

DIARY

Book 428

August 5, 1941

- B -

	Book	Page
Beck and Gregg Hardware Company - Atlanta, Georgia		
See Dollar-a-year Men		

- C -

Campbell, Sir Ronald Ian		
See War Conditions: United Kingdom		
Canada		
See War Conditions: Lend-Lease		
China		
See War Conditions		
Coast Guard		
Competitive advertising requirement in contracts for certain national defense projects: HMJr's letter to FDR concerning - 8/5/41.....	428	213

- D -

Defense, National		
Exhibits to travel throughout country discussed in Schwarz memorandum - 8/5/41.....		216
Dollar-a-year Men		
Income tax investigations: Discussion of - 8/5/41.....		136,137,138
a) Parker (William A.), of Beck and Gregg Hardware Company, Atlanta, Georgia - case of - 9/24/41: See Book 444, page 48		
1) FDR disapproves appointment to Office of Production Management - 10/17/41: Book 452, page 45		

- E -

Eccles, Marriner S.		
"Price fixing is not enough" - <u>Fortune</u> article..		142

- G -

Greenland		
See War Conditions		

- I -

Inflation		
See War Conditions: Price Control		

- L -

Latin America		
Stabilization conference; present: HMJr, Bell, Cochran, White, and Bernstein - 8/5/41.....		27

- H -

Book Page

Nutrition  
See War Conditions

- P -

Parker, William A.  
See Dollar-a-year Man  
Price Control  
See War Conditions

- R -

Rukeyser, Merryle S.  
See War Conditions: Price Control

- S -

SANTA HELENA

See War Conditions: Spain

Spain

See War Conditions

Standard Oil Company of New Jersey

American Legation, Budapest, reports that German  
interests are attempting to purchase American  
rights in oil producing subsidiary - 8/5/41...

428 297

- a) Cochran memorandum after conferences with  
Jay Crane - 8/8/41: See Book 430, page 174;  
Book 431, page 230 - 8/11/41
- b) Treasury answer to Wallace as drafted by  
Voley - 8/15/41: Book 441, page 19

- U -

U.S.S.R.  
See War Conditions

- W -

War Conditions

Airplanes:

British Tomahawks for Russia discussed in  
Winant cable - 8/5/41.....

82

Canada:

See War Conditions: Lend-Lease

China:

Shanghai political report for July 1941 -  
8/5/41.....

258

- W - (Continued)

	Book	Page
War Conditions (Continued)		
Exchange market resume' - 8/5/41.....	428	247
Greenland:		
Ice-breakers: Navy asks for at least four 5000-ton and HMJr agrees - 8/5/41.....		214
Lend-Lease:		
Aid to Britain: Conferences - 8/5/41.....		44.90
a) French Payments: Revocation of license so that British may be spared necessity for paying discussed		
b) Agenda for second conference.....	108	
c) "Dollar Relief to British Treasury" - White memorandum.....	109	
Canada: White designated to represent Treasury on committee to consider carrying out of Hyde Park Agreement - 8/5/41.....		118
Nutrition:		
Wickard asks HMJr to come over to discuss - 8/5/41.....		23
a) Report of luncheon to which HMJr took Professor Noel Hall - 8/7/41: See Book <u>422</u> , page 289		
b) Australian Legation (Mr. McDougall) sends digest of food policy plan - acknowledged - 8/25/41: Book <u>435</u> , page 217		
c) Food situation in Continental Europe - Division of Monetary Research report - 8/30/41: Book <u>436</u> , page 248		
d) Surplus Canadian wheat discussed in memorandum: Book <u>437</u> , page 56		
Price Control:		
Legislation:		
Conference on HMJr's testimony on Henderson's bill - 8/5/41.....		5,15
a) Actual bill.....	161	
1) O'Connell analysis.....	148	
b) Walter Stewart asked for suggestions..	2	
c) Treasury representative to be present when Henderson testifies.....	15	
Conference on HMJr's testimony - 8/8/41: Book <u>430</u> , page 48		
a) Draft 1: Book <u>430</u> , page 81		
Conference; present: Miss Elliott and Miss Ware, HMJr, Haas, White, Gaston, Kuhn, and Bell - 8/11/41: Book <u>431</u> , page 43; Book <u>432</u> , pages 24, 125, and 207 - 8/12/41		
a) Draft 2: Book <u>431</u> , page 160		
b) " 3: Book <u>432</u> , page 108		
c) Charta: Book <u>432</u> , page 137		
d) Draft 4: Book <u>432</u> , page 288		
e) " 5: Book <u>432</u> , page 319		
1) Copy to Mrs. FDR: Book <u>432</u> , page 350		
Eccles, Marriner S.: "Price fixing is not enough" - <u>Fortune</u> article.....		142

War Conditions (Continued)

Price Control (Continued):

Barth report: 'Southern Press Opinion on Inflation' - 9/22/41: See Book 443, page 113

Legislation (Continued):

Conference; present: HMJr, Kuhn, White, Foley, O'Connell, and Miss Michener - 9/22/41: Book 443, page 42

a) Drafts: Book 443, pages 71 and 87

Conference; present: HMJr, Kuhn, Haas, O'Connell, Morris, Foley, Bell, and White - 9/23/41: Book 443, page 174

a) Rukeyser (Merryle S.) drafts - 9/22/41: Book 443, pages 103 and 108

Conference; present: HMJr, Currie, Morris, Kuhn, Foley, O'Connell, Bell, and Haas - 9/23/41: Book 443, page 266

a) Drafts: Book 443, pages 306, 322, and 338

Ransom, in Eccles' absence, OK's reference to Federal Reserve System participation - 9/23/41: Book 443, page 358

Actual reading copy before House Committee on Banking and Currency - 9/24/41: Book 444, pages 3, 24, and 35

a) Comments: Book 444, page 36  
b) Rukeyser (Merryle S.) thanked for assistance: Book 444, page 42

Eccles explains his own testimony - 10/1/41: Book 447, page 17

Security Markets (High-Grade):

Current Developments: Research and Statistics memorandum - 8/5/41..... 428 202

a) Comparison of yields of short- and long-term Government securities during past twenty-two years

Spain:

SANTA HELENA Sale to Spanish Government Oil Monopoly: American Consul, Barcelona, asked for information concerning - 8/5/41..... 298

American Consul, Panama, consulted - 8/8/41: Book 430, page 192; Book 434, pages 143 and 188

U. S. S. R.:

Oumansky gives HMJr good report on conditions in Russia; asks HMJr's help in getting message speedily to FDR - 8/5/41..... 80

British Tomahawks for Russia discussed in Winant cable - 8/5/41..... 82

United Kingdom:

Campbell, Sir Ronald Ian: Biographical sketch - 8/5/41..... 130

TREASURY DEPARTMENT  
Washington

FOR RELEASE, MORNING NEWSPAPERS,  
Tuesday, August 5, 1941.  
8/4/41

Press Service  
No. 26-66

The Secretary of the Treasury announced last evening that the tenders for \$100,000,000 or thereabouts, of 91-day Treasury bills, to be dated August 6, and to mature November 5, 1941, which were offered on August 1, were opened at the Federal Reserve Banks on August 4:

The details of this issue are as follows:

Total applied for - \$293,242,000  
Total accepted - 100,232,000

Range of accepted bids:

High	-	100.			
Low	-	98.975	equivalent rate	approximately	0.115 percent.
Average price		99.978	"	"	"
					0.106 "

(66 percent of the amount bid for at the low price was accepted)

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August 5, 1941  
8:45 a.m.

HMJr: Are you looking for new worlds to conquer?

Walter  
Stewart: (Laughs) I'm now struggling with a cold,  
as a matter of fact, and my worlds are pretty  
small.

HMJr: A cold?

S: Yeah.

HMJr: Well, that doesn't help me any.

S: What have you got on your mind?

HMJr: Well, I've been - I've got two things on  
my mind. I'm going to have to make a state-  
ment on taxes before the Senate either Friday-  
this Friday - or next Monday.....

S: Yes.

HMJr: .....and the other thing is, they want me  
to come up and testify on Henderson's price  
bill.....

S: Oh. Yeah.

HMJr: .....and on both things, I wanted your help.

S: Yeah.

HMJr: See?

S: Yes.

HMJr: But if you've got a cold.....

S: I've had it about three or four days, Henry.  
It's one of those summer colds.

HMJr: Yeah.

S: But - and I've really - well, how soon would you like me to come down?

RMJr: Well, if - I'm scheduled to testify before the Senate either this Friday - it'll most likely be Friday; and before Banking and Currency in the House, Thursday.

S: Yes.

RMJr: So, you.....

S: Thursday of this week or next?

RMJr: This.

S: Oh.

RMJr: I only got a call at nine o'clock last night.

S: Oh, I see. I was thinking I might get down on Thursday if I could be of any help.

RMJr: No, that'd be too late.

S: Oh, well, I tell you. I'm just in the midst of this thing, and I'm probably a good spreader of it as well as a sufferer from it.

RMJr: Yeah. Well, why don't you do this, Walt, if you would. If you had to talk about inflation, what to do to keep from doing it, you see?

S: Yeah.

RMJr: If you jotted down a few things in pencil - if you don't want to send it to me, if you'd call me up on the phone and tell me.

S: Good Lord.

RMJr: What?

S: Good Lord. I wouldn't know what to do. It's actually a matter of talking from the point of

- 3 -

view which you have to talk, isn't it?

HMJr: Yeah.

S: Which is really your whole Treasury program.

HMJr: Yeah.

S: Your real defense lies that you're doing everything you can to stimulate the money without using the banks.

HMJr: Yeah.

Well, think about it. If you've got any ideas, call me, will you?

S: All right. Right, I will.

HMJr: Will you? Today?

S: I will.

HMJr: I'm sorry you're not feeling well.

S: Well, it's one of these temporary things, but miserable while you've got it.

HMJr: Right.

S: Right.

HMJr: Okay.

S: All right, denry.

HMJr: Thank you.

S: Good-bye.

August 5, 1941  
9:00 a.m.

RE PRICE CONTROL LEGISLATION

Present: Mr. Bell  
Mr. Sullivan  
Mr. White  
Mr. O'Connell  
Mr. Foley  
Mr. Daggett  
Miss Michener  
Mrs. Klotz  
Mr. Kuhn  
Mr. Gaston

H.M.Jr: Some of these bills sometimes have summaries.  
Has this got a summary or not?

Foley: No, that will be in the Committee report, Mr.  
Secretary.

O'Connell: I can make a summary.

Foley: You can summarize it.

O'Connell: Sure.

Bell: I don't know whether your shop has done anything  
on it yet or not, Harry.

White: Yes, they have begun. Dan called me yesterday  
and thought that there might be a possibility  
that you might be called and he asked us to begin  
to prepare something.

H.M.Jr: Well, Dan, do you think I ought to do it or  
not?

Bell: Well, it is going to be a hard load this week.  
I hate to see you do it this week with this  
tax hearing on. I should think you ought to

- 2 -

do it if you get it over next week.

H.M.Jr: Well, I had a lousy night on account of this. I couldn't sleep.

Bell: I am afraid of the field they are going to get into. I think they are going to cover the whole monetary question. I don't see how you can get out of it if they ask you to come. It is the President's program.

H.M.Jr: Well, I can get out of it by saying what I have got to say, that I am going to say in connection with the tax bill. I don't want to say it twice. It is just a question of which is the most effective place to say it.

Bell: There isn't so much in there.

Sullivan: Quite a lot.

H.M.Jr: What do you think?

Sullivan: I would vote reluctantly no. I think it is a close decision.

H.M.Jr: Reluctantly?

Sullivan: Yes. Just as Dan said --

H.M.Jr: Not to go?

Sullivan: That is right. As Dan said, if you could go over Monday or Tuesday and follow up what you had said before the Senate Finance, that would be one thing, but I think that from your point of view, from the point of view of the immediate needs of the country, I think the thing we are going to do before Senate Finance is of more importance than the other. They are going to get into a terrific fight over

this price control bill, I think, and there is also the question of the extent to which you want to get into that wrangle.

H.M.Jr:

Well, of course, what is his name, last night, Henderson, he was very complimentary. He said I am the first man that has had the nerve to say anything about cotton and this agricultural block. It was most helpful to him. He wanted to thank me for what I said. He said he had been unable to get support out of Wickard. Wickard talked big in Cabinet, but he doesn't talk big publicly. Henderson was very complimentary last night. Of course, that was soft soap to get me to go up there. What do you think, Harry?

White:

I think it is an extremely important bill, and I certainly think that the Treasury Department has a very vital interest in the question of inflation, and I don't see, despite the fact that it is short notice, and despite the fact that it is a hard weight, I don't see how in the first place you can, or in the second place you should, avoid going up there and presenting your position. We have two days. Today is Wednesday. We have today and Thursday. I am pretty sure that we could make something up that would be satisfactory. It isn't so much a question of getting a polished statement as it is of hammering away at a few points whose grounds you have covered numerous times, and it won't be very difficult for you to agree. There are, however - I think Dan is right. There are, however, possibilities that there will be a great many ramifications on this, that they will ask you a lot of questions on monetary matters, but I don't think you can dodge them. I think you can handle them, and I don't think you have any choice.

- 4 -

- Bell: We can handle them. The thing that worries me is the time element. With this other thing on our minds now until Friday, if we put it off until Monday or Tuesday of next week I think it would be better.
- White: Maybe you could get the Committee to put it off until next week.
- Foley: I don't see why it can't go over until next week. They can't get that bill out this week. Leon was supposed to go on yesterday.
- O'Connell: Yes, but he got a postponement until today, and it seems to me that there shouldn't be much difficulty about arranging to have your time deferred.
- (Mr. Kuhn entered the conference).
- Foley: I would simply tell them that you have got to go down on Friday and you have got a full schedule and you would be delighted to go down Monday. They will be sitting on it all next week, I think. They won't get this bill out.
- White: I agree. I think they are going to be on this bill a long time. It is an extremely important bill.
- H.M. Jr: I very hastily read Eccles' article, and if he goes on, I don't think it leaves much for me to say, if he covers the same thing.
- White: There are two answers to that, Mr. Secretary. In the first place, nobody has very much that is new to say on this problem. It has been written about, talked about, in a thousand places and for at least twenty years by hundreds of economists. There may be a little idea here and there. The importance lies in the fact that

you say certain things, A, and B, in the way it is phrased, and the courage with which you can make certain statements. That is where the importance lies. I think rarely does any man say anything new before those hearings, and I don't think that matters at all in this connection.

H.M.Jr: What do you think?

Klotz: I agree with Harry. I think you can't help but go. Definitely.

H.M.Jr: Well, let me just say this: You say there is nothing new. There is one thing that has been mentioned and it came out of your shop, Foley, I think, if I am going to do it, and I am seeing a man at 9:15 and we will continue this at 9:30, you see, instead of having the regular 9:30. We will continue this meeting. You can adjourn into Bell's room and kind of thresh this out between 9:15 and 9:30, because there is one way that I would kind of like to approach this thing, because I think they have all done it in entirely too highbrow a way, and that is this: I am groping a little bit. I say, I think you could get the thing. We either have it or we can get it. I would like to put the picture up this way, that we are spending - I don't know the technical language - let's say eighty-five or ninety million dollars which normally would flow into the pockets of the people. I mean, that figure is the money that we pay them. And they normally could turn around and buy with that money eighty or ninety million dollars' worth of merchandise. But instead of that, twenty, thirty, or forty, million dollars of that is put into non-productive - or rather non-consumer goods, because it goes into war materials. Therefore, with this extra

- 6 -

amount of purchasing power there are a number of things that you can do and of course putting a ceiling on the price is simply tightening down the valve, the amount of steam that wants to go through the valve, but you are still going to have your hundred million pounds of pressure. Now, you can tighten that thing down so that only eighty per cent of that steam will flow through the valve, but you still have got - that is one way of doing it. I mean, you choke down this thing and only so much can flow through but the pressure is still there. That is your artificial - that is putting on your ceiling.

The other way is a thing which I haven't heard people talk about. I don't see why - the question of increasing the production, if possible, in non-competitive things. I mean, there are certain things which you can let people buy.

Whiter: That would be something new.

H.M.Jr: What?

White: That is something that hasn't been stressed.

H.M.Jr: I put it this way: There is a hundred and ten pounds of steam pressure which has developed. It is going through the pipe. Henderson comes along and chokes this pipe down and says, "I will only let eighty per cent of that flow through." We can take some of it up in Defense Bonds and a certain amount of it in taxes. This man Shoup is supposed to be making a study on this thing. I have been unable to get anything out of him on this. But the twelve million unemployed people which are still in this country and the seven million bales of cotton in our warehouses, those things could be manufactured into things that people could buy.

- 7 -

- White: I would love to see you stress that, and that would be something new.
- H.M.Jr: That they could buy and just tightening down this valve doesn't solve anything. It doesn't solve anything.
- (Mr. Daggett entered the conference).
- H.M.Jr: And it won't work, because your boiler is going to blow up. That is what is going to happen, because we are pouring this pressure in and unless you use the methods that our good friend Randolph Burgess refers to in Germany with admiration, by using the OGPU and everything else, you can't do this thing. I would like to talk to you some more about it, and I made some notes here. I think the best illustration I know, if you want to say, on the other hand, what is happening to prices, is our St. Louis house. I haven't seen that in a long time. You know those figures?
- Michener: Yes, yes.
- H.M.Jr: I wrote those things last night. Everybody talks about this same thing is happening that has happened in thirty-four to thirty-six, but they don't tell us what happened from thirty-six to forty. I would like to see what happened from thirty-six to forty, and then what happened afterwards as a result. It was in twenty, wasn't it, that the big collapse came, particularly to agricultural commodities, as I remember it.
- Now, these are some of the things I wrote down. That is the kind of thing I am thinking about that we are going to do.
- Are you (Daggett) familiar with this whole cotton deal, of the seven million bales, how

- 8 -

much of it is thirty-three or thirty-four cotton, what could be sold and what can't?

Daggett: Yes, we have the date on each crop.

H.M.Jr: And are you familiar with the legislation on the Hill?

Daggett: In a general way. I am not exactly familiar with --

H.M.Jr: Well, it wouldn't take you very long, would it?

Daggett: No.

O'Connell: I know the present legislative situation on that. There is a bill in Congress which has passed the Senate which prohibits the Secretary of Agriculture from selling any more cotton until the Congress should change that law. That has passed the Senate.

H.M.Jr: Dan, who sits with you on this so-called Treasury committee on inflation, this weekly meeting?

Bell: Oh, there are a number of people around, Joe O'Connell, Harry White, and Coe did.

