewer losses.

In the Nazi war machine, pioneers may be likened to lubricating elements: they assist in starting the army, and once it is started, they keep it in motion at top speed without friction.

During the World War period, engineers were employed in the rear part of the combat area, where they engaged in combat only during emergencies. Now German pioneers are placed at the very front, where they are forced to engage in combat, sometimes under very difficult conditions, in order to clear the way for infantry and other arms. The present rear area functions are performed by special pioneer units like the construction pioneers and the Organization Todt, the road specialists.

From the Polish Campaign, the Germans learned that roads - motor highways - are the most vital communication arteries, and not railroads. Repair and maintenance of roads was so vital that Herr Todt, Inspector of Roads in Germany, was directed to form a special unit, called the Organization Todt, to perform these important duties. This group is composed of specialists and laborers who repair, construct, and maintain roads and bridges in the rear

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and well into the combat zone. These men are also used on other assignments in conjunction with other units. For example they may be employed on construction jobs with the construction pioneers, or on fortifications work with fortification pioneers. The reader will note in this review that there is no mention of roads, nor is road work listed under the training of the German pioneer.

In accordance with the principles of training in the German Army, fully ninety percent of pioneer instruction is centered on attack functions. The German pioneer is always to the front in strength during the attack. Great stress is laid on pioneer reconnaissance, and maximum use is made of locally available means to assist combat arms to continue their advance. Pioneer equipment is used when local means are not available. Construction engineers and the Organization Todt follow immediately behind the combat elements and just ahead of the service elements; they replace, or reinforce hasty pioneer construction and reload the replaced pioneer equipment - such as pontoon and inflated boat bridges - on pioneer trains and send it on the front. This leap-frogging process makes it possible to utilize the adaptable pioneer equipment several times to good advantage.

Combat pioneers are used advantageously in defense to place obstacles and mines on the front and flanks. They thus reduce the size of the infantry that must be kept in reserve, or enhance the value of it and gain more time for defense by hindering the enemy operations.

Storm pioneers are simply ordinary pioneers trained for a special assault assignment like the attack on Fort Eben Emael and the Maginot Line.

2. COMMENT

The modern German concept of war does not contemplate the frontal contact of large bodies of troops. On the contrary, tremendous pressure is applied at certain points to force a breakthrough; then long fingers of penetration, protected by aviation, reach far into enemy territory to seize vital terrain objectives, destroy enemy communications, and divide enemy forces into small parts which are then destroyed consecutively and individually with overwhelming superiority.

On the tip of each of these long fingers of penetration is an advance team which, in normal terrain like that of France, is composed of aviation, panzer, motorized infantry, and pioneer elements. In mountainous terrain, similar to that in Norway and the Balkans, this advance team consists of aviation, panzer, motorized

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units, mountain troops, and pioneers. In either case, the mission of the advance team is to provide for the uninterrupted forward movement of the foot infantry which marches as rapidly as possible behind it.

These teams have been so successful in their operations to date that the losses suffered by the mass of German forces have been relatively small.

In their texts, the Germans emphasize surprise as the most important principle of war. They say that surprise is accomplished mainly by secrecy and deception and speed of execution. The function of the German pioneer in the realization of this concept is to contribute in every possible way to the accomplishment of an operation in the shortest possible time. Speed is the keynote, and all of his offensive training is directed towards it.

Basically, the German pioneer is trained as an infantry soldier. Since nearly all of his functions involve combat, this training is essential. It gives him an appreciation of the important role played by the basic branch, the infantry, and it develops in him the discipline which the German considers essential.

Another doctrine of the German Army, the Einheit principle, is of great importance. This principle, briefly, utilizes a system of identical cells, or units. These units are classified according to the branch or service to which they are to be attached, and the training, organization, arms, and equipment of all units under any one particular classification are exactly the same. Not only are they identical in the individual branches, but in many instances they are identical\* throughout the service, except that a part of the basic training of the personnel of each unit has been in the branch to which that unit has been organically attached. Beyond the basic stage, the training is specialized, and the men become specialists at particular tasks. The advantages in this system are obvious; a cavalry commander who is short one cavalry telephone unit may borrow a telephone unit from the field artillery, knowing beforehand the size of the unit and that its equipment will match his own; or the new commander of a campaign, when his mission has been assigned and his units allotted, may shift these units to meet his needs, without injuring or slowing up the organization of his force. In other words, the Einheit principle envisages several simple pieces of machinery, whose parts are interchangeable and

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\*While the units may vary in size according to the requirements of the force to which they are attached, they are identical in that their components are always proportionate.