H.M.Jr: Who is not in this room that sits with you?

Bell: George Haas and Henry Murphy.

H.M.Jr: George is sick, isn't he?

Michener: Yes, I understand so.

Bell: Henry Murphy and some of my boys down the line here and Viner and Stewart whenever they are here.

H.M.Jr: Well, let's think it over. I need fifteen minutes now. You might ask Mr. Murphy to come in.

- 9 -

- Michener: Yes, I was going to suggest that, Mr. Secretary.
- H.M.Jr: Don't you want to go in your room and kind of talk it over?
- Bell: Be glad to.
- H.M.Jr: And then we will hit it again at 9:30.
- Sullivan: Hadn't I better check with the Senate Finance to make sure there has been no change in the Friday date?
- H.M.Jr: That would be important. I think that if I was going to appear before Senator George on Friday and blew the whole works on Thursday, he would resent it. Don't you think so, Joe?
- O'Connell: Yes, I do. I think there should be a spread and I see no reason why we can't get it. I would think that next Monday or Tuesday could be very readily arranged rather than to have it --
- H.M.Jr: You would also get the benefit of the reaction of what these men say. This is a big thing.
- O'Connell: That is right. I think it is terribly important, Mr. Secretary.
- White: If you say something like that and dwell on that - if you say something of that character in addition to other things, I don't mean that alone, but if there is emphasis placed on the necessity for increased production, on the unemployment, on the surplus stocks on hand, on the surplus stocks that can be acquired in various countries as a means of dropping the price, you will have been the first important person to make any such statement, and in my opinion that is one of the most important parts, because that is the neglected part, and the other,

- 10 -

as you suggest, will be limited in its scope, and leads to all kinds of difficulties, so that I think it will be very worth your while going if that one portion of your message gets across. It will be extremely worth while. Nobody has stressed or mentioned that except some New Deal economists.

(Mr. Gaston entered the conference).

H.M. Jr: Well, let's adjourn until 9:30 and if those of you - all of you come back at that time, and Herbert, Bell will tell you what this meeting was about.

Gaston: Right.

H.M. Jr: And if you will all come back at 9:30.

August 5, 1941  
9:40 a.m.

RE PRICE CONTROL LEGISLATION

Present: Mr. Blough  
Mr. Bell  
Mr. Gaston  
Mr. Foley  
Miss Michener  
Mr. White  
Mr. Murphy  
Mr. Daggett  
Mr. Sullivan  
Mr. O'Connell  
Mr. Edward  
Mr. Bernstein  
Mrs. Klotz

H.M.Jr: Where is Roy?

Blough: Right here, sir.

H.M.Jr: Who isn't here who could be of any use?

White: I have a man who might be of some use.

H.M.Jr: Who?

White: Mr. Bernstein.

H.M.Jr: Well, bring him in the next time. Want him in now?

White: If you are going to spend any time on it, yes. He has written a couple of books and is a former professor in the University of North Carolina.

Bell: We have just been talking about any questions that might be raised and it was indicated quite clearly that it should be put off until next week, because we have no data. It will take some time to type a statement and we think you ought to prepare it and that it ought to be a very strong statement.

- 2 -

You might even want to comment on some provisions of the bill. The bill has a special provision on agricultural prices, if you want to say anything on that, and it certainly ought to be discussed.

I was wondering if we should get Viner back. He has gone to Canada this week.

H.M.Jr: Harry White was going Thursday.

White: But it doesn't matter if I don't go.

H.M.Jr: Well --

White: If I don't go, he ought to go. One of us ought to go.

H.M.Jr: Where would you rather be?

White: The proper answer to that is where I would be most helpful.

H.M.Jr: Well, the answer is here.

Well, isn't the first thing to do -- I think somebody ought to be there when Henderson testifies. That is number one. I think that ought to be O'Connell.

Foley: We have already thought of that.

White: George Eddy, who will report to us -- make a very careful report on what is said, will be there, but the lawyers can also have a man there. There are a number of legal questions.

H.M.Jr: You don't mind if there is a lawyer there?

White: No, no, they will be there anyway, so I might as well be gracious about it. (Laughter)

H.M.Jr: Have you (Sullivan) found out from George?

- 3 -

- Sullivan: Yes, sir. I talked with the clerk. He says he thinks there is no question but what we will go on Friday morning. If it develops in the executive sessions Wednesday or Thursday that they can't get through Thursday night, then they will postpone it until Monday, he thinks. There is no doubt about our going on Friday.
- H.M.Jr: I think we can tell George I have got this other thing and I would like to get this over with. I talked to him once myself.
- Sullivan: I think he would be willing to postpone it.
- H.M.Jr: Postpone what? I would like to do it Friday.
- Sullivan: Oh, I see what you mean.
- H.M.Jr: I would like to do it Friday. I am practically ready now.
- Sullivan: I think it would be better to do this and I don't think that repeating the ideas, that even some of the language of the statement used before the Senate Finance will detract from its effectiveness when you testify on the other.
- (Mr. Edward Bernstein entered the conference).
- H.M.Jr: Have you got any ideas, Herbert?
- Gaston: I think this thing ought to be postponed as much as we can.
- H.M.Jr: Well, let's do this. Let's leave things this way, that you can get in touch with George and say I am very anxious to do this Friday in view of this other request, you see.
- Sullivan: Yes, sir.

H.M.Jr: And then O'Connell, you go up on the Hill and tell -- speak to Henry Steagall, you see, and say I have had this, does he really want me. I am not anxious to come, but if he wants me I will come, and I think the thing to do would be to say that I will be ready, say, Tuesday. That will give me a chance over the weekend to hash the thing out, and on Monday, you see. It gives me a chance to see the Sunday papers and pick up the criticisms. I am willing to do it.

Bell: Wouldn't you want to put it on the basis of this Senate Finance Committee hearing, that you are just swamped getting ready for that?

H.M.Jr: Yes. Well, that is the point. Well now, Miss Michener, that stuff I have asked you to get, that is started?

Michener: Yes.

H.M.Jr: And Harry, you are not in on this tax statement, are you?

White: No, sir.

H.M.Jr: What? You have got an invitation to be here at nine o'clock tomorrow morning.

White: Roy sent me a copy this morning.

H.M.Jr: I have asked these people to be here at nine tomorrow morning. Incidentally, Roswell will be here tomorrow at nine, Magill. I spoke to him to come down. He will spend the day with us tomorrow on our tax bill.

Bell: Are you going to try to get Stewart?

H.M.Jr: We can't, he is sick. Just so we keep these two things going, how are - you (Michener) are

- 5 -

going to do this part this morning?

Michener: Yes.

H.M.Jr: And Harry, who can start working on this tax stuff, this thing in your office?

White: Mr. Bernstein will be here. May I make a suggestion?

H.M.Jr: Yes.

White: With respect to that, I don't know when they will begin, but very soon after they begin I suggest that Mr. Murphy and Mr. Daggett and Mr. Bernstein make a preliminary draft, reserving Kuhn for later to reword it, but let them begin on it and then the rest of us can work on that before it comes to you, so there will be two stages before it comes to you.

H.M.Jr: That is right.

White: They can work on the preliminary and in a day or so they may have something ready for the rest of us to go over.

H.M.Jr: Well, Henry, this is the thought, the way I feel about the thing. We have got something like a hundred million pounds of pressure and we have only got maybe seventy or eighty million dollars worth of goods that these people can buy. Just turning this valve down and saying we are going to cut down this pressure is a very artificial way and the chances are your boiler is going to blow up. Another way to approach this would be to find new methods and new ways of creating new goods for these people to buy, you see, and if the things that we used before -- there are still twelve million unemployed. There are an awful lot of things those people could do outside of defense to

- 6 -

make goods for people to buy and use money. All of our ingenuity has been going into things to kill buying, but under the present conditions very few people have been thinking of how to produce goods which do not come in competition.

Just for example, I asked -- Let's take glass, for instance, as an example. As far as I can find out, I can't find anything that goes into glass that is used for munitions and there are all kinds of things that you could make out of glass, including clothing, dresses, all kinds of things. People could be put to work -- I mean, they make regular fabrics out of glass. Maybe some of you people have these glass belts on. There are all kinds of things which can be made.

White: They are not glass. You can see through them, but they are not glass. Just through the belt. (Laughter)

H.M.Jr: But that is the idea.

Klotz: He is so silly.

H.M.Jr: I am glad when he is silly. It means he is feeling good. Anyway, that is the idea. You can do just so much in taxes, so much through mopping up, through Defense Savings Bonds, and so much through artificial price ceilings and the rest is, how much can you do by creating new goods, using up the seven million bales of Daggett's cotton and the wheat. Now, for instance, just take -- I know that at the end of last year's harvest there were four hundred fifty million bushels of wheat in storage in Canada and every bin was full and I have no idea what they are going to do with this year's crop and still the price of dairy feed in the

- 7 -

East has gone up at least twenty-five percent.

On the other hand, they have got four hundred fifty million bushels of wheat which, if you just ground it up and fed it as chicken feed, the agent for the Grain Federation tells me it would bring it up to sixty dollars a ton. Eggs is really one of the scarce things. Here you have got all of this wheat which is one of the principal things that goes into chicken feed rotting up in Canada. The whole thing doesn't make sense.

Bell: This bill that O'Connell referred to on freezing the cotton also freezes wheat.

H.M.Jr: Talking in the room here, the answer is that the farmers just can't be harping on this thing.

I would like to see you men with a draft at, say, three o'clock Wednesday.

White: I presume that they may ask you whether you favor the bill or not, among the many questions, so I presume that the lawyers will go through the bill. There are a number of points here which I gather they may either approve or strongly disapprove, so there ought to be that legal analysis of the bill that ought to be incorporated into the statement.

H.M.Jr: Well, if I could get that to take home with me tonight, Ed, analysis of the bill. Do you think your people could do that?

Foley: Sure. Well, that will only be a factual analysis. That won't be what Harry is talking about.

- 8 -

- White: I don't mean a summary of the bill. I mean an evaluation of the legal -- there are very important --
- H.M.Jr: They can do that. There are enough lawyers.
- Foley: Well, I don't think you want what Harry is talking about.
- White: Well, that is why I mentioned it. I didn't think he did.
- Foley: Dave Ginsberg is going to appear before the committee and he is going to explain the bill and the legal technicalities in the bill, and it seems to me you want to confine your discussion to the broad principles.
- H.M.Jr: But all I want from you is a simple explanation.
- Foley: Yes, a factual analysis, section by section, of what the bill does, what it provides.
- Bell: But I think there might be certain paragraphs in the bill which ought to be explained to the Secretary and see whether or not he ought to take a position on them.
- White: That is right.
- Bell: Such as that agricultural stuff.
- H.M.Jr: Well, I could study that tonight, the bill. Now, I am not doubling up on my people, am I, because that still leaves Ferdie and Blough free. Anybody want to volunteer any advice? I would like to have it.
- Thank you all.

August 5, 1941  
10:10 a.m.

HMJr: Hello.

Claude  
Wickard: I saw the statement in the paper this morning that you gave out at the press conference yesterday, and I think it was okay.

HMJr: It wasn't too stiff, was it?

W: No, No. I'm getting ready to let loose something. I don't know whether I'll do it at my press conference tomorrow or the speech down in Georgia next week.

HMJr: I see.

W: Down there where they grow the cotton.

HMJr: Yeah.

W: Now I wanted to pursue the thing I talked to you about after Cabinet meeting, and that was getting together with Mr. McDougal, who is economic adviser to Bruce, the Australian Minister.....

HMJr: Yeah.

W: .....who's here on a wheat conference matter and who's very much interested in this nutrition in democracies.

HMJr: Yeah.

W: I wonder if you could come over Thursday for lunch, and we'd have Mr. McDougal, maybe some others here in the Department who are interested in this thing and you might bring along somebody who might be interested.

HMJr: Now, that's on wheat?

W: On wheat. No, no. It hasn't anything to do with wheat. It's on better nutrition for

- 2 -

people in democracy, and it's looking at it from the long time approach as to how we may make democracy mean a better fed people.

HMJr: Oh.

W: And it's effect upon the present conflict and upon the peace that may be written after the conflict's over.

HMJr: Sure, I'll come over.

W: For Thursday?

HMJr: Sure.

W: How about coming over about twelve-thirty so we can have a good long lunch?

HMJr: No, I - I can't - I mean, if you don't mind, I sort of - would one o'clock be too late for you?

W: No. One o'clock.

HMJr: Yeah.

W: Now, who would you like to bring along?

HMJr: Well, let me think that over, and I'll have to see who.....

W: Well, I thought we ought not get the bunch too large, but I thought maybe you'd want to bring two.....

HMJr: No.

W: .....along, why that would be fine.

HMJr: Are you going to have that - your nutrition woman there?

W: Miss Stanley?

HMJr: Yes.

- 3 -

W: I hadn't thought of it, no.

HMJr: She's awful good.

W: I know she is. She's just splendid.

HMJr: Yeah.

W: I'm hoping that I can get her to help LaGuardia a lot in.....

HMJr: I mean, will she be there?

W: Well, I could have her come.

HMJr: And - I have nobody - the other person is Miss - oh, this woman from North Carolina who's with OPM.

W: Oh, yes. Miss Elliott.

HMJr: Yes.

W: Uh huh. Well, I tell you. I'll see - at least, I'll try to keep the crowd down.....

HMJr: Well, I won't bring anybody.

W: No. Well, but I'd rather you would bring one or two.

HMJr: But we have nobody here that's up on that.

W: Well, but don't you have people that are interested in good nutrition and good food for people?

HMJr: Oh, yes.

W: Well, bring one or two along.

HMJr: All right; but I mean, I just - okay.

W: (Laughs) All right, Henry.

HMJr: I mean - well, we just - that's outside of

- 4 -

our field, that's all.

W: No, but this is something that is everybody's field; and I know you'd have an interest in it and I didn't know whether.....

HMJr: Well, I'm very much interested, but as I say - anyway, I'll be there and if I can think of somebody, I'll bring them.

W: All right.

HMJr: Thank you.

W: You bet.

August 5, 1941  
10:20 a.m.

THE LATIN AMERICAN STABILIZATION OPERATIONS

Present: Mr. Cochran  
Mr. White  
Mr. Bell  
Mr. Bernstein

H.M.Jr: Does your daily statement show the receipts of these new tax notes separately?

Bell: Yes, sir. They show every day.

H.M.Jr: You haven't got a daily statement?

Bell: No, I haven't. I can get one in a minute. It won't show up for a few days because there is a lag, you see, coming in from the Federal Reserve Banks.

There are a few questions of policy on Mexico and Columbia that we would like to get settled before we go any further in conferring with their representatives. We are going to have a conference this morning at eleven thirty with the Mexican representative. He has a tentative copy of an agreement and he will want to discuss the various points in that agreement. They asked originally for thirty million dollars to be loaned to them. He apparently didn't understand the way the Stabilization Fund works, that it was a credit rather than a loan or a stabilization operation, so he says that the

- 2 -

way this works, that they will have to keep the reserve of twenty per cent against it so that it would only be an effective credit of twenty-two and a half million, so in order to get an effective credit of thirty million, he has got to have a forty million dollar stabilization operation, and do you see any objection to going to forty?

I suppose we would have given it to them if they had asked for it in the first place.

H.M.Jr: No one had told me before that we were going to do one.

Bell: Yes, I asked you some weeks ago if we should go ahead and confer with these people and you said, "Yes, go ahead," and that you were in favor of the policy of entering into a stabilization operation with these countries. I asked you that very definitely one day.

White: Yes, I can verify that.

H.M.Jr: Harry would do that.

White: Well, Dan was reluctant to go ahead and you said that that was all right, and I think you would be interested in knowing that the State Department feels that this is an essential component of a larger program of quid pro quo which they presumably - which includes a settlement on the oil issue, on the land issue.

Cochran: But I think the Secretary ought to know that the funds which we do put in are the funds that they carry. They say this comes out of one reserve and this replenishes the first reserve.

The funds that we supply pays for the down

- 3 -

payment on their settlement and to take care of machinery and so on to increase their production.

Bell: Well, that is, in part, Merle.

Cochran: Those are the parts they split up.

Bell: This is a cushion and they say they might not even use the credit, but it is there to draw upon in case they really need it.

You are going on the assumption that they would use it.

Cochran: Well, if they made the payments they will take our funds, which this would replace.

Bell: Not necessarily, he didn't say that.

Cochran: Well, I mean the whole story shows that, to my mind.

White: Aren't these the facts of the case, that the settlement will involve a settlement on oil - will involve a payment of, they think, twelve million dollars during the next year and of it they have some seventy-five million dollars of gold, of which I think there is thirty-five or forty million that is excess.

They will make that payment. That means that they will have thirteen million dollars less than they would have had if they didn't make the payment.

The fact that you are extending the opportunity to undertake stabilization operations for forty-five million dollars no more means that they are paying it with this than the fact that you extend any credit to any country means that they are using that money for any payment.

- 4 -

H.M. Jr: I am at a strong disadvantage because I don't know the facts. Now, let me just put it this way. As to principles involved, should we do something to help Mexico? The answer is yes.

Now, you fellows are arguing about something and I just don't know the facts. Has anybody written up what this proposal is so I can read it?

White: Yes.

H.M. Jr: What do you have to have a yes or no on?

White: Well, I think on the two points that Dan is going to raise today, I think we ought to have a yes answer.

H.M. Jr: Well, now, just before we go, let's do the thing which is most pressing. Has Welles concluded a trade treaty? The way the paper reads you would think he has concluded one with Russia. Do you know where that is standing?

Cochran: The whole thing is quoted in the press. They have said nothing to me about it.

Bernstein: The Ambassador said to me yesterday that the proclamation covering the trade treaty would be dated the sixth of August. The notes themselves which were announced yesterday would be dated the second of August.

H.M. Jr: Well, do they or do they not include the gold?

Bell: They wanted that information from you so that they could go ahead with that yesterday.

Monday they were going to sign the document.

- 5 -

H.M.Jr: But you (Cochran) have been handling that for me.

Cochran: I gave them the report yesterday and heard nothing from them after that. On Saturday, when I talked with Henderson --

H.M.Jr: Don't you think we can sit tight? In view of your last talk with them?

Cochran: You mean by sitting tight, go ahead and do the exchange?

Oh, wait, absolutely, yes.

H.M.Jr: We don't have to call up again.

Cochran: No.

H.M.Jr: I am waiting to hear from Welles.

Cochran: That is right. But I shouldn't go ahead with the exchange --

H.M.Jr: I have no intention of doing it.

Now, Mexico next.

Bell: I was just telling you that they had asked for thirty, and now they want forty because of the type of the operation, and they will have to maintain a twenty-five per cent reserve.

H.M.Jr: And you feel --

Bell: I think if they had asked for forty in the first place, that is probably what we would have been considering rather than the thirty. I don't see that it makes much difference one way or the other.

- 6 -

White: I think they have a very excellent case for raising that to forty in the light of our requirements.

H.M.Jr: Now, wait a second, Harry. I take it Bell is willing to go along with forty, is that right?

Bell: Yes.

White: I thought he turned to me.

H.M.Jr: Oh, I just meant that you were arguing when it was unnecessary.

White: No, no.

H.M.Jr: Am I talking loud enough?

White: For me, yes.

H.M.Jr: Well, now, Dan, what do you want me to say yes or no on right now?

Bell: The forty million is one item.

H.M.Jr: And you think that is all right?

Bell: Yes, sir.

H.M.Jr: Well, let's see what else you have got because I am agreeing to an agreement that I haven't even read.

Bell: That is right. You are agreeing to the main points of the policy.

H.M.Jr: All right, what is the other point?

Bell: The other is, we have had in the agreements that we have heretofore concluded a thirty-day re-purchase clause. What is it, Bernie, state it, will you?

- 7 -

Bernstein: They have got to buy back the pesos which we buy from them thirty days after we give them notice to that effect.

Bell: We did that in Argentina and China, and the Argentine has objected to it rather strenuously.

Mexico says that this doesn't work in their case, that they have to maintain the foreign exchange to the full extent of their purchase - your purchases of pesos, and they want it out, and they are arguing rather strenuously for it. Now, they would like to be free from a re-purchase obligation for at least one year. We had the same argument strenuously with Prebisch of Argentina and we told him he would have to rely on the good faith of the United States, and that we would not demand the re-purchase unless something happened down there that you had to protect yourself.

H.M.Jr: What do you recommend?

Bell: I really don't know. I am inclined to think that if I were in the representative of Mexico's place, I wouldn't sign an agreement with that thirty-day re-purchase clause. I think he has got a lot on his side, but nevertheless we have got it in all the other agreements. What do you think, Harry?

White: I am in agreement that the Mexican situation is sufficiently different so that it warrants our departure from our previous course and giving them the compromise from what they originally asked, and giving them an arrangement whereby we wouldn't ask them for that thirty days until after one year, which I think would --

- 8 -

Bell: Of course you wouldn't, anyhow.

H.M.Jr: Gentlemen, I don't give a damn. If you are going to give this - all of these things - I mean, let me get off the detail a minute. Could somebody give me a thumb-nail sketch, what is this thing? I don't want to tie up for a couple of days until I get around to it. I won't have another chance. Can somebody give me a thumb-nail sketch, and I will tell you whether I agree with the thing, and you boys can give me the details. You are doing it backward.

Barnstein: The agreement is in the usual form. You agree to purchase up to forty million dollars' worth of pesos as they call on you for it, and they agree to re-purchase those pesos. The agreement now provides that any time after you give them thirty days' notice --

H.M.Jr: You are talking about pesos?

Barnstein: Mexican pesos.

H.M.Jr: Pesos, not dollars?

Barnstein: You give them dollars, Mr. Secretary.

H.M.Jr: Forty million dollars?

Barnstein: And you get from them forty million dollars' worth of Mexican pesos, and the agreement is that they will rebuy from you those pesos upon your giving them the notice, whether it is thirty days' notice or one year's notice.

H.M.Jr: What are they going to do with those pesos?

Barnstein: They are going to use the dollars for the purpose of stabilizing the exchange value of the

- 9 -

peso in terms of the dollar. That is the usual clause in that respect. Of course, it permits them therefore to use the dollars for all their purposes of foreign exchange.

H.M. Jr: Do they keep any balances here, any gold here?

White: They are of the impression that they may not resort to any of this. I am a little bit skeptical about that, but they right now have a substantial excess reserve by virtue of a flight of capital, movement of capital back to Mexico. They think that this will help to keep that capital there because it will strengthen their position.

Ball: Have they got any gold in New York?

White: Yes, they have some. I don't know exactly how much. I think they have got twenty million dollars.

H.M. Jr: Now, what does - what deal has the State Department got on, do you know?

White: I know some of them, I don't know all of them.

H.M. Jr: Do you know them, Merle?

Cochran: Well, they have this settlement of the oil, settlement of the agrarian claims. They are supposed to be negotiating a commercial agreement. They are getting a settlement of the difficulties over water rights. I think those are the main things.

Ball: Everything that has been in controversy for the past thirty years, I guess, is tied up in this agreement. It is an over-all agreement, an economic agreement.

H.M. Jr: Well, now, who do you - who tells us about this, you see?

- 10 -

Cochran: Collado.

Bell: He sits in on our conference.

Bernstein: I think you might mention the Export-Import Bank angle.

Bell: They have been requested to make a loan. They asked for sixty --

White: Fifteen million dollars a year for four years for highway construction, chiefly.

H.M.Jr: This loan of ours, has it any terminal facilities?

White: Well, it would have the year with thirty days notice. It could be revolving after that but it also provides that nine months from now, approximately, there will be another conference, so that you could either --

H.M.Jr: Who have you people been seeing here from Mexico?

White: They have a special representative, Monteros, whom they sent up for this purpose. I think that at this point, if you find these two provisions, which are the only ones I believe there is disagreement on here, if you find it satisfactory I think that the Finance Minister ought to come up and that again, as in the past, the fact that they give you their word on the proper handling of that I think means a great deal and I think he ought to come up at that point.

H.M.Jr: Why not try to get him up here next Wednesday?

White: But he didn't want to come up until they were

- 11 -

sure they would have some success because he didn't want to go back as a failure.

- Cochran: He shouldn't come until the Secretary finds this acceptable.
- White: That is right.
- Cochran: I mean we don't want him to come up and put pressure on the silver and so on.
- Bell: I understand the State Department wants to do this whole thing simultaneously with the other agreement.
- Cochran: Because you see, the original idea of theirs, Mr. Secretary, was that they should deposit dollars here and get interest from us and then at the end of five years any balance that they owe us, they would pay either in silver at a fixed ratio or pay through twenty year bonds and so on.
- White: Well, they didn't really think they would get that.
- Cochran: Well, I mean the idea is that it is a long term proposition. We can say that is out but --
- H.M.Jr: Well now, Dan, I am willing to say, as far as the principles are concerned, go ahead.
- Bell: Then if we find that we have to give in on the thirty days it is all right with you?
- H.M.Jr: Yes, but I would like to have this cleaned up before the fifteenth, when I go away.
- Bell: I think we will have to consult the State Department and see how it ties in with that and it may be necessary to delay it until after you

come back.

H.M.Jr: Let's clean it up.

White: Well, that is one part of it.

H.M.Jr: You tell the State Department that I can either do it before the fifteenth or not until after Labor Day and I would much prefer to do it the fifteenth.

Bell: All right. Now, the other point in connection with the Mexicans would be a side agreement or exchange of letters. They wanted to - you to agree to buy silver at a price substantially in excess of the market price and the difference between the market price and what you paid them for it would be used for national defense purposes in Mexico. We of course threw that out. They wanted to have a specific price and we said no on that.

H.M.Jr: Because I would like to drop the price. I would like to begin to drop it until it is down to about thirty cents, a cent a month, until we get it down to thirty cents.

Bell: Now what they would like to have you do is agree to buy the silver production in Mexico for a period. They would like to have it for a year. The longest we have ever entered into an agreement has been thirty days.

H.M.Jr: I will tell you, Dan, I hope that somebody is going to ask me about silver on one of these meetings, you see, because I am going to say I can't see any rhyme or reason to subsidizing silver in the United States at this time and -- it is inexcusable and I just hope that somebody is going to ask me. There is no more excuse for that than any other non-defense item and

- 13 -

that as far as I am concerned, I wish they would just take and strike out all silver legislation. I don't want to get tied up with Mexico.

White: Well, this won't tie you up, Mr. Secretary.

H.M.Jr: But I don't want to recognize silver --

Bell: Beyond the thirty days?

H.M.Jr: No.

Bell: Would you be willing to enter into the agreement you had before to buy in thirty days so many ounces?

Cochran: Like the Canadian?

H.M.Jr: Sure.

Bell: How is that going to affect the price of silver on the New York market, if we take say, six and a half million ounces a month from Mexico?

White: Well, we fix the price.

Bell: There isn't much silver any place else besides Canada and Mexico.

White: There is enough coming in, more coming in than it had - than it needs for domestic purposes and your purchases of foreign silver can be dependent on what the market does and I don't - there is a possibility that the price might stiffen and might even rise, in which case I would be in favor of it and I don't know that there is anything opposed to decreasing our purchases, making another arrangement or even re-selling. Can't we re-sell foreign silver?

- 14 -

- H.M.Jr: No. Every ounce of silver that is used in trade in the United States is foreign silver.
- White: Well, they have to pay seventy-one cents.
- H.M.Jr: I hope somebody is going to ask me a question on that. I can get somebody to ask me the question and if they say, "How do you feel," I will say, "It is no more important than a non-defense highway at this time."
- Cochran: The market as such --
- Bernstein: There is no additional labor.
- H.M.Jr: What doesn't?
- Bernstein: The production of silver.
- H.M.Jr? You are wrong.
- White: Oh, there are some pure silver mines, not very many. Most of them are by-products.
- Bernstein: The ordinary silver mine where silver is a by-product of other metals --
- H.M.Jr: What they should do right now, is money they take to subsidize silver they should take to subsidize copper, which they need very, very badly. We have got a shortage of copper and an excess of silver.
- White: That would increase your borrowing and this other doesn't.
- Bell: You could give copper certificates.
- White: You don't have copper certificates.
- H.M.Jr: Well, anyway, I want to hit it one of these

- 15 -

days.

Bell: Well, that is the answer. If you are not willing to enter into an agreement beyond the thirty days --

H.M.Jr: That is the answer.

Cochran: I am inclined to go along with that, but even then that might result in a rising price in the market because our purchases this year to date through the first seven months were thirty million ounces as compared with eighty-four last year.

H.M.Jr: Say it again.

Cochran: We have purchased through the month of July thirty million eight hundred ounces.

H.M.Jr: Just for the month?

Cochran: No, for the seven months, and thirty million eight hundred thousand.

H.M.Jr: As against?

Cochran: Eighty-four million, one hundred sixty-three thousand. Now, the Mexican production per month is around five million ounces, while we are only purchasing four and a half, and if they wanted to sell us their whole production for one month they might raise the price if they held that off the market because the Mexican silver going on to the market now is the principal source of industrial silver. A considerable amount has even been exported abroad from here to Java and to England and other countries for coining purposes.

White: It is very simple. All you offer them is

- 15 -

thirty-five cents and then if they get thirty-five and a quarter cents on the market they sell it on the market.

H.M.Jr: And if I begin to drop it a cent a month --

White: You can control the price of silver. The market may offer more, but the minute the market offers the slightest spread it doesn't go to you, it goes to the market. You agree to buy if they offer but they won't offer to you if there is a higher price in the market.

Cochran: But through your contract, you are the one that is raising the market.

White: If you want to.

H.M.Jr: I am willing to give them a month to month deal. What else?

Bell: That is all on Mexico. I don't think Colombia presents much of a problem. They have asked for three million dollars and we don't know whether we might get by with less or not. We have also got the thirty day agreement in there and they haven't raised any objection to it.

H.M.Jr: How much do they want?

Bell: Three million. They are also getting twelve million and have gotten the agreement for twelve million from the Export-Import Bank. I don't think there is any question of policy there that we need worry about.

Bernstein: If Mexico gets that one year clause, will you want to offer it to Colombia just so as to have uniformity?

White: I don't see why we have to treat all the

- 17 -

countries alike.

Bell: I don't know of any more questions on that,  
do you?

White: No.

August 5, 1941  
10:45 a.m.

RE AID TO BRITAIN

Present: Mr. Bell  
Mr. Cochran  
Mr. White  
Mr. Bernstein

Bell: On the British meeting this afternoon, we have got an agenda and the only question is whether you ought to bring up the deferment of payments due France.

H.M.Jr: Oh, no.

Bell: Well, they want to decide it and they are keeping after it.

H.S.Jr: What do they want --

White: Yes. You could give them ninety million dollars and that is the easiest way to give it to them.

H.H.Jr: Give who?

White: The British.

Bell: It is about seventy-eight million dollars.

White: I thought it was eighty-five.

Cochran: Seventy-eight point nine.

Bell: It is due to the French for those contracts that the British took over and they are paying them from month to month, you know, as they liquidate the contracts.

H.M.Jr: The English are paying the French?

Bell: That is right. What they want to do is stop

- 2 -

paying the French and they want our help by cancelling the license which we have given the - is it the Fed? - to take those payments over for account of the French.

Bernstein: Yes.

Bell: If we cancel that license, then the British can't pay the French and they use that as an excuse. At least it helps them for the moment.

Bernstein: It is a simple operation. The British last year asked us for a license to make it possible for the British to pay the French through the Bank of Canada and at the British request we granted the license. Now they are in effect asking us to revoke the license and the State Department says it is all right.

H.M. Jr: I don't like it.

Bell: The State Department has passed on it.

Cochran: As a matter of fact, they have suspended payments some weeks back, even though they had the license.

H.M. Jr: I don't like it.

Cochran: It would be the Treasury saying they could not pay it.

White: Not the Treasury, but the State Department.

Cochran: Well, we are controlling the license.

Bell: I think we are holding the bag.

H.M. Jr: Gentlemen, I don't like it and it isn't kosher.

White: If the State Department --

H.M. Jr: Harry, I don't want to do it. Now, if the

- 3 -

English don't want to pay, let them withhold it, but I am not going to --

White: Well, they have a legal argument and I don't know how strong it is, but I think it ought to be presented, Bernie. They say that if they pay - if they stop paying, they are liable to suit. You explain it.

Bernstein: Well, they are afraid of a lawsuit, a breach of contract lawsuit against the contractors if they don't pay for that merchandise unless we step in and say they are not allowed to pay. What we are doing is denying a license that is outstanding.

H.M.Jr: I am sorry, I don't like it. You know, once in a while I make up my mind, not often. I don't like it, so I don't want to argue about it.

Bell: It had probably better stay on the agenda because the British will ask you whether it is on the agenda or not.

H.M.Jr: I will tell them I don't like it and I am not going to do it.

Cochran: There was the alternative of getting certain assurances from Priorities and Lease-Lend about taking care of those.

H.M.Jr: I don't like it.

White: There is one point that I remembered that I just - it just came to my notice about a position which presumably you are taking with respect to the inclusion under Lend-Lease of material - of two hundred training planes manufactured in and bought from Canada. Now, I don't - I am a little at sea here. I didn't

feel that the Secretary, any time he has ever said - has said that he would want that to come under Lend-Lease. These planes are made in Canada completely. They are sent to Great Britain and why they should come under our Lend-Lease - I didn't think you agreed to that.

H.M. Jr: No.

White: Well, Cochran notified Lend-Lease that they did.

Cochran: That is the memorandum that you (Bell) and I agreed on.

Bell: Mr. Secretary, your record is pretty clear on that. I said the Secretary had just sort of intimated he thought it might come under that. I didn't go as strong as you did in your record.

White: I have gone over the record too, because I was surprised when I first saw this.

Bell: It is the same thing we looked up.

H.M. Jr: Did I say a plane wholly manufactured in Canada --

White: I am only going on this memo. It is the first I knew about it. These are two hundred training planes --

H.M. Jr: Who wrote the memo?

White: Cochran.

Cochran: I wrote the memo. It was while you were away and Mr. Bell can explain it better than I can, perhaps. We haven't committed you on that at all.

White: Well, according to this, you have.

- 5 -

Cochran: Well, would you like to read it?

White: It says you notified Brown that that was the position that the Secretary took.

Cochran: Did I say position or hope?

Bell: Read it, Harry.

White: I wouldn't want to read the whole of it.

Bell: Read the last paragraph.

White: "Mr. Bell told Mr. Brown that when Mr. Clark, the Deputy Minister of Finance of Canada, had raised the question with Secretary Morgenthau on April 18, just two days before the Hyde Park meeting, Secretary Morgenthau had expressed the strong hope that the Lend-Lease policy would permit us to Lend-Lease to Great Britain articles which Canada is in a position to produce beyond her own needs. This would be in addition to the American policy of purchasing for itself such products of Canada's excess capacity. Mr. Bell pointed out to Mr. Brown the dual advantages of the arrangement."

H.M. Jr: It is a hope. I still don't understand what we are all talking about. I don't see how I could have said that if Canada makes, let's say, a million dollars worth of planes wholly within Canada, that we should give - who do we give - do we give the money to England to pay Canada?

White: We give it to England to pay Canada. Now, my understanding was, and I thought I was present at all the meetings, my understanding was that you were in favor of placing under Lend-Lease any materials which we exported, motors, for example, if they went into the making of the planes but if they imported those motors from

us, just that part of the plane. That was my understanding.

W.M.Jr: That is the way I understand it.

Cochran: That was the original proposition that came up, Mr. Secretary. That had been settled sometime in advance. Then just two days prior to the Hyde Park meeting, Mr. Clark and Mr. Coyne were here and that point was raised twice and Mr. Clark repeated back to you that that was the understanding and it certainly is the Canadian understanding --

H.M.Jr: Have you searched these records?

Cochran: Yes, sir. We didn't quote them. Miss Chauncey let us see it and she was with us when Mr. Bell actually questioned it.

H.M.Jr: Let me just review this Canadian thing. There is this very complicated arrangement. We told Canada that they could buy an extra hundred million dollars worth of goods here to offset the stuff that England is buying there. Now, there is no argument about that, is there?

Cochran: No.

Bell: No, not at all.

H.M.Jr: Then there is also the thing, that we are to try to buy in Canada everything that we can for our own defense purposes.

White: Yes.

H.M.Jr: And also to place any orders for ships in Canada that they can make for us. Is that right?

Bell: That is right.