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whose operation is not impaired by a constant juggling of the parts. This same doctrine is followed by the German Pioneers. They recognize that it is impossible to give a prospective soldier his basic training and without more make of him a demolition expert, a water crossing expert, a fortification specialist, etc. Accordingly, they employ the Einheit system and give the soldier, after his basic infantry instruction, training as some kind of a specialist. The basic unit for this specialized instruction is believed to be the battalion.

The following are some of the different branches of specialized instruction and training for pioneers:

- a. Infantry combat service - organic pioneer battalions in divisions;
- b. Storm troop combat service with special combat equipment of the pioneers - special assault units;
- c. Obstruction service - construction of obstacles of all kinds; training in handling of explosives and mines, and in use of electric saws and boring equipment;
- d. Combat at rivers service - handling and use of rafts and storm boats in every kind of engagement, in attack as well as in defense; crossing water under all conditions, during all kinds of weather, at night, in heavy wind, rain, ice and snow;
- e. Construction of military bridges service - handling of military bridge equipment in military bridge and ferry construction; crossing water in rowboats with outboard motors and in motorboats;
- f. Emergency bridge construction service - preparation of small plank bridges, superstructures, and all kinds of bridges, using material at hand;
- g. Field fortifications service - construction of defense installations of all kinds, particularly difficult construction tasks, such as excavating for deep set, bullet-proof cellars, and preparing houses and villages for defense.

The construction pioneers constitute a special branch of the Pioneers which is mainly concerned with construction work. They build roads, road nets, and bridges, and they repair or rebuild those damaged or destroyed by the enemy, or those inadequate for

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military uses. They also construct positions and rear area establishments. Sometimes the Todt Organization operates with and under the construction pioneers, but generally that organization follows up the construction pioneers, taking over their operation areas and permitting them to follow closely the advance of the combat forces. For communications, therefore, three general spheres of operation are handled by three different echelons; the combat or organic pioneers are out in front; the construction pioneers are behind the combat elements and usually just ahead of the service elements; and the Organization Todt is on hand for all rear area and zone of interior operations.

At the beginning of the war the construction pioneers were developed mainly from the Arbeitsdienst.<sup>\*</sup> They are formed into three types of battalions; construction battalions, road battalions, and bridge battalions.

In addition to regular combat pioneers and construction pioneers, there are two other types of specialists whose employment is self-explanatory. These men are known as fortification pioneers and railway pioneers.

Germany has two pioneer schools at which are trained the officers and noncommissioned officers of the combat and construction pioneers. At Pioneer School I, which is located at Berlin, Karlshorst, tactics and fortification instruction are given. Great emphasis is placed on the part pioneers must play in working with other branches of the services. The students are young pioneer officers who have already had some experience. In Pioneer School I, there is also a special course of several years duration which is designed to train administrators for the fortification pioneers.

Pioneer School II, at Dessau-Rosslau, trains officers and noncommissioned officers in combat functions. It also is used as the pioneer proving ground where new methods and tactics are tried - the modernized version of rapid river crossings, and the reduction of fortifications, were developed there. At Dessau-Rosslau, senior cadets are trained and examined for their commissions, and technical administrators and pioneer maintenance specialists are instructed. These latter specialists are concerned with the care and maintenance of weapons, tools, motor transportation, pioneer machines of all types, and special fighting equipment. They are selected from noncommissioned officers on duty in the combat units or in the training course at the school.

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<sup>\*</sup>The German Labor Corps which is similar to our C.C.C.

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At a small school for railway pioneers at Furstenwalde, near Berlin, students receive special instruction in the construction of railway bridges and heavy highway bridges.