- 7 -

- H.M.Jr: But as far as I have known - and if I have given that impression I didn't intend to.
- Bell: I thought the record was quite clear. I read it over on Friday or Saturday.
- H.M.Jr: Well, I can change.
- Cochran: Well, I mean now is the time that you should change if you are going to, because this is the first policy case they have up.
- H.M. Jr: Well, I would like to change now. I mean, certainly I would want to talk this thing over with Cox and with Hopkins and get their feelings, but I don't believe -- you see, here is the thing. Canada has never wanted to - they don't Lend-Lease anything from us, do they?
- Bell: And they don't want to, if they can keep out of it.
- H.M.Jr: That is their business. Now, when it comes to saying that all the goods that England buys in Canada, wholly made in Canada, that we should Lend-Lease that, I just can't see that.
- White: I don't think you would have made any such thing. I would like to see the record on that. We looked through the record. Maybe these were the Secretary's records.
- H.M.Jr: I will say as of today, I certainly want to withhold saying yes on that until Cox has got a chance to look at it and Hopkins, because I greatly question the wisdom of that.
- Let's forget what I said. Let's say that you fellows are right. After all, I can have a second thought.

- 8 -

Cochran: Surely.

H.M.Jr: I am not breaking my word. We haven't formally agreed to it. This is the first case, isn't it?

Cochran: Yes, this is the first case and the other day when Coyne was going away - may I read one paragraph?

"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 raw materials. In this connection, he said that numerous Canadian concerns had purchased well ahead and were still receiving deliveries under these contracts. Furthermore, there was considerable buying for cash because of the necessity for speed in obtaining deliveries. Coyne added that some contracts are now being signed which would envisage the 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."

H.M.Jr: Well, we will have to go into it again.

Cochran: I mean, that is the impression they have.

H.M.Jr: Could we stop now? We will have to go into it again.

August 5, 1941  
11:10 a.m.

MEMO TO RUSSIA

Present: Mr. Cox  
Mr. Coy  
Colonel Famonville  
Mr. Kamarek  
Mrs. Klotz

H.M. Jr: Well, I just might tell you what you may or may not know. At lunch with the President Friday I told him that I had seen the Russians and I had seen Cox, and they were just getting the run around, as a result of which I asked the President whether he wanted to bring it up in Cabinet, so he said he would, and for forty-five minutes he went to town in a way I never heard him go to town before. He was terrific. He said he didn't want to hear what was on order, he said he wanted to hear what was on the water. He directed all of his talk at Mr. Stimson. Of course this is the President's business I am talking about, but he really went to town. So with that lecture that he delivered, then he said, "I will bring Wayne Coy in." Now, what, if anything, can I do as an outsider?

Coy: Well, I went over and had a talk with his secretary yesterday morning.

H.M. Jr: Stimson?

Coy: Stimson's secretary. And he felt very much put out about the lecture that he felt he had received too, because the requirements of the Russians have never been made known --

- 2 -

H.M.Jr: Did he blame me?

Cox: No, he did not. He didn't blame anyone in particular. He said the President almost looked right at him. But he said he felt very badly because the requirements of the Russian Government had never been made known to the War Department, except some requirements for aircraft which had been transmitted to the War Department by the Acting Secretary of State, Mr. Welles, who had had some conferences with Bob Lovett, and Lovett had kept the Secretary informed about it. They knew nothing about any other requirements until just this morning - they repeated this statement, Lovett and the supply officer in the General Staff. They knew nothing about any other requirements beyond P-40's and the bombers. I don't know what the background of that is, as to why they are not informed about it. I understand the requirements have been pending in part for two or three or perhaps four weeks, and have been supplemented from time to time. They wanted to bring up the question this morning of bombs, wasn't it?

Cox: Yes, aircraft bombs.

Cox: Which they hadn't even heard about, twenty-five thousand.

H.M.Jr: What is the trouble, Oscar, is it with us or is it with the Russians?

Cox: I don't know.

H.M.Jr: Or with the State Department?

Cox: One of the reasons- I am presumably just a lawyer fellow who got in after that, but I think Fannonville can tell you what the history of the thing was up to that point.

- 8 -

H.M.Jr: Of course I am doing something now I swore I would never do again after the fifteenth of March.

Coxt: You can't keep out of it.

H.M.Jr: But until Harry Hopkins gets back I will do what I can.

Fannonville: Mr. Secretary, if I may take up the story there, I came east about the middle of July. I found that a list of requirements had been submitted by the Soviet Ambassador and had been held in the State Department.

H.M.Jr: Where were you?

Fannonville: I was in the Fourth Army in San Francisco. That is still my base.

These requirements had been submitted and were being held in the State Department. They were being acted on there by a special committee in the State Department. The committee was asking various Government agencies believed to be concerned what action should be taken on them. The answers coming in from the various Government commissions and departments were almost unanimously no, no, no, no, and no. It was fairly evident that nothing could be obtained through committee action in the State Department that would in any way satisfy the Russians. Certainly thereafter General Burns, I believe, saw the President and possibly as a result of that meeting General Burns received a letter from the President directed to this general effect, that he desired to concentrate in the Defense Aid Reports Division, of which General Burns is acting executive, I believe, matters concerning Russian supplies, that the President desired General Burns to submit a list to him

- 4 -

immediately of items which could be made available at once, defining at once as being before October 1, and at a later date another list of items which could be made available ultimately, both from the requests submitted by the Russians, and of other items which from time to time appeared necessary to give them. General Burns did submit that first list of items which could be made available immediately, and those items, in so far as possible, are now being worked upon by the various agencies of the Government that have jurisdiction over them, and are being prepared for shipment.

The second list of items which can be made available after October 1 has not yet reached final form, but is in nearly final form.

Coy: To whom did he make that list available, Colonel?

Yamonville: To the President.

H.M.Jr: Is this a new story to you?

Coy: Yes, it is.

H.M.Jr: Is it new to you?

Cox: Yes.

H.M.Jr: I thought it was. Neither of you heard this before?

Cox: No.

Coy: No, and the General in charge of supply, on the General Staff, doesn't know this. If he does know it, he is very good. I thought you might like to see the memorandum I had from them.

- 5 -

- H.M.Jr: There are two things. Do you mind my just - can you hold your thought?
- Cox: No, go ahead.
- H.M.Jr: Two things I don't understand. One, why Welles sort of held this thing and sort of felt that he was the contact man on war materials under Lend-Lease. That is number one thing I don't understand. What?
- Cox: Well, I think --
- H.M.Jr: That is just --
- Cox: I can give you a partial explanation of that. Originally they didn't want to --
- H.M.Jr: I understand the Colonel is assigned to Hopkins, isn't he?
- Cox: That is right.
- H.M.Jr: So he is part of the Hopkins shop.
- Cox: That is right.
- H.M.Jr: I don't understand why Welles holds this thing in his hands.
- Cox: I think why he held it, originally the thought was not to have any association with Lend-Lease and therefore the State Department got into it. When they got into it, they had neither the knowledge nor the administrative staff to get any information which is at all adequate to meet the objective. Then they called Hopkins for help and he called me about it and asked me to speak to General Burns about helping them out and still letting the State Department carry the ball. It was at that

- 6 -

point that the General got you (Famonville) pulled in from the West Coast to do that very job but still the State Department is holding the jurisdiction. It wasn't until within the last week that Welles apparently relieved himself of the jurisdiction.

H.M.Jr: Turned it over to Burns?

Cox: No, he recommended a three-man committee, consisting of Hopkins and in his absence, Burns, Purvis, and Oumansky, and then they named Famonville as the executive secretary on the committee. But that only happened on Saturday.

Famonville: Saturday afternoon.

Cox: Last Saturday, you see. The committee was appointed, I think, on Friday.

H.M.Jr: By --

Cox: By the President. Welles went to him and said, "I think we ought to have a committee" - Thursday, I guess it was.

Famonville: I think perhaps it has a slightly longer history than that. I was informed that the President himself in an interview with Mr. Oumansky had suggested not a three man committee, but a three power committee.

H.M.Jr: That is right. That is what Oumansky told me. That is what he told me.

Famonville: And that the President asked whether or not the Soviet Government was in a position to appoint a member, and that within a very few hours or days, Mr. Oumansky came back officially to Mr. Welles with his official designation by his Government.

- 7 -

H.M. Jr: That is right.

Fanonville: As a member for the Soviet Union and that thereafter, the President appointed Mr. Hopkins as the American member of this three nation committee, and that Mr. Furvis was appointed at a still later date, and that acting in his place during his absence, Mr. Monnet is available.

Cox: I gather from Burns that the original suggestion of the three man committee came from Welles as a method --

Fanonville: Well, that I don't know.

H.M. Jr: Well, now, let me just get this thing straight. The President sends a written communication to General Burns.

Fanonville: Yes, sir.

H.M. Jr: Prepared two lists, one to be ready before October 1, and one after, is that right?

Fanonville: Yes, sir.

H.M. Jr: The list of prior to October 1 has been prepared?

Fanonville: Yes, sir.

H.M. Jr: Has he got written authority for this, Burns, or just verbal?

Fanonville: That authority was transmitted in this way. When that list was prepared it was handed to the President with a memorandum by Mr. Welles. The memorandum said in substance, "Here is the list transmitted, which meets with my concurrence, with the exception of items 1 and 2," which were respectively pursuit planes and bombers.

H.M. Jr: Who objected to that?

Fannonville: Mr. Welles said this, that it met with his approval with the exception of those two items, "which I have under consideration myself at the present time."

H.M.Jr: Mr. Welles said that?

Fannonville: Mr. Well s said that; in other words, reserving jurisdiction over those two items to himself. The list as such, with that comment, went to the President. It came back from the President, "S.H. O.K. F.D.R."

Cox: "S.W."

Fannonville: I beg your pardon, "S.W.", Sumner Welles. "O.K., F.D.R." Mr. Welles transmitted that to General Burns with a cover letter in which he said,

"My dear General Burns: I understand from the President's initials on the margin of this note that he approves the action recommended by you, which also meets with my approval.."  
Based on that, it was considered written approval. Action was then taken to accomplish what the President desired, namely, to make shipment of the items on that first list.

H.M.Jr: I see. Well now, on that list, did that touch the hundred and forty odd P-40's supposedly in crates in England?

Fannonville: No that was a much later development. Mr. Welles' reservation in transmitting the list to the President asked that he be permitted to handle the airplane situation. Now, for about a week after that I understand that he did say that he saw Mr. Lovett and perhaps saw others with reference to that, but anyway, at a subsequent date, a few days ago, I am informed that he relinquished his jurisdiction over the plane situation and left it to General Burns to handle.

- 9 -

H.M. Jr: Well, as it stands today, has Welles got anything to do with it other than that he sees Oumansky?

Famonville: It is my impression that his function is to state to the Soviet Ambassador the articles which the American Government finds it practicable to lease and have delivered - or rather to have negotiated for by the Soviet Government.

H.M. Jr: Now, can I read this aloud?

Coy: Yes, surely.

H.M. Jr: This is a memorandum for Wayne Coy, personal and confidential, August 2. You have heard this?

Famonville: No.

Coy: This is new. I haven't seen the Colonel since I got it.

H.M. Jr: Well, at least this is a good clearing house, anyway.

Famonville: Excellent, I would say.

H.M. Jr: "I raised the point in Cabinet on Friday that nearly six weeks have elapsed since the Russian War began and that we have done practically nothing to get any of the materials they have asked for. Frankly, the Russians feel that they have been given the run-around in the United States. Please get out the list and please with my full authority use a heavy hand and act as a burr under the saddle and get things moving.

"The enclosed comes in just before I leave. In regard to the bombers, we should make and the British should make small token deliveries. With regard to the P-40's, it is ridiculous to bring any back from England by stealing

- 10 -

through the submarine zone, but we should expedite two hundred of them from here.

"I have told the Russians that I am dividing things into two categories, first materials to be delivered on the Russian western front in time to take part in the battle between September 1 and October 1 and secondly, those materials which physically could not get there before October 1. I have chosen that date because after October 1 we all doubt if there will be very active operations, due to rain, snow, etc. Step on it. F.D.R."

Now, can I read this other thing?

Coy: Yes, the other one is the memorandum he referred to Marshall. It is completely out of date now.

H.M.Jr: Then it isn't useful?

Coy: It isn't useful at all.

H.M.Jr: Well, Coy, just again, as I say, all I am trying to do is, Oumansky comes in and pours out his heart to me, that as of Friday morning he hadn't gotten anything at all. He hadn't gotten anything more than odds and ends.

Fannonville: That is substantially correct.

H.M.Jr: I told that to the President and that is what got him angry. He said, "I am going to get a first-class administrator, Wayne Coy, and have him watch this thing for me." Now, where do we go from here to get the Russians something? What can Wayne Coy do to step on it?

Coy: Here is what has happened now with respect to the P-40's. There are 140 P-40's in Britain.

- 11 -

They are going to be shipped around the North Atlantic to Archangel and 59 in this country - twenty-eight of those are crated. They are British ships. They are going to be shipped from here to the same port in Russia. We are sending five motor mechanics and five aircraft mechanics to Russia to instruct them in the mechanics of handling these ships and there is one American pilot already in Russia, having flown there with Harry, and another one going from London to join him, so there will be two pilots there to instruct them in the handling of these ships. That is your story on the P-40's.

H.M.Jr: Pilots who know pursuit ships?

Goy: They are specialists in these pursuit ships. They know the engineering of the ships. One of them is named Lt. Allison and the other one Lt. Zempke. Zempke is now in London and is going to be sent right away. They have already started negotiations with the Curtiss people and the Allison engine people to furnish the mechanics on a volunteer basis. They made no positive commitment for the furnishing of those mechanics because they have to ask for volunteers as they did in England, but they did get them to go to England and I don't think they will have any trouble in getting them to go to Russia.

H.M.Jr: They go up to --

Goy: Archangel.

H.M.Jr: And that is a hundred and forty from England and --

Goy: And fifty-nine from this country, which makes it a hundred and ninety-nine. I suppose they will add one and make it a total of two hundred.

- 12 -

H.M.Jr: That is the old P-40, not the improved?

Famonville: That is true, sir, the P-40, not the P-40-D.

Coy: They are working out such technical problems as what kind of guns they will have on them and the ammunition. We are going to furnish four million rounds of 30 caliber ammunition from this country for the sixty ships which we sent from here and presumably the British will furnish the fifty caliber --

H.M.Jr: When was that settled?

Coy: We just came from there.

H.M.Jr: From the Army?

Coy: From the War Department.

H.M.Jr: Was Mr. Stimson agreed to that?

Coy: Yes.

H.M.Jr: Does General Burns know about it?

Coy: General Burns is out of town.

Famonville: He does not.

H.M.Jr: You are learning about it now?

Famonville: Yes.

Coy: Moore told us that you (Famonville) had been sent for.

Famonville: I received no message.

H.M.Jr: Well, that takes care of that.

- 13 -

Coy: That is the P-40's.

H.M.Jr: And were the Russians with you?

Coy: Yes. They were there - Oumansky came in at a quarter of nine and sat half an hour with us before we went over.

Prior to this, I might just refer to the memorandum here, the arrangement was to deliver the P-40's to them in Fairbanks and they would bring their mechanics and pilots over there and we would send mechanics and pilots up there to train them and they would fly them over. Our Army pointed out to them that you couldn't because of the wastage involved in flying them, and Oumansky had instructions from his Government yesterday not to bring them that way but to bring them the route that they are now going to go.

H.M.Jr: It seems more sensible. England to Archangel is how far?

Famonville: From there to what point?

Cox: From England to Archangel.

Famonville: There is much less wear and tear on the engines than if they flew from Fairbanks.

Coy: They won't even be flying.

Famonville: May I just ask there, this question? The two hundred planes, as you indicate, were to have been delivered somehow or other, as the story was given to me Saturday noon in the White House, but in addition to that an American squadron, that is to say, 28 planes taken from American stocks or American planes in units, were to have been sent to Fairbanks. Is that permitted?

Coy: Yes. There is a little difference in that. There were 28 and a total of enough to make up 59 altogether. They were going to put the 28 in Fairbanks and deliver that way. Now they are going to Archangel. The 59 in this country are going directly to Archangel from here with ammunition and guns and the hundred and forty in Britain are going from there with ammunition and guns.

Famonville: And the total Russian supply, then, instead of being two hundred twenty-eight, is now down to a hundred and ninety-nine?

Coy: That is correct. We are making available in addition five B-25's and those are going to - before I get to that, those sixty in this country are going to be delivered to a port that the Russians will name. The B-25's will be flight delivered.

H.M.Jr: What are B-25's?

Cox: That is the new model of the two motored bomber.

H.M.Jr: Made by who?

Cox: North American.

Famonville: They are to be flown through Alaska?

Coy: They haven't said.

Cox: This is the North American.

H.M.Jr: The Martin is the B-26. Do you know?

Kamarck: I don't know the 25. The 26 is the Martin.

H.M.Jr: I guess you are right. How many of those are there?

Coy: Five.

- 15 -

H.M. Jr: Only five?

Coy: They are negotiating with the British on five more bombers of the Lockheed Hudson type but those that we have in this country are on British order and the negotiation has to be with the British. They possibly will get ten bombers immediately and two hundred P-40's.

Fanonville: But the President's understanding at noon on Saturday was that five B-25's were to be made available immediately and five more in a month and that in addition to those ten, the British would match our bomber contribution by an equal number of Lockheed Hudsons. Is that still the case?

H.M. Jr: This is as of Saturday noon?

Fanonville: Saturday noon, yes, sir.

H.M. Jr: That is practically what the President had said at Cabinet, except that he had hoped to get them four engine bombers but Mr. Stimson said there was such a shortage of four engine bombers.

Coy: Marshall's memorandum to the President late Saturday afternoon - he talks about the bombers here. "As to the bomber types, we are preparing five B-25's for flight to Fairbanks with the necessary officers to give pilot and mechanic instruction. There is a slight complication here as the Norden and the automatic control has to be removed. However, we will install a substitute sight. The only bomber that the British have under order in this country is the Lockheed Hudson. We are discussing with them the possibility of these being matched with five of our B-25's. The idea here would be that while this British plane has its radio installed in this country, the turret is installed in England.

- 16 -

Possibly it would be simpler for the British to fly their bomber contribution directly into Russia."

That is all that refers to the bombers. Apparently the Secretary of War's understanding about bombers was that they were to match five of our bombers with five of the British instead of ten of ours against ten of the British.

Fanonville: There was nothing said about --

H.M.Jr: I can give you that. The President said he wanted five medium range bombers of ours and five English and five long range bombers of ours and five long range bombers of the English. In other words, what he had in mind was ten bombers from us and ten from them. What?

Coy: We didn't go into the long range bombers. As a matter of fact, the Russians this morning spoke only of short range bombers in their requirements.

H.M.Jr: Well, when Oumansky was here he didn't seem to think he wanted Lockheed Hudsons.

Fanonville: I think that still is the impression.

H.M.Jr: Let me just say this, I think what has happened since Cabinet is very encouraging, but two hundred and ten airplanes isn't going to last them very long. What about all the rest of the stuff? What else besides that? That is very nice --

Coy: Oscar and I were talking on the way over here. You have to take about what you can get and immediately you can get that and get it delivered and then you will have to do one other thing and that is, take the British-American-Russian production of those airplanes, which calls for a relenting on Britain's part of the 60 per cent of our production that they are now getting, so

- 17 -

as to be able to give Russia an adequate number of planes, because the front of this war is now in Russia.

H.M.Jr: Well, you know what Oumansky says? He says, "We are doing 90 per cent of the fighting."

Coy: Today.

H.M.Jr: Today. "We ought to get 90 per cent of the stuff."

Coy: I raised that question this morning. I said, "Certainly we ought to be able to set up a distribution schedule here that recognizes where the fighting is being done, with an understanding both with you and with Britain, that as the fighting changes front we would change the distribution."

H.M.Jr: That makes sense.

Coy: As I see it, as soon as we get out this Schedule A stuff, as much of it as we can get without too much fighting with the Army about it, sit down and reschedule this whole business, beginning immediately with your deliveries on it.

Fanonville: Doesn't that fit in exactly with the program which the committee of three has laid out for us?

Coy: Yes. Then your committee of three can be advisory to you. I don't think that committee of three ought to be the one to tell you how to distribute that. I think we ought to hold that in our hands.

Fanonville: Each nation will undoubtedly feel that way about it. I can't imagine Mr. Churchill is going to turn over to Mr. Purvis the amount to be delivered.

- 18 -

- Coy: The distribution finally ends up as being an agreement between Mr. -- You have to break the ice with Great Britain about giving up some of their 60 per cent of our airplane production. It is very curious to discover that they have got a hundred and forty P-40's in crates in England.
- H.M.Jr: Do you know how many engines they have got over there not in use?
- Coy: There can't be very many.
- H.M.Jr: But altogether, the engines in England?
- Coy: No.
- H.M.Jr: Of these beautiful high-powered engines. What is it, one or two thousand?
- Cox: Close to two thousand.
- Coy: But they are not the Allison --
- H.M.Jr: No, no, but the other, the Curtiss-Wright and the Pratt and Whitney, but they have got all of these engines that Beaverbrook took and stored away and he has never used them.
- Coy: They have a tremendous reserve of air power. Someone has told me as much as a hundred per cent.
- H.M.Jr: I wouldn't be surprised.
- Coy: The question is, can we afford to let them have a hundred per cent reserve air power when Russia is starving to death and fighting her heart out. I think we should have a schedule of distribution which the President can approve and say, "This is the way it is going to be done."

- 19 -

H.M. Jr: I think you are absolutely right.

Let me just ask this. What are some of the other things they want besides planes?

Fanonville: In general, Mr. Secretary, they are divided into two groups of things. The first group consists of raw materials and industrial equipment and whole plants that can be used in the munitions industry and things of that sort. The other half of the picture is the strictly munitions items, finished items, which are capable of use at once on the battlefield. That includes anti-aircraft guns, anti-tank guns, machine guns, ammunition for all those items, air bombs, various types of planes, equipment of that sort.

Coy: Explosives.

Fanonville: Explosives, also. Now, the two are in separate categories for this reason. With regard to the raw materials and the industrial equipment, I understand there is no legal obstacle to the President making such arrangements or permitting such arrangements to be made as seem wise, but with regard to the military items, the finished items of military equipment, I am told that legally the Chief of Staff's concurrence must be obtained before transfer is made of any such items and that is why the Chief of Staff has a legitimate part in the picture as the individual who must say, "Yes, this can be spared from the American Army," and his advisers are practically uniformly patriotically and correctly and rightfully watching the interests of American armament to see that the Army gets its proper share.

H.M. Jr: I lived with that for two years. Let me ask you this. Couldn't some of this Russian stuff come under the billion three?

- 20 -

Cox: Yes. Now, that was --

H.M.Jr: And the Chief of Staff doesn't have to --

Cox: You see, what they are doing --

H.M.Jr: And that lets the Chief of Staff out.

Cox: They are reviving that old problem on the rifles. They claim that you can't sell direct to a belligerent and that also you have got to get the Chief of Staff's certificate on a release and so on and so forth.

H.M.Jr: You don't under the billion three.

Cox: No.

H.M.Jr: There is lots of leeway there.

Cox: Of course, you have got a political question there. I think the President originally wanted it outside the billion three, I mean outside Lend-Lease for political reasons, but I think where it is a cash reimbursement thing and you use the revolving fund under Lend-Lease, it doesn't make any difference whether it comes under the billion three or new Procurement, because the Government gets priorities that can jump over all these legal things in one step by doing Lend-Lease. For example, if they want to buy toluol, they have got a problem on priorities, the problem as to whether it is surplus stock for the Army and so forth. There are a lot of obstacles which we ought not to have to put up with.

H.M.Jr: Well, let me just ask this and then I am through. This may be a little embarrassing, but I would like to ask it just the same. You have this directive from the President, Coy. You are just going to

go ahead and carry the ball and where does that leave General Burns?

Coy: Well, in his absence there isn't much of a problem there. We can go right on with Phil Young and Oscar and Colonel Famonville here, all of us, trying to do the trick.

H.M.Jr: I see.

Coy: When the General gets back, I am sure he will join right in with us and carry it out, he having had instructions similar to this, I take it from what Colonel Famonville has told us. The only thing that bothers me, Colonel, about this thing is that why haven't the General Staff officers known of these requirements? I can't find anybody over there that admits having known about them at all. If they do, they were very secretive about it, when Stimson and Lovett and McCloy and Moore asked them about it. I thought this morning that there were one or two of them in the room who had knowledge of it.

Famonville: Of course they did.

Coy: Have you talked to Spatz about it?

Famonville: I have had almost daily conversations with him.

Coy: Have you given him a list, verbally or in writing?

Famonville: He knows what is going on and I haven't presented him or anybody else with any specific list.

Coy: They are hedging around on the question of not having had any knowledge heretofore about it.

H.M.Jr: Well, I think the thing is off the ground and I would just like to leave it this way. If

- 22 -

anybody thinks I can be helpful or if Mr. Ouman-sky sees me and tells me again he isn't getting anything, I am going to again raise a little hell, but it is all inside the President's official family.

Coy: I think he was very well pleased so far as we went this morning. He pressed about the remainder of this list. I made an arrangement to go over this afternoon with the General Staff the rest of this list, Moore and they designated some fellow, Colonel McDonald.

H.M.Jr: Well, they have just got to get this stuff and get it fast. We can't - I mean, I have been through this. You can't treat them the way we treated the Greeks. I mean, for four months Sumner Welles and the rest of them argued about sending them forty-five planes and they never got a plane. They never got anything and that thing has been repeated over and over again and these people know it. They do a lot of talking but never make good on our promises. It is a terrible thing to say, but it has happened again and again and we just can't treat these fellows this way, because this is the time to get Hitler. We will never have a better chance.

Fanonville: You are right, of course.

H.M.Jr: We will never have a better chance and if we miff the ball - I mean, somebody has been looking over this country and the good Lord has been with us, but we can't count on the good Lord and just plain dumb luck forever. We have got the chance to do it now or never.

Fanonville: It is a good opportunity of spending fifty billion instead of a hundred billion and perhaps saving millions of American lives if the thing is carried through now.

- 23 -

- H.M.Jr: This is the chance and the other story that came over the radio, which I didn't see in any newspaper on Sunday, which impressed me, is the story out of Moscow saying that they were willing to go on fighting but they could not lick Mr. Hitler unless the United States and England really came across and if they could get the assurances that we would look after the Pacific and, say, concentrate five hundred bombers in Alaska, they would take one million troops out of the Manchuria frontier and move them to their German front and lick the Germans, but they had to get the assurance. That has appeared in no newspaper, but it seemed to me that that made a lot of sense. Don't you think so?
- Fanonville: Certainly. No question about it.
- H.M.Jr: Aren't those the best troops they have got, or as good?
- Fanonville: They are very good troops. It is an excellent army. The Special Red Banner Far Eastern Army, they call it.
- Coy: Colonel, do you see any objection to going to McDonald and Moore with the list of stuff at this point?
- Fanonville: Not at all.
- Coy: Stimson said to take the air list to Lovett and - or his man, McDonald, and to take all other requirements to McCloy for handling in the Department.
- Fanonville: Now, this action, you think, would supersede what the President had intended in the way of the submission by General Burns of a second list?
- Coy: I am thinking now in terms of List A.

- 24 -

- H.M.Jr: That is right.
- Coy: Now, your second list is one that gets into another procedure, as I see it, namely, the re-allocation of our total production.
- H.M.Jr: You are right.
- Coy: You kick out your A List that has to be delivered between September 1 and October 1 to be of any use to them. Everything on your A List.
- Fanonville: Well, I can just run those off to you. I am fairly familiar with them. Three thousand bombers; three thousand pursuit planes; fifty thousand tons of toluol; twenty-five thousand bombs; twenty-five thousand anti-aircraft guns; twenty-five thousand anti-tank guns, all with ammunition.
- Coy: And he wanted rifles, too.
- Fanonville: The rifle situation was brought up, so far as I know, for the first time in Mr. Oumansky's conference with the President, I think on last Thursday. If not on Thursday, then on Friday. The President definitely asked him --
- H.M.Jr: Thursday.
- Fanonville: Thursday, it was, when the Ambassador introduced his military delegation.
- H.M.Jr: He was here Friday.
- Fanonville: The President said yes, we were in good production on the Garand rifles. I wasn't there; this was reported to me. We probably could make some available from our current production
- H.M.Jr: That checks with what he told me.
- Fanonville: I took his Delegation to Aberdeen proving grounds

- 25 -

yesterday. The General and each of his officers in the delegation fired the Garand rifle.

H.M.Jr: Are they good shots?

Fanonville: Well, we didn't have targets on the range. It might have been slightly embarrassing.

H.M.Jr: I hit that stump out there.

Fanonville: Oh, you hit the same one? Well, he hit the stump.

H.M.Jr: At least I could do that, anyway.

Fanonville: But that in general was the scope of the list which they feel they must have immediately. Now, on some of those items, the three thousand pursuit planes are down to a two hundred basis at the present moment. The three thousand bombers are down to - either five or ten, as the case may be.

Coy: They recognize that the list is divided into two parts, what you can deliver out of your present stock and then they want the three thousand bombers, the three thousand pursuit ships, scheduled for them.

Fanonville: Well, the answer as to your --

Coy: They go on your B Schedule, then.

Fanonville: But the rest of the A Schedule is - the answer on any aircraft guns from General Marshall is no, we haven't enough, we haven't any to spare. The answer on anti-tank guns is the same.

Coy: I am not so sure the War Department would hold to that. Yesterday I went out with Stimson to his home for lunch and we talked a good deal about it and his responsibility for building up

the Army of the United States to properly defend this country, as to whether he will best defend the country by equipping the Army to full size immediately or whether the equipment could be better used by other armies who are also defending the United States, and he recognizes that some place in between there he has to move and it is on his responsibility and his advice to the President as to the allocation of that material. McCloy is much more inclined to give more of the equipment to Russia and to England than, for instance, Lovett is with respect to the air, and Lovett has a peculiar problem with respect to the air force.

H.H.Jr:

May I make a suggestion? It is from my previous experience on this thing. I think you could get off a cable or ask Mr. Stimson, if he has got the information, as to what the situation is, the net situation - or you may get it here from Sir Henry Self - as to the English planes, each kind of plane, I mean, how many fighter planes has he got and how many reserves. My guess is that you would find that they have at least a hundred per cent reserves. If that is true, even though he sends me a report next month as to the net position of planes for our Army in the United States - the situation is terrific. I think you will find that you will have a very good excuse for diverting a very large number of the English bombers on the line here. I think that if you - at least you could start that, but I think you will find that otherwise you won't get anything. That is what happened with the Chinese. In February we took a hundred planes, P-40's, right out of the factories in 15 or 20 days. We promised the English something in June or July. We took it and they didn't gulp too hard and we got the Chinese some pursuit planes. I think you will find you will have to do something along those lines.

- 27 -

- Coy: It will probably be the same thing with pursuit ships.
- H.M.Jr: Whatever they want. Of all the Army officers we have got in England, somebody ought to be able to find out what is the true picture, I mean how many planes have they got, how many pilots have they got who can fly them, how many have they got in reserve and how many American planes are there in boxes that haven't been unboxed, even, and I think you will find they have got about all they have got pilots to fly and if that is true, you have got a pretty good excuse for the next month to give practically the entire English production to the Russians. Does that sound crazy?
- Yamoville: It doesn't sound crazy at all, but of course there would be objections presented by the British, namely that production is tapering off on that particular type of plane and it is beginning on another type which they consider inappropriate for the Russians to have and so on.
- Cox: You would get those anyway.
- H.M.Jr: You would just get down to the place which I did with them. I said, "Now gentlemen, we are very sorry. We have stopped arguing. We are going to take a hundred Curtiss P-40's and give them to the Chinese." Without arguing any more about it we did it.
- Cox: That is right. You have got the control over production, you see.
- H.M.Jr: Coy, I think you will find that the sooner you get that information, - but to give these people five bombers, that doesn't amount to anything. It is an insult, if my facts are right as to what is needed.

- 28 -

Well, thank you very much for coming over here  
and educating me.

August 5, 1941

The Russian Ambassador came in at 2:30, and asked the Secretary's advice as to how to get a letter from Stalin to the President without going through the State Department. The Secretary informed him that there would be a pouch on Thursday, but the Ambassador felt that would be too late as time was of the essence. The Secretary then advised him to ask the White House to send the message to the President in code. The Ambassador hesitated because he did not trust any code, but finally decided that he would have to use this method since there was no other way. The Secretary then telephoned Forster at the White House and told him that the Ambassador would come over to see him.

The Russian Ambassador said he had received a very excellent report from his country; that the army was getting better every hour every day; that Russian morale was excellent; that there was sufficient food to prevent hoarding; that all they needed from us were guns, ammunition, etc., and that in that direction things were moving very, very slowly. The Secretary then told him about his talk with the President on Friday at lunch in regard to their needs, and how the President held forth at Cabinet for 45 minutes. He also told the Ambassador about his meeting this morning with Cox, Coy, and Colonel Fannonville.

The Russian Ambassador was most grateful for the Secretary's interest and help, and expressed his thanks many times.

4174

TO:

81

Secretary Morgenthau

For your confidential  
information.

7 August 1941

OC

MR. COX

## DEPARTMENT OF STATE

C  
O  
P  
Y

## PARAPHRASE

CONFIDENTIAL

Telegram no. 3429

Dated: 8/5/41 Midnight

From: LONDON

Rec'd: 8/5/41 7:45 p.m.

FROM THE AMBASSADOR FOR GENERAL BURNS.

This is in reply to your 2846 of July 29, 7 p.m.

I am told by Mr. Hopkins that the allocation of British Tomahawks to Russia has been brought to your attention.

I talked with Portal last night on Hopkins' suggestion. Lieutenant Allison and Lieutenant Zinke who are experienced on these machines have been sent to Archangel. I have been informed by Portal that arrangements are being made today to send three or four men experienced in erecting and servicing Tomahawks when they go from England. He went on to say that with Lieutenant Allison and Lieutenant Zinke of the United States Air Corps, whom you are also sending, these three or four men will be able to form the nucleus of key men to assist the Russians in preparing the aircraft for service. It was his idea that these Britishers would serve under Allison and Zinke.

- 2 -

He went on to say that he understood that providing the necessary parts, ground equipment and ammunition which unfortunately are not available here had run into some difficulty in America.

He expressed the fear that the aircraft would be useless for fighting unless these spare parts, ground equipment and ammunition can be supplied. Not only the Russians but also we ourselves, he continued, would be greatly disappointed if such proves to be the case. We need the 200 Tomahawks badly in the Middle East, he said, and we can ill afford to spare them. If they were to be wasted in this way it would be a great misfortune, in his opinion.

In conclusion, Portal stated that he was sure that we in the United States of America will do everything we can to see that the spare ground equipment and ammunition are provided.

In spite of your cable, I hope that we will be able to assist in this situation. The inability of the British to supply spare parts, ground equipment and ammunition from here is stated correctly by Portal, I am certain. The effectiveness of the planes will be destroyed without them.

A cabled reply would be greatly appreciated.

WIRANT

August 5, 1941.

Dear Jesse:

You will remember you gave me a memorandum asking about gold stock and gold production in the U.S.S.R. I was very glad to have a memorandum on that subject prepared, and I am enclosing it for your information.

Sincerely,

(Signed) Henry

Honorable Jesse H. Jones,  
Administrator, Federal Loan Agency,  
Washington, D. C.

Enclosure.

By Messenger

3:55 pm

8/6/41

Mr. Wilder

GEF/dba

Mr. White -

Wesley Jones gave the Secretary this memo at Cabinet Friday. The Secretary wants an answer prepared and brought in at the 9:30 meeting tomorrow.

W. Dennis

FEDERAL LOAN AGENCY  
OFFICE OF THE ADMINISTRATOR

86

DATE \_\_\_\_\_

Memorandum to

Henry  
how much gold  
has USSR in this country  
and how much in transit  
here - and what approx-  
imately can she produce  
for shipment to us -  
Jen

August 5, 1941

Secretary Morgenthau

Mr. White

Subject: Russian Financial Resources

Gold and Deposits in this Country

Russia has no gold on earmark in this country. So far as it is known, no gold is now in transit from Russia to the United States.

Deposits to the credit of Russian accounts in the New York district amounted to \$7,610,000 on August 5, 1941.

Gold Production

No official figures on Russian gold production have been given out since 1928. According to our own statistics on the basis of published and consular information, Russian gold production in 1940 is estimated to have been between \$175 million and \$200 million. Production will probably be greater in 1941 than in 1940, unless war conditions interfere with operations.

Gold Stock

The gold stock of Russia is unknown. It is probably not less than \$400 million and very likely about \$700 million.

JWG/jm  
8/5/41

August 5, 1941  
2:04 p.m.

HMJr: Suppose we ask these people like Whaley-Eaton, and Standard Statistics, and all those business letters in their mailing - any people in the business of sending out advisory or business letters.....

Daniel  
Bell: Yeah.

HMJr: .....to include a circular of your tax certificate.....

B: Yeah.

HMJr: .....in with their mailing.....

B: Yeah.

HMJr: .....and then ask them whether they won't comment on it, too. After all, it's the business people we want to reach.

B: Yeah. Well, Bob Rouse suggested that once, and we kind of hated to ask them.