In conclusion it may be stated that the German pioneer branch is a series of groups of specialists who are trained to do some function, well. Those groups are joined with other units to form task forces which have been assigned definite missions. Their composition depends on the needs and the means required to perform the assigned mission.

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G-2/2657-220; No. 458 RESTRICTED  
U. I. D., W. D. 12:00 H., August 4, 1941

SITUATION REPORT

I. Eastern Theater.

Ground: The Finnish and Leningrad fronts appear to be temporarily stabilized.

A German advance northward and northwestward on a broad front into Esthonia appears to be in progress. The German High Command reports the capture on August 2nd of "about 10,000 prisoners in an area west of Lake Peipus."

The Kiev front appears to be stabilized with the Russian army continuing to hold a large bridgehead in front of Kiev on the west bank of the Dnieper. Southeast of Kiev, German armored forces supported by Hungarian motorized units reached on July 31st the area around Zinoviesk. On that day Russian units held the city itself. On August 4th the German High Command reported a further "deep" advance of these armored forces.

To the west, northwest and southwest of Zinoviesk, strong Russian forces were fighting in a half circle against Axis forces advancing from Unan, Balta and Dubassary.

Air: No change in the general situation. German attacks continued on Moscow and on communications. Moscow-Vyasma.

II. Western Theater.

Air: German - Minor activity only.

British - On the night of the 2d-3d the British resumed their offensive, attacking Berlin and western German ports. Fighter sweeps were also resumed yesterday.

III. Mediterranean Theater.

No important ground activity. No more harassing raids.

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Paraphrase of Code Cablegram  
Received at the War Department  
at 10:30, August 4, 1941

London, filed 16:45, August 4, 1941.

1. British Air Activity over the Continent.

a. Night of Aug. 2-3. The following numbers of tons of high explosive bombs and numbers of incendiaries were dropped upon the objectives named: Hamburg, 60 and 9000, also 96 twenty-five pound incendiaries; Berlin, 67 and 3900, also 48 twenty-five pound incendiaries; and Kiel, 28 and 1000. In another raid upon Berlin during this night, in which 36 aircraft took part, Wellington bombers dropped four 4000 pound bombs.

b. Day of August 3. A total of 399 fighters were employed as follows: 72 on interception missions, 236 in the protection of shipping, 22 on special missions and 69 on offensive patrols. Unfavorable weather prevented the sending out of bombers.

c. Night of August 3-4. 85 bombers were dispatched as follows: 39 to the railway center at Frankfurt, 7 to Calais, and 39 to the Hanover railway center.

2. German Air Activity over Britain.

a. Day of August 3. 15 reconnaissance aircraft and 10 long range bombers were employed.

b. Night of August 3-4. The effort comprised the use of 5 reconnaissance aircraft, 10 fighters, and 5 long range bombers.

c. Day of August 4. Defensive patrols were maintained and sea reconnaissance carried out. Broadstairs was bombed by a single aircraft.

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d. Night of August 4-5. Over the East Coast of Britain, from Aberdeenshire to Harwich, operations on a slightly increased scale took place.

3. Aircraft Losses Reported.

a. British losses. One bomber was unreported from the operations of the night of August 3-4. One Spitfire and its pilot were lost August 3.

b. Axis losses. On August 3, these were as follows: 4 Me-109's and 1 Do-17Z shot down, and 1 Me-109 probably destroyed. A Focke Wulf was also shot down off Slea Head by a British aircraft catapulted from a ship.

4. British Air Activity, Other Theaters.

a. North African Theater. During the night of August 1-2, the airdromes at Maleme and Heraklion, Crete, were bombed by Wellingtons dispatched from Egypt. Supplies of fuel were set on fire. During the day of August 2, Ju-87's, with fighter escort, intercepted British fighters engaged in protecting shipping. In this engagement it was claimed that four Ju-87's and 1 Me-109 were shot down and 1 Me-109 probably destroyed. 30 Macchi 200's were damaged by machine gun fire during an attack on the airdrome at Reggio Calabria by Royal Air Force aircraft dispatched from Malta.

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