HMJr: Well, I wouldn't - try it out.

B: That's all of these - all of these fellows that write these.....

HMJr: Well, I'm sure that Moody's and Standard Statistics would do it.

B: Yeah.

HMJr: Kiplinger would do it.

B: Kiplinger?

HMJr: Then there's - try it out. Give the job to somebody to do. Try it, anyway.

B: All right. You mean, give it to someone to attempt it or.....

HMJr: No, no.

.....they ought to all do it about the same time.

HMJr: No, no. I mean, assign the task to somebody.

B: Yeah. They ought to all do it the same time.

HMJr: Surely.

B: All right, we'll think about it. See how many there are.

HMJr: Will you?

B: There must be quite a bunch of them though.

HMJr: Oh yes, and also to have comments - not only send the circular.

B: Yeah. All right, we'll do that.

HMJr: Yeah. Have LeFevre here.

B: Have LeFevre, huh?

HMJr: Yeah.

B: All right.

HMJr: Thank you.

B: All right.

August 5, 1941  
3:00 p.m.

THE AID TO BRITAIN

Present: Mr. White  
Mr. Brown  
Mr. Archer  
Mr. Childs  
Mr. Chance  
Sir Frederick Phillips  
Mr. Bewley  
Mr. Keyes  
Mr. Kades  
Mr. Bell  
Mr. Cochran  
Mr. Le Fevre

H.M.Jr: Where is the great Oscar, isn't he coming?

Brown: I don't know, sir. He was expecting to be here.

H.M.Jr: Can we do business without him?

Have you got everything settled? Have they  
got a copy of this agenda?

White: No, sir.

H.M.Jr: Do you want to give them one?

White: I haven't got any. I am sorry. I will get  
them.

H.M.Jr: Well, never mind. They have not got a copy?

Site: They have seen the copy. We went over it at the last meeting.

W.H.Jr: "Payments for United States purchase of raw materials from Sterling Area in advance of shipment."

Site: Mr. Bewley met Mr. Clayton and Mr. Jones yesterday. Mr. Clayton thought that they might be able to do something for him and possibly Mr. Bewley might have something to report on their conversation.

Bewley: We talked about it all but Mr. Clayton didn't think there was very much to be done on rubber tin because he thought the payment was already made at a very early stage of the purchases, which I think is so.

On wool, he thought there might be something done, but he wanted to discuss it further with Mr. Jones before he said anything very definite, so we are waiting for him to discuss the matter further with Mr. Jones.

Site: Mr. Clayton thought they might be able to advance some funds on the wool which is here or about to be here, some thirty-five or forty million dollars' worth, and not buy it, which would run into the question distribution - not of distribution of sales, but rather a loan.

W.H.Jr: We have been talking about that for months.  
Well, is that --

Bewley: Mr. Clayton wants to talk further with Mr. Jones.

W.H.Jr: Then it is unfinished business?

- 8 -

Donley: Yes.

H.M. Jr: "Proposal to Lease-Lend Caribbean sugar."

White: That we want to merely inform you --

Phillips: Cuban sugar.

H.M. Jr: Can't you make it rum?

Phillips: No, I am afraid not. (Laughter)

Archer: You touched a soft spot there.

Phillips: If it was rum we could ship the stuff.

Archer: He conceals an idea behind his reticence.

H.M. Jr: You mean it has been considered?

Phillips: This is a case where it is quite clear that from the legal point of view it could be brought under Lease-Lend, but we were advised that from a political point of view, it is not so easy to put over a proposition that British purchases of Cuban sugar should come under the Lease-Lend Act. Our total purchases this crop year, which is just starting, will be somewhere between fifteen million and twenty-two million dollars, and we had to make a start of the first month's shipments, which is a matter of four million dollars, which we paid ourselves, because the ships were there. A certain number of ships were there, ready, and waiting to load. But of course the question will arise again when we get the next shipment.

H.M. Jr: I don't know the pros and cons.

White: Well, the --

- 4 -

- Phillips: It is a political matter.
- Witte: The position I think is, the Lend-Lease think them might be able to handle it, but that they are reluctant to do so in view of the fact that they are going up for an appropriation and that the Agriculture Department, or some of them, feel that there will be a complaint that money is being used for Cuban sugar that might be used for Wisconsin cheese or some other purpose, so in order to avoid that argument, they want to wait until after the appropriation bill is passed.
- E.A. Jr.: What is the matter with Porto Rican sugar? That is duty free, as far as the United States is concerned. What is the matter with Porto Rican sugar?
- Phillips: I should think they would have bought any Porto Rican sugar that is on the market.
- Witte: I don't think they could get it as cheap as they are getting the Cuban sugar, but there is plenty of sugar to be bought.
- E.A. Jr.: If they get it under Lend-Lease it isn't very expensive.
- Phillips: Is there much of it?
- E.A. Jr.: Oh, yes. And Rex Turwell is right here in town.
- Phillips: I don't know whether that would alter the opinion of the Lease-Lend Administration very much.
- Witte: Well, for two reasons.
- E.A. Jr.: Oh, yes. It would make all the difference in the world. It is part of the United States.

- 5 -

White: And Porto Rico needs help badly.

H.M.Jr: It is all the difference in the world. It is part of the United States.

Phillips: We can investigate that at once, sir.

H.M.Jr: And I will tell you another thing, while you are at it. On all of this Army transport stuff, all this stuff that is going to the Phillipines, they might bring sugar back for you, both Hawaiian and Phillipine.

White: Would we - Phillipines is a different category.

H.M.Jr: Phillipines is all right.

Bell: That certainly would be all right, wouldn't it?

White: Not as good as Porto Rico, but probably better than Cuba.

H.M.Jr: Porto Rico first, Hawaii second, and Phillipines third.

White: That is right, that would be the order. I take it, wouldn't they buy - couldn't they buy the Porto Rican sugar for maybe less than benefit, Dan?

Bell: I don't know.

H.M.Jr: Well --

Bell: Less the three A benefit, you mean?

H.M.Jr: Yes.

Bell: I doubt that because that is part of the cost.

White: Of course, next to the Porto Rican they can

- 6 -

buy sugar in the New York market. You are moving in that direction.

H.H.Jr: Then they have to - well, I mean the cost of Porto Rican sugar in Porto Rico would be much less than it would be in New York. Anyway, it is worth looking into.

Archer: Yes.

H.H.Jr: And it so happens, as I say, that the new Governor of Porto Rico is right here in Washington, Tugwell.

Sewley: There may be some question about loading. The shipping facilities weren't so easy a while back, but that would only be a minor problem.

H.H.Jr: Cox can't be here and you are to talk for him, Brown. Don't get tough, now. (Laughter)

So much for that.

"Transfer of certain large British contracts to the Army."

White: Well, there are two things to be spoken of there. Mr. Brown has some information about the status of some of those contracts, and then I think Mr. Kades has something to do - something to tell us about the availability of some of the funds which apparently was claimed to be unavailable, but if Mr. Brown will indicate --

Brown: I think all we can do on that is to report progress. I am trying to get specific details from the Army as to exactly what they think they can take over under the forty-five million dollars of airplane engines which they think they can find the money for, and we are also having requisitions filed to start the formal

- 7 -

machinery for the tanks. Although Mr. McCloy won't absolutely commit himself, he is very hopeful that he can get about eighty million dollars out of those two places in a few days.

Phillips: Tank and airplane engines?

Brown: Yes.

Phillips: What about the ships, Mr. Brown?

Brown: That we can't do anything with until the Maritime Commission appropriation bill goes through. The Maritime Commission is favorable to the idea of taking over those contracts, and they are saving some of their money for that purpose, but the bill has gone through the House.

H.M.Jr: Excuse me, would you repeat that?

Brown: I say the Maritime Commission is favorably inclined toward the idea of using some of their new appropriation to take over the tied shipyard contracts, which amounts to about eighty-seven million.

H.M.Jr: They are?

Brown: Yes, sir, but their appropriation bill has not yet passed.

H.M.Jr: Anything else, Harry?

White: I think you might be interested in the fact that the Army still insists upon a Directive from the President before they do that, despite all the discussions which have gone before, and that that --

H.M.Jr: That is not impossible.

White: Not impossible?

- 8 -

W.C. Jr: No, no.

White: Yes.

Brown: They also want assurance they won't be asked again to --

W.C. Jr: That is impossible.

Brown: Well, they won't be asked to do exactly this particular same kind of thing again.

Bell: Not the same machines.

Phillips: That is right.

W.C. Jr: No. (Laughter)

Bell: Give them that definite assurance.

White: I think you might be interested in what Mr. Kades found about the funds which they thought were not available and which apparently, according to law, may be.

Folger: Well, Harry, this is a little different. Mr. Brown has been speaking of the airplane and the ordnance contracts.

White: You were speaking of the plants.

Kades: I was speaking of the plants themselves at our last meeting. It was indicated that the negotiations for the Defense Plant Corporation and the War Department to take over the British - certain British plants in this country had bogged down. It was indicated that was because of lack of funds. There seems to be plenty of available money. There is five hundred ninety million dollars unobligated appropriations to the War Department to expedite production by procuring defense facilities which the War Department could use and the Defense Plant Corporation

- 9 -

has available sufficient funds also for the purpose and I understand from Mr. Childs that they have now taken up the matter with him and are re-negotiating and starting all over again.

- Childs: Ready to talk terms.
- White: Oh, they are? That has happened since --
- Childs: That happened yesterday. They have asked our people to come in now so we will start talking to him on facilities.
- H.M.Jr: Does that cover plant facilities?
- White: That is right.
- Phillips: It covers it substantially, yes, sir. If the eighty for the ships is all right, plus the tanks, plus the airplane engines, and we get the capital facilities, which is fifty-five, we can make that up to three or four hundred million in sterling.
- H.M.Jr: Let's hope we make it. We are trying awfully hard.
- White: That will be five hundred if you get that.
- Phillips: I will check my figures with you.
- H.M.Jr: If we get that, I think we both will have to open a bottle of wine.
- Bell: Put it on Lend-Lease. (Laughter)
- H.M.Jr: I think it could go on it as well as a lot of other things that do. Now, "Tobacco for the Dominions." What are we running? A grocery store here?

- 10 -

- White: No, I take it that Mr. Rewley wanted to raise that.
- Rewley: I don't think we really want to bring that up at present. It is being discussed with the Ministry of Agriculture. I don't think there is anything to put before this committee.
- White: I thought you wanted this included on the agenda.
- Rewley: No, I am sorry. I didn't want it on the agenda, really.
- H.M.Jr: The transfer of Lend-Lease goods to commercial distributors.
- White: Well, there has been a great deal of discussion about that and I understand that the final outcome has been that Mr. Cox cabled Ambassador Winant that - asking that the British authorities get in touch with Mr. Purvis, with whom there has already been cleared letters on the matter, which was also cleared here, and which I understand is perfectly acceptable to Mr. Harriman and which I further believe will be more acceptable to the British than the statement which they had prepared for consideration here. Mr. Purvis has not yet arrived in London. He is expected any day, so I take it that Sir Kingsley-Wood will postpone his statement with respect to the matter of profits, etc., until Mr. Purvis arrives.
- Phillips: You are talking about commercial distribution now, aren't you, Dr. White, not re-export?
- White: Well, both. It will involve, I think, both considerations.
- Phillips: Yes. My understanding is that there are two documents prepared on commercial distribution and that they are substantially identical in

- 11 -

scope. I don't know, there might be some difference between them. I also understand that they have had the advantage of talking to Mr. Coe in London and they have showed him all their plans as regards matters which affect materials which would be of interest to the Treasury and Procurement and any other matters he has asked of. I don't know whether you have heard from him.

White: Yes.

H.M.Jr: We have got a flock of letters.

White: So I don't think there is anything further to be done at this end except possibly to make clear something that there appeared to be some doubt about in the last meeting, as to whether it was thoroughly understood everywhere, and that was the distinction between profiteering and what is normally called the expenses of distribution, which you might call profits.

H.M.Jr: Well, from reading the correspondence, I think the thing that seems to be - it seems to be well in hand and we can wait.

White: I think so.

H.M.Jr: Until Sir Kingsley-Wood makes his statement.

Bell: You might mention that you have cleared all those requisitions which --

H.M.Jr: Oh, I did that last Thursday.

Bell: Yes, that were being held up pending this decision. I didn't know that that letter had been cleared, Harry. That was one thing that was held up. It has been here, but I don't think we have cleared it, have we?

White: We haven't, but I gather that Brown has.

- 12 -

Spown: The letters were sent to you and I understood that you were going to take them up with the Secretary.

Wells: That is right, and we started, you remember, last week to discuss it and you (Secretary) said, "Well, go ahead and clear the requisitions and clear them until such time as we get an opportunity to go over the letter," which we have not yet done.

Walter: That is right.

H.V.Jr: Yes, that is right, but when I got back Thursday and I heard they were holding up requisitions, I said, "Let them go." You got those orders, didn't you?

Chance: Yes, sir.

H.V.Jr: Le Fevre?

Le Fevre: That is right.

H.V.Jr: You are clearing them every day, aren't you?

Le Fevre: That is right.

H.V.Jr: So you are not losing anything.

Wells: Well, I think it is not wholly clear and possibly it might be necessary to clear it up. If the Secretary of the Treasury is to clear that letter before Sir Kingsley-Wood makes his statement, then it is not sufficient that he merely talks to Mr. Purvis, so that I think you had better clear that up.

H.V.Jr: You had better, because you had that up with the State Department.

Wells: That is a different matter.

- 13 -

- H.M.Jr: Anyway, I am not up to what you are talking about. I am not up to date.
- White: We will take care of it.
- H.M.Jr: You had better do a little home work. You (Phillips) are willing to wait, aren't you?
- Phillips: Certainly, sir. That was the understanding that I had with Mr. Cox.
- H.M.Jr: Well, don't wait on me. If I am the fellow that - am I holding it up now?
- White: Examination of that letter.
- Brown: Well, we wanted - we drafted a letter, sir, covering the conditions on which Lend-Lease goods could be commercially distributed and the understanding as to the re-export of Lend-Lease goods or articles similar to that and discussed the whole matter with Mr. Purvis and arrived at certain principles which were embodied in a form of letter, which has been submitted to Mr. Bell and Dr. White and we would like to have your approval of that letter.
- White: We have agreed on it and we wanted to bring the matter up with you (Secretary).
- H.M.Jr: Bring it up with me.
- Bell: It is a good letter.
- H.M.Jr: Base costs in Iceland.
- Brown: We endeavored to get the Navy to ask for an appropriation out of the President's emergency fund to take care of an item of some two and a half million dollars of the cost of installing oil storage facilities which we have provided

- 14 -

by Lend-Lend-Lease, but the Navy says they won't do it, so we are going to ask the British if they will submit a requisition and we can take care of it under Lend-Lease.

H.M.Jr: You are going to take care of it?

Brown: Yes, sir.

H.M.Jr: Is that news to you?

Childs: No, that is not news. That is all settled. It is just a question of finding the money for it.

Whiter: This is the summary statement on the front of requisitions which have been cleared. There is nothing, I think, that needs to be brought up here.

H.M.Jr: Le Fevre, how are you getting along on your purchases?

Le Fevre: All right.

H.M.Jr: For the English.

Le Fevre: We are having no difficulty.

H.M.Jr: Got any complaints?

Le Fevre: No.

H.M.Jr: You haven't?

Le Fevre: No. (Laughter)

H.M.Jr: We will make a note of that.

Bell: Could handle more?

Le Fevre: Well now -- (Laughter)

H.M.Jr: How about you people, have you got any complaints?

- 15 -

Phillips: No, sir.

H.M.Jr: Everything going all right?

Phillips: Yes, sir.

Childs: First rate.

H.M.Jr: Is Sir Arthur Salter being taken care of with his pebble phosphate?

Phillips: Yes, sir.

H.M.Jr: What would you like to bring up?

Phillips: I merely mention it now, but I shall bring it up a little later, that we may be sometime about October getting into some little trouble, perhaps, with the American motion picture distributors.

H.M.Jr: Why?

Phillips: Well, we don't allow people who make profits in England to export them to foreign countries, as an ordinary rule, but we did make a special bargain with these motion picture distributors who are very important to us from the point of view of morale, because we must have films, and we allowed them last year, the year ending in October, to export abroad as much as twelve point nine million dollars. Now we have got to make a fresh bargain with them for the year beginning next October and my information is that they are pulling strings pretty hard wherever they can and they are asking for more. I must let you have the full statement.

H.M.Jr: I haven't heard about it. Wherever the strings are --

- 16 -

- Cochran: The State Department has been in touch with us on that.
- H.M.Jr: Who from the State Department?
- Cochran: Mr. Livesey has called me. I have circulated a memorandum or two about it and they have a man here now from the American Embassy in London who is in touch with the motion picture people in New York and is going back to London to help in the negotiations there with the British Treasury.
- H.M.Jr: What is his name?
- Cochran: Steyne, Alan Steyne. He is second secretary of the Embassy.
- H.M.Jr: He is the economic fellow, isn't he?
- White: I don't know whether we want to be in the position of asking the industry not to accept more sterling and less dollars. I don't see that we get into that picture.
- H.M.Jr: That is a motion picture. (Facetiously)
- Cochran: We hadn't expressed any feeling on it so far.
- H.M.Jr: What is that?
- Cochran: We hadn't indicate anything to the Department of State. I asked you once if Will Hayes had been in to see you. He had been down - I think he went to the White House and the British Embassy and the State Department.
- H.M.Jr: They think I am tough, I don't know why, so they keep away from me.
- Phillips: Well, I mention it because, of course, it is quite a big item in our currency.

- 17 -

H.M.Jr: What are you doing, for instance, with the oil people, about buying the oil? Is that all Lend-Lease now?

Phillips: Not quite all we wanted was Lend-Lease, but I think substantially the big items are Lend-Lease.

H.M.Jr: So I mean that isn't a problem, with the oil people about sterling or dollars?

Phillips: Not especially. They were unhappy at first.

Whiter: The only possibility was, which received little consideration, and then I think was set aside, was if moving pictures could be considered as part of the British morale and needed for defense, but if it isn't that, I don't see how we could be in the position of asking a particular industry to accept sterling whereas the other industries are getting dollars, where under the Lend-Lease they are getting dollars. That is, the oil people aren't giving anything away. They are getting dollars for it.

H.M.Jr: Well, you won't have any requests from me one way or the other on motion pictures, or from the United States Treasury, I can assure you that. We have no interest of any kind.

Phillips: Very well.

H.M.Jr: And I don't think Mr. Winant would particularly interest himself in it, either.

Phillips: Right.

H.M.Jr: What else?

Phillips: Well, I have nothing else.

- 18 -

H.M.Jr:       How about you, Merle?  
                  Dan?

Bell:           I think that is all.

H.M.Jr:        Harry?

White:         No, sir.

H.M.Jr:        It was a very good meeting.

Childs:        Excellent, sir.

## AGENDA FOR 3:00 MEETING

1. Deferment of payments due France.
2. Payment for U.S. purchases of raw materials from Sterling Area in advance of shipment.
3. Proposal to Lease-Lend Caribbean sugar.
4. Transfer of certain large British contracts to the Army - Sir Frederick Phillips and Mr. Cox.
5. Defense Plant Facilities.
6. Tobacco for the Dominions.
7. Transfer of Lend-Lease goods to commercial distributors.
8. Base costs in Iceland - Mr. Brown.
9. Requisition progress during week.

August 5, 1941.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE August 5, 1941

TO Secretary Morgenthau  
FROM H. D. White  
Subject: Dollar Relief to the British Treasury

I What is the Treasury objective?

Mr. Keynes in his memorandum of May 16 requested that the British be granted total relief from commitments of \$950 - \$1,050 million. This relief was to take care of the following:

(In millions)

- (a) Secretary's promise of March 19 to grant British relief from existing contracts . . . . . \$300-\$400
- (b) Two years' expenditures for items which the British asserted would be, for administrative, legal or political reasons, difficult to handle under Lend-Lease . . . . . \$650

II What has been so far accomplished?

A. With respect to the Secretary's promise of March 19?

There has been provided, or is about to be provided, relief and cash refunds totalling \$140 million:

(In millions)

Cash refunds on plants transferred		
Already provided . . . . .	\$ 25	
About to be provided . . . . .	<u>33</u>	\$ 58
Relief from commitments		
About to be provided . . . . .		<u>82</u>
Total relief and cash refunds . . . . .		\$ 140

Division of Monetary Research

Discussions are being held relative to the transfer of additional contracts and plants which would grant the British further relief of \$276 million:

(In millions)

Probable relief on contracts and amendments placed since March 11 . . . . .	\$ 43
Possible cash refunds and relief	
On plants taken over . . . . .	\$ 55
On contracts placed prior to March 11 . . . . .	171
On aircraft contracts placed since March 11 . . . . .	<u>7</u> <u>233</u>
Total further relief possible . . . . .	\$ 276

If negotiations being conducted with respect to all the above items are successfully consummated, they will fulfill the Secretary's commitment to the British. (See Appendix A for more detailed information on prospective relief on plants and supply contracts.)

B. With respect to the \$650 million kitty requested:

The necessity for a large cash kitty to take care of expenditures for two years outside Lend-Lease has been largely eliminated. This has been accomplished by bringing under Lend-Lease procedure items which the British had assumed to be unsuitable:

(In millions)

Administratively difficult purchases already placed under Lend-Lease - per annum . . . . .	\$ 102
(The remaining hard core of \$98 million is being examined to determine whether it cannot be further reduced)	
Dominion purchases in the United States - July 1941-June 1942 . . . . .	<u>225</u>
(This is expected to reach \$300 million per year after December 1941. This would leave dollar expenditures for Dominion purchases at a substantially lower figure than was estimated by the British in December.)	
Total - for year ending June 1941 . . . . .	\$ 327
Total - for two years ending June 1942 . . . . .	\$ 729
(See Appendix B for more detailed information)	

C. Other relief supplied to the British:

In addition to relief on contracts and plants through extension of Lend-Lease to cover the difficult items for which the British desire a kitty of \$650 million, the British will be relieved of making \$103 million of dollar expenditures per year on shipping, ferrying airplanes and tax levies, which, before your Committee began operating, the British Treasury thought it would have to find dollars for, as follows:

(In millions)

Relief on above items already provided . . . . .	\$ 40
Relief on above items about to be provided . . . . .	<u>63</u>
Total . . . . .	\$103

(See Appendix C for a breakdown of these items.)

III What will the British cash position be during the remainder of 1941?

The British on June 30 had available gold and U. S. dollars totalling \$161 million. This balance will increase during the next few months.

On the basis of British forecast of their U. S. dollar expenditures and receipts during the remainder of the year, and allowing for relief which now seems certain or almost certain, the British will have at the close of 1941 a cash balance of roughly \$450 million (exclusive of \$105 million of Belgian gold).

If in addition they get a further relief of \$276 million on plants and supply contracts, which is now under discussion, the British cash position at the close of 1941 will be close to \$700 million, or \$100 million more than they regard as a necessary minimum.

(See Appendices D and E for a forecast of British U. S. dollar expenditures and receipts and of their cash balance, July through December, 1941.)

Appendix A  
Dollar Relief to the British Treasury  
(In millions of dollars)

	<u>Provided</u>	<u>About to be Provided</u>	<u>Probable</u>	<u>Possible</u>
<b>A. Relief on Plants and Supply Contracts Taken Over</b>				
<b>1. Cash Refunds</b>				
<b>a. On plants taken over</b>				
Tennessee Powder . . . . .	21	- 24	-	-
4 machine gun plants . . . . .	-	-	-	-
Other plants . . . . .	-	-	-	55
<b>b. On contracts placed prior to March 11</b>				
Ships . . . . .	-	-	-	29
Airplanes . . . . .	-	-	-	14
Tanks . . . . .	-	-	-	-
<b>c. On contracts transferred or cancelled</b>				
4 machine gun contracts transferred . . . . .	4	3	-	-
144 Vultee planes transferred . . . . .	-	6	-	-
Total . . . . .	—	—	-	—
	25	33		98
<b>2. Relief from commitments</b>				
<b>a. On contracts placed prior to March 11</b>				
Ships . . . . .	-	-	-	58
Airplanes . . . . .	-	-	-	40
Tanks . . . . .	-	-	-	30
<b>b. Contracts placed since March 11 for ordnance (including letters of intent not considered binding agreements) . . . . .</b>				
	-	-	41	-
<b>c. On contracts transferred or cancelled</b>				
4 machine gun contracts transferred . . . . .	21	-	-	-
144 Vultee planes transferred . . . . .	-	5	-	-
Remington rifle contract cancelled . . . . .	-	32	-	-
Savage rifle contract cancelled . . . . .	-	24	-	-
<b>d. Contracts and amendments since March 11 for aircraft . . . . .</b>				
	—	-	2	7
Total . . . . .	—	—	2	7
	21	61	43	135
Grand Total . . . . .	46	94	43	233

## Appendix B

1. Administratively difficult items. Mr. Keynes in his memorandum of May 16 estimated that, because of administrative difficulties, items requiring expenditure by the United Kingdom of \$200 million per year could not be placed under Lend-Lease.

Since then it has been found possible to handle through Lend-Lease procedure the following items totalling \$102 million per annum.

	(In millions)
Civil road equipment .....	\$24
Chemical manufactures .....	22
Timber and paper .....	15
Agricultural machinery .....	12
Oil plant equipment .....	10
Miscellaneous non-ferrous metals .....	7
Naval stores and sundry chemicals .....	6
Machinery components .....	3
Abrasives .....	3
Total .....	\$102

2. Dominion purchases. Mr. Keynes in June stated that Dominion purchases eligible for Lend-Lease will be at an annual rate of \$150 million during the next six months and at a rate of \$300 million during the subsequent six months. When this higher level is reached, dollar expenditures for Dominion purchases will be at a substantially lower figure than was estimated by the British in December. From that time onward, most, if not all, of \$125 million of annual Dominion purchases which the British considered too difficult to place under Lend-Lease would presumably be handled through that procedure.

## Appendix C

## Other Relief to be Supplied the British

(In millions)

Already Provided		
On shipping services -- per annum .....		\$40
About to be Provided		
On tax levies -- per annum .....	\$30	
On ferrying airplanes -- per annum .....	17	
On Norwegian shipping charters -- per annum	<u>16</u>	63
Further relief possible		
On construction costs in Iceland .....		<u>2</u>
Total -- possible relief from expected dollar expenditures .....		\$105

In addition, dollar relief to the British Treasury may be forthcoming through sale of raw materials to the United States. So far the only probable item is sale of \$4 million of surplus Canadian lead owned by the United Kingdom Governments. Conversations are continuing with respect to advance payments, and sales of rubber, wool and sisal.

## Appendix D

Estimated Dollar Expenditures and Receipts  
of Sterling Area, July-December 1941

(These figures do not include receipts from sale of assets nor allow for relief to be supplied. The data are based upon British estimates submitted since May 16, 1941.)

Dollar Expenditures

(In millions)

A.	Payments to U.S. by U.K.		
	British Purchasing Missions . . . . .		\$531
	Other		
	"Administratively difficult" purchases . . . . .	\$100	
	Interest and dividends . . . . .	18	
	Shipping . . . . .	40	
	Film royalties . . . . .	6	
	Ferrying airplanes . . . . .	8	
	Norwegian shipping charters . . . . .	8	
	Taxes . . . . .	15	
	Construction costs in Iceland . . . . .	1	
	Miscellaneous . . . . .	6	202
B.	Payments to U.S. by Other British Empire		
	Steel . . . . .	\$ 62	
	Oil . . . . .	18	
	Other motor vehicle . . . . .	20	
	Other Australian purchases . . . . .	12	
	Unidentified . . . . .	<u>113</u>	225
C.	Payments to U.S. by other sterling area . . . . .		20
D.	Payments by sterling area to other countries requiring gold or dollars . . . . .		<u>80</u>
	Total dollar payments . . . . .		<u>\$1,058</u>

Dollar Receipts

A.	Receipts from U.S. by U.K. . . . .		\$ 90
B.	Receipts from U.S. by other sterling area <sup>1/</sup>		
	Rubber . . . . .	\$115	
	Tin . . . . .	50	
	Jute . . . . .	21	
	Wool . . . . .	17	
	Tea . . . . .	3	
	Other . . . . .	<u>94</u>	\$300
C.	Receipts from sale of newly-mined gold . . . . .		<u>240</u>
	Total dollar receipts . . . . .		\$630
	Dollar deficit . . . . .		<u>428</u>
	Total dollar payments . . . . .		\$1,058
	Average monthly dollar deficit, July-December, 1941		\$ 71

Treasury Department, Division of Monetary Research.

August 5, 1941.

<sup>1/</sup> For footnotes see attached sheet.

- 2 -

1/ Anticipated Annual Dollar Receipts  
by Other Sterling Area by Countries

(In Millions)

British Malaya . . . . .	\$ 302
British India . . . . .	96
Union of South Africa . . . . .	48
Australia . . . . .	46
Ceylon . . . . .	38
New Zealand . . . . .	10
Other countries . . . . .	<u>60</u>
Total . . . . .	\$ 600

## Appendix E

## Forecast of British Dollar Position, July - December 1941

	Anticipated Deficit as shown in <u>Preceding Table</u>	R.F.C. Loan on <u>Investments</u>	Relief - Provided or About to be Provided		Net Deficit(-) or Surplus	Available Gold and Official Dollar Balances as of end of Month***
			<u>On B.P.M. Commitments*</u>	<u>From Other Expenditures**</u>		
(In millions of dollars)						
June						161
July	- 71	-	4	30	- 37	124
August	- 71	100	48	30	107	231
September	- 71	100	16	30	75	306
October	- 71	100	16	30	75	381
November	- 71	100	16	30	75	456
December	- 71	25	16	30	-	456

\* The figures of relief on B.P.M. commitments may be too high; they assume that relief from payments all falls due during 1941.

\*\* These figures are based on the assumption that \$75 million of Dominion purchases will be placed under Lend-Lease, July-December 1941. In view of the uncertainty of policy with respect to commercial distribution of Lend-Lease goods, this estimate may be too high. However, it is probable that the estimated dollar expenditures for Dominion purchases during the remainder of the year may be reduced by this amount, even though this estimate of Lend-Lease procurement for Dominion account is too high.

\*\*\* These figures do not include \$105 million of Belgian gold and \$21 million of scattered and otherwise unavailable gold.

AUG 5 1941

Mr. Harry White,  
Assistant to the Secretary,  
Treasury Department.

Sirs

I enclose for your information a copy of a memorandum of August 1 addressed to me by Mr. Oscar Cox on the subject of "Use of Lend-Lease Funds in Carrying Out the Hyde Park Agreement with Canada."

You are hereby designated to represent the Treasury Department on the committee suggested by Mr. Cox to deal with this subject.

Very truly yours,

[Signed] E. Morgenthau, Jr.

Secretary of the Treasury.

cc - to Mr. Thompson

WHT:dm

*This was handed to Mr. White  
by the Secretary in person.*

AUG 5 1941

Dear Mr. Cox:

Referring to your memorandum of August 1, 1941, on the subject of "Use of Lend-Lease Funds in Carrying Out the Hyde Park Agreement with Canada," Mr. Harry White, Assistant to the Secretary, has been designated as Treasury representative on the committee which will deal with this subject.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Mr. Oscar Cox,  
Richmond Room,  
Federal Reserve Building,  
Washington, D. C.

By Messenger

3:45  
8/5/41  
*Stang*

cc to Mr. Thompson

WFT:dm

EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE FOR EMERGENCY MANAGEMENT  
OFFICE MEMORANDUM

To: Secretary Morgenthau

Date: August 1, 1941.

From: Oscar Cox

Subject: Use of Lend-Lease Funds in Carrying Out the Hyde Park Agreement with Canada.

A number of questions have arisen with respect to methods of implementing the Hyde Park agreement, and in particular the extent and manner of use of lend-lease funds for that purpose. Various departments have been acting apparently without consultation with each other and without benefit of a central policy. The resultant situation may have adverse political repercussions, particularly for the lend-lease effort, and it is important that an over-all policy to guide action on this question be promptly formulated.

In accordance with the President's decision it is suggested that a committee consisting of one representative from each of the three agencies primarily interested to wit: Treasury, State and Lend-Lease, be set up immediately to formulate such a policy in the light of the problems which have arisen. Will you please designate someone to represent the Treasury?

Oscar Cox

OEM-32

August 5, 1941  
4:01 p.m.

Guy T.  
Helvering: Hello. Mr. Secretary.....

HMJr: Hello. Guy?

H: Yeah.

HMJr: You have some message for me?

H: Yes. You remember you talked to me about a certain fellow who's down here that somebody started a rumor that he didn't have to pay any tax now?

HMJr: Yes.

H: Well, I've investigated his '37, '38 - no his '38, '39 and now I've got the '40 before me.

HMJr: Yeah.

H: There's nothing to that at all.

HMJr: Yeah.

H: He reported a tax - I'll just give you the amount of tax.

HMJr: Yeah.

H: It's twenty-seven thousand in '38.

HMJr: Yeah.

H: Thirty-eight thousand in '39.

HMJr: Yeah.

H: And his tax this year is twenty-five thousand.

HMJr: I see.

H: That is, that's the tax.

- 2 -

HMJr: Yeah.

H: Of course, his income was a hundred and three thousand something in '38 - a hundred and three thousand and eighty dollars in '38.....

HMJr: Yeah.

H: .....a hundred and twenty-three thousand in '39, and seventy-one thousand in '40.

HMJr: I see.

H: Of course, he says his '40 was - one of those companies he was getting a return from, he don't get that now.

HMJr: I get you.

H: So the.....

HMJr: The rumor has nothing to it.

H: No. I thought I could tell you. You'd know who I mean and.....

HMJr: I know.

H: .....I wouldn't have to bother you with coming over with it.

HMJr: Okay.

H: All right. Is there anything further you'd want on it?

HMJr: No. Let's forget about it.

H: All right.

HMJr: Thank you.

H: All right.

August 5, 1941  
4:03 p.m.

HMJr: Hello.

Harold  
Ickes: Henry.....

HMJr: Yes, Harold.

I: We were considering over here this afternoon cutting off the supply of gasoline to all of these pleasure yachts and boats and what-not that dot the lakes and seashores.

HMJr: Yeah.

I: Then somebody raised the point - somebody always raises the point.....

HMJr: Yeah.

I: .....that the Internal Revenue was interested in having some of them operating - I don't know for why.

HMJr: No. The only people who'd be interested would be Coast Guard.

I: Yeah.

HMJr: Coast Guard would be the only people, and.....

I: Why we wouldn't cut down on any of your people. This is just the people who spend their vacations bobbing around in the water.

HMJr: Well, why should Internal Revenue be interested?

I: That's what I called you up to find out about. I don't know. I just believe it at the time.

HMJr: A Treasury man said that?

I: No, one of the men on my staff here.

HMJr: No, I wouldn't know.

- 2 -

I: All right, Henry.  
HMJr: What?  
I: Well, we're going to try to out it out.  
HMJr: No. I wouldn't know.  
I: All right.  
HMJr: Anything else?  
I: No.  
HMJr: Thank you.  
I: All right.

MEMORANDUM FOR THE SECRETARY'S FILES:

A meeting relative to the administration of Executive Order No. 8389 was held in Mr. Foley's office at 4:30 P.M. on August 5, 1941, and was attended from time to time by the following:

Messrs. Foley (Chairman), Gaston, Pehle, B. Bernstein, Cochran, White, E. M. Bernstein, and Timmons for the Treasury Department; Messrs. Acheson, Luthringer, and Miller for the State Department; Messrs. Shea, Rosenwald, Juranev and Swydler for Justice; Messrs. Goldenweiser and Knapp for the Board of Governors of the Federal Reserve System.

Mr. Pehle referred to a letter addressed to Under Secretary Bell by Mr. T. V. Soong, quoting a request received from Finance Minister Kung asking that this government license the Wah Chang Trading Corporation as a generally licensed national. The Chinese Embassy has also addressed a note to the State Department making the same request. Such note has been transmitted to the Treasury Department under a covering memorandum which requests that the Wah Chang Trading Corporation be given the status of a generally licensed national. It was agreed that General License No. 62 should not be amended so as to include the Wah Chang Trading Corporation therein, but that a specific license should be issued making the Corporation a generally licensed national.

Mr. Cochran referred to a proposal for the Board of Foreign Exchange Control in China to send representatives to Singapore, Rangoon, London and Washington. If such a representative were sent here it might be possible to consult him on freezing control matters that relate to China. It was agreed that this proposal should be further discussed when Sir Otto Neimeyer, who is at present on his way here, arrives. Mr. White informed the meeting that he had previously asked Sir Frederick Phillips to supply us with more information on the British freezing control as it affects China and Japan. Sir Frederick had told Mr. White that Neimeyer would be able to supply such information upon his arrival. Mr. White also said that he had requested Mr. T. V. Soong to attempt to ascertain the quantity of raw silk available in Free China for export. Such silk would probably be lower in grade than that presently imported, but would be suitable for, among other things, the manufacture of silk powder bags for the Army and Navy.

- 2 -

The question of what this government's policy should be with respect to trade between the United States and Japan was discussed at some length. Mr. Pehle read to the Committee a schedule of applications for the export of goods to Japan which are now pending. It was agreed that applications involving the export of goods for which export control licenses are required will be denied, as well as applications covering the export of wood pulp, metals and manufactures, machinery and vehicles, rubber and manufactures, chemicals and related products (with certain pharmaceutical exceptions). A memorandum is to be prepared in order that a policy decision may be reached on the following points:

- (1) The types of goods that should be licensed under the freezing control for export, the export of which does not require an export license.
- (2) Whether this government should require Japan to purchase whatever exports of oil and cotton may be allowed to her out of cash funds held in the United States or free dollars held in South America.
- (3) The quantities of cotton should be licensed by the Foreign Funds Control for export to Japan.

Mr. Acheson said that the export of asphalt to Japan must be re-examined, as it has been learned that such asphalt may be used for the construction of airplane runways. Mr. Pehle referred to several cases which involve the use of blocked Japanese dollars in the United States for the purchase of strategic materials to be sent to Japan from South America. It was agreed these applications should be denied and the State Department should be informed of the proposed transaction in order that the purchase of such materials for this government may be considered. It was also agreed that merchandise, not strategic in character, which has been brought in on Japanese vessels should be licensed for release from Customs custody to the purchasers thereof, in those cases in which the merchandise is either fully paid for or in which payment will be made into a blocked account. Strategic materials, such as raw silk, will not be so released until such action is cleared with the Office of Production Management.

- 3 -

Mr. Bernstein reported that word has been received from Brazil that out of the Japanese dollar balances held with the bank of Brazil, \$1,800,000 has been converted into milreis. It was stated that such conversion was for the purpose of supplying Japan with local currency which she can use to pay for exports to Japan.

Reference was made to an application involving the purchase and shipment to Japan of \$230,000 worth of Canadian wheat. It is stated in such application that a Canadian export permit has been granted and that the proposed transaction would be financed by debit to a blocked Japanese account in this country. Mr. Acheson said that he had discussed this matter with Mr. Hume Wrong of the Canadian Legation and that Mr. Hume Wrong had informed him that the Canadian Government would probably deny the export permit. It was agreed that Mr. Pehle should discuss this application further with Mr. Hume Wrong.

The Chase National Bank has informed the Treasury Department that upon receipt of License No. NY 97305, authorizing a transfer of approximately \$606,000 from the account of the Rumanian National Bank to the State Bank of the U.S.S.R., it had wired the Rumanian Government for authority to effect the transfer. The Rumanian National Bank wired back stating "We disregard Treasury license".

Mr. Pehle referred to a draft of an Aide Memoire to be handed to the Japanese Ambassador relative to the licensing of payment of Japanese diplomatic and consular expenses in this country. The point was made that either we should insist upon the receipt of information as to the cash funds available to the Japanese Government in the United States before any licenses are granted or, if we are not prepared to do this, no mention of such cash funds should be made in the Aide Memoire. After discussion, it was decided that the cash funds should be ignored in this connection since we can later insist that such free dollars be used for the purchase of merchandise.

- 4 -

Mr. Cochran reported that Mr. Lacour-Gayet, on the occasion of a recent visit, raised the question as to whether this government would license the use of approximately \$200,000,000 held in this country by the French Government for the purchase of Treasury bills. Mr. Lacour-Gayet is to discuss this proposal further with Mr. Rouse of the Federal Reserve Bank of New York.

An application has been filed by the Chase National Bank to permit the China Medical Board, Inc. to remit \$300,000 to the Peiping Union Medical College, Peking, between August 1 and December 31, 1941. These funds, which consist of Rockefeller Foundation donations are to be used to support the leading medical center in China. Before action is taken on such application, the source from which it is proposed to purchase the foreign exchange will be investigated.

Mr. Bernstein pointed out that since the Order has been extended to China and Japan, exporters in the United States are confronted with the same situation that existed in South America; namely, they do not know the nationality of persons to whom they may be exporting in the British Empire, the Dutch East and West Indies, etc. Accordingly, a revision of General License No. 53 has been drafted which will license such trade, provided there is no interest in the transaction of a person on "The Proclaimed List of Certain Blocked Nationals", between the United States and any of the following areas, and between any of the following areas: The British Empire, the Belgian Congo, the Dutch East and West Indies, and the Union of Socialist Soviet Republics. Such amendment to General License No. 53 was unanimously approved.

Mr. Pehle referred to an application which was discussed at a previous Committee meeting, relating to the importation of scrap steel from a firm in Cuba on the Proclaimed List. Mr. Johnson said that this type of case was a matter which he desired to discuss in the State Department and that we should continue to hold such application.

- 5 -

Mr. Bernstein announced that Form TFR-300 was in final proof and that representatives of the Federal Reserve Banks would be requested to meet in Washington next Monday and Tuesday in order that they may be instructed in the use of such forms. Mr. E. M. Bernstein said that the Foreign Exchange Committee in New York is anxious to cooperate in informing all banks in New York that the questions contained in such form had been discussed by the Treasury Department with representatives of business firms and banks. It was also agreed that a representative of the Treasury be sent to New York to discuss with the financial writers of New York papers the contents and use of Form TFR-300.

Mr. Bernstein also read a telegram to Collectors of Customs, stating that with respect to exports to China and the British Empire, the name of the ultimate consignee need not be given until August 11, 1941.

Mr. Bernstein referred to the problem which has been raised by counsel for Sterling Products and several other drug firms which distribute their products in South America through local subsidiaries or branches who deal with distributors who are on the Proclaimed List. Sterling Products have notified the Department that they will proceed to fill orders from such distributors on Monday unless they hear otherwise. It was agreed that a letter should be addressed to Sterling Products stating that such transactions would appear to be subject to the provisions of the Executive Order and that applications to engage in such transactions will receive prompt consideration.

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE August 5, 1941

TO Secretary Morgenthau  
FROM Mr. Kuhn

You asked for a brief biographical note about Sir Ronald Ian Campbell who has just arrived to be second in command to Halifax at the British Embassy.

The important thing to remember is NOT to confuse him with his namesake, Sir Ronald Hugh Campbell, an appeasy and stuffy diplomat who played with Prince Paul and the pro-German crowd during his five years as British Minister to Yugoslavia from 1935 to 1939.

The man whom you are to meet is very different, from all accounts. He followed Sir Ronald Hugh Campbell into the post of Minister to Belgrade in 1939, and apparently had a great deal to do with the pro-British revolt which threw Prince Paul and his crowd out of office this Spring. You may remember that he was in Belgrade during the terrific German bombardment on the first day of the Yugoslav war, and then escaped to the Adriatic, with many hair-raising experiences on the way. Before going to Belgrade, he had served for two years as second man in the British Embassy in Paris and did everything he could

- 2 -

to strengthen the hands of people like Reynaud, both before and during the war. It is very much in his favor that he served in Washington for two long periods, first as Third Secretary of the Embassy during the Wilson Administration, from 1915 to 1920, and then as Counsellor of the Embassy from 1927 to 1931.

Outwardly he is the usual British diplomat with an Eton and Oxford background, but those who know him say he is a good fellow, and heart and soul committed to the destruction of Hitler as he has been for many years.

*F.R.*

August 5, 1941.

Dear Eleanor:

I thought you would be interested in learning of the progress we have made toward obtaining legislation to permit seeing-eye dogs to enter public buildings with their blind masters.

On July 7 I suggested to Miss Thompson that Mr. Geisler, the blind lawyer from Chicago who brought the matter to your attention, see Lawrence J. Bernard who handles legislative matters for us on the Hill. Mr. Geisler came in and discussed the problem with Mr. Bernard a few days ago. Mr. Bernard then drafted a bill and got in touch with Congressman Lanham and Senator Maloney, the Chairman of the House and Senate Committees which have jurisdiction over legislation of this character, to enlist their cooperation. They both assured Mr. Bernard that they would do everything they could to get the bill through. Congressman Lanham introduced the bill, a copy of which is enclosed, on July 31. Congressman Lanham told Mr. Bernard today that his Committee will act on the bill as soon as the hearings now on their schedule are completed.

By Messenger

I am very much in sympathy with this legislation and want to do everything I can to get it enacted.

Affectionately,

(Signed) Henry

Mrs. Franklin D. Roosevelt,

The White House.

*Copied for Mrs. Margaret  
Bill # 74 R 5439*

*H.B.  
F. Smith*

By Messenger

*Simmons  
5:15 pm  
8-27*

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE August 1, 1941.

TO Secretary Morgenthau  
FROM Mr. Foley

You will recall that a week or ten days ago Miss Malvina Thompson, Mrs. Roosevelt's secretary, wrote you and told you that Mrs. Roosevelt was very much interested in legislation which would permit seeing-eye dogs access to Government buildings along with their blind masters. She also told you that Mrs. Roosevelt had suggested to Herbert F. Geisler, a blind lawyer from Chicago who had brought the matter to her attention, that he try to see you. You suggested that Geisler get in touch with Larry Bernard.

Mr. Geisler came in to see Bernard some time later and they discussed the problem. Bernard got in touch with Congressman Lanham and Senator Maloney, the chairmen of the House and Senate committees which would have jurisdiction over legislation of this character, and they told him that they would be glad to cooperate. Bernard then drafted a bill which Congressman Lanham introduced yesterday. A copy of that bill is attached. Bernard tells me that he has also talked to several other people on the Hill about the measure and that he does not anticipate any difficulty in getting it through.

I will keep you advised of any significant developments.

S. 1276

## A BILL

To permit seeing-eye dogs to enter Government buildings when accompanied by their blind masters, and for other purposes.

Be it enacted by the Senate and House of Representatives  
of the United States of America in Congress assembled, That  
seeing-eye dogs or other guide dogs, specially trained and  
educated for that purpose, accompanied by their blind masters,  
shall be admitted to any building or other property owned or  
controlled by the United States, upon the same terms and con-  
ditions, and subject to the same regulations as generally  
govern the admission of the public to such property: Provided,  
That such dogs shall not be permitted to run free or roam in or  
on such property, and shall be in guiding harness or on leash  
and under the control of their blind masters at all times while  
in or on such property. The Administrator of the Federal Works  
Agency may make such rules and regulations as he deems in the  
public interest to carry out the provisions of this section.

LJH:ims  
8/1/41

August 5, 1941

James Rowe telephoned Gaston that it was an oversight and stupid on his part that the income tax of the dollar a year men were not investigated and that we should do it at once.

This is the result of my conversation with Wayne Coy.

8/5/41

137

(The Secretary called in Mr. Gaston and Mr. Irey Monday afternoon, and asked why the dollar-a-year men were not being investigated. Irey said that the names of those men were simply not being sent over. The Secretary said that he couldn't understand why their income tax records were not investigated and that he thought it was very stupid.

The Secretary sent for Wayne Coy on Tuesday, August 5th, and talked to him. Following Coy's visit, Jim Rowe called up Gaston and said Coy had spoken to him and that ~~xxxxxxxxxxxxRowe~~ hereafter he, Rowe, would send the names of all the dollar-a-year men to Gaston for checking on their income tax records. He is going to begin by sending a list of those already on the rolls.

(above dictated By Mr. Gaston)

August 4, 1941.

To: Secretary Morgenthau  
From: Mr. Gaston

Subject: Defense Personnel Investigations.

A memorandum from the President to you dated February 28, 1941, asked that the Treasury Department resume the work of making character investigations of employees in the defense emergency agencies. Your order of March 7, 1941, directed the formation of a special group to make these investigations.

Statistics as to this work follow:

Total personnel on special investigation work .....	94
Supervising, clerical and statistical help .....	15
Investigative agents .....	79
Intelligence Unit .....	39
Alcohol Tax .....	25
Secret Service .....	6
Narcotics .....	6
Customs Agents .....	3
Cases on hand March 7, 1941 .....	136
Received from Office for Emergency Management 3/7 to 8/1.....	3,141
Total ....	<u>3,277</u>
Completed cases .....	<u>1,893</u>
On hand August 1, 1941 .....	1,284
Present number being closed weekly ....	135

Prior to March 7, investigations had been divided between Civil Service, F.B.I. and the Intelligence Unit, Bureau of Internal Revenue, and the 136 cases listed above as on hand March 7 were those

- 2 -

received under that arrangement. In conferences between Mr. Irey and officers of the O.E.M. the latter requested and it was agreed that each employee be interviewed and investigated as to character, reputation and loyalty to the United States. In addition, a search is made of income tax returns to determine whether the employee has satisfied his liability for taxes. The routine of investigation established by agreement is that (1) as soon as possible after receipt of a request the employee is interviewed, (2) the records of the Dies Committee are checked and (3) the case is referred to the field for investigation. It was understood also that the records of the F.B.I. should be searched for any evidence bearing on the loyalty of the candidate but except in a very small number of cases this has been found to be impracticable since the F.B.I. has not found time to do the work.

Our information from O.E.M. is that since the date of the Presidential order practically all employees of organizations under O.E.M. have been referred to the Treasury for investigation, the exceptions being dollar-a-year men and a few individuals so closely identified with Army and Navy confidential work that the intelligence organizations of these services have made the character investigations.

I am attaching hereto a copy of a form of report which I receive daily.

Enclosure.



August 5, 1941

Dear Marriner:

Thank you very much for sending me your article in Fortune. I read it with great interest, and I think that this is an unusually well written and carefully thought out article.

Yours sincerely,

(Signed) Henry

Honorable Marriner S. Eccles,  
Chairman,  
Board of Governors of the  
Federal Reserve System,  
Washington, D.C.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

OFFICE OF THE CHAIRMAN

July 30, 1941.

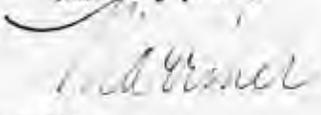
Dear Henry:

Enclosed is an advance copy of an article which I prepared at the request of Fortune Magazine. It is to appear in their August issue which comes out in a few days. I hoped that you might have an opportunity to look it over because I think it accords in general with your views and what you are trying to accomplish.

Actually the article is largely repetition of what I have said before. After my talk to the Chamber of Commerce and my testimony before the Ways and Means Committee, the Fortune people asked me to expand in this article the views I had expressed. This is what I have sought to do insofar as possible in an informative and not a controversial way. The only trouble is that the article may be somewhat out of date by the time it appears since it was written nearly a month ago and things are moving with such rapidity.

While I know you are terribly swamped, I would appreciate it if you could take a moment to look it over.

Sincerely yours,



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

enclosure

## Price Fixing Is Not Enough

To meet the threat of inflation we need certain direct controls. But there is no substitute for the immediate adoption of hardboiled fiscal and credit policies.

—by *Marriner S. Eccles*—

*Chairman Board of Governors, Federal Reserve System*

FOR ten years, prior to the start of our defense effort, the country struggled to overcome depression and deflation. Now, almost overnight, we are confronted with the dangers of overexpansion and inflation. Instead of seeking means of adequately using our material and human resources, we are now facing shortages in various important categories, both of men and of materials.

For a decade we have been striving to stimulate consumer demand and purchasing power sufficiently to match our productive capacity. Today our problem is to curb consumer demand and purchasing power so that they will not divert too much of our productive capacity to the manufacture of nonessentials and will not bid up the prices of materials needed for defense as well as of other commodities, while we devote an increasing portion of our productive machine to defense purposes. The country must undergo a rapid readjustment of its thinking in order to comprehend the meaning of shortages rather than surpluses in many fields.

More than that, we must learn that the success of our defense program turns on what we put into it, not on what we can get out of it. As yet, speaking generally, our people are not thinking in terms of defense production and of the sacrifices demanded of all groups. Businessmen are primarily interested in the profits to be made, labor is interested in higher wages, the farmer is concerned with crop prices, the investor is thinking about larger interest returns. These are the preoccupations of peacetime—not wartime. It is no longer a question of what we can get out of defense, but what we can give to it. Today's economic problems are in large part the economics of war, not of peace. They are the opposite of those that beate us for a decade.

Until about a year ago we needed to discourage saving, to encourage expenditure and credit expansion. We needed to reduce interest rates in order to encourage borrowing. We needed to keep taxation down so that the money spent by the government would be added to the spending stream. To that end some of us urged deficit financing as a deliberate policy. The country pursued fiscal and monetary policies that in general sought to encourage credit expansion. We allowed ourselves to be inundated with high-priced gold as well as silver,

which served to swell our bank deposits and excess reserves to unprecedented levels, thereby forcing interest rates to all-time lows.

Throughout the decade, however, we remained in a state of semidepression because we were not willing to have the government supplement private enterprise with a sufficient amount of activity and expenditure to employ our idle manpower and resources. While we had a degree of recovery, it never carried through to the point of reasonably full employment. At no time had we less than from eight to ten million unemployed. Much was done to encourage housing, to stimulate production of capital goods. States and municipalities were subsidized to a large extent by federal outlays for public works. We succeeded in bringing the national income up from some \$40 billion at the bottom of the depression to an average of approximately \$70 billion for the end of the decade. We constantly heard prophecies of inflation. But inflation did not materialize because we were never able to take up our industrial slack. And until our real defense effort began a little more than a year ago we were still utilizing not more than 70 per cent of our full capacity.

ALL this is now drastically changing because of huge defense expenditures. We are rapidly moving toward a condition of full use of our physical capacities, though not yet of our total available manpower. Instead of discouraging savings, we need now to encourage them. Instead of encouraging consumer expenditures, we need to apply curbs on private spending wherever it threatens to encroach on defense needs or to distort prices. Instead of stimulating consumption by deficit financing, we need so far as we can to reduce the deficit and to approach a balanced budget as the country reaches a condition of full utilization of its productive capacity. All public authorities, both state and national, should suspend their nonessential public works and other activities that use men or materials needed in defense production. In this way they can build up a backlog of public undertakings that will help to offset a postdefense slump. All public outlays other than those for defense or for maintenance of essential social services including such agricultural benefits as may be necessary to bring about a reasonable balance between agriculture

and industry, need now to be pared to the bone. Instead of a tax structure designed to encourage consumption, we need one that will recapture for the government a large part of the outlays for defense. Interest-rate policy should now be directed toward encouraging savings and investment in government securities for the financing of defense—not to stimulation of private credit expansion.

### Not dollars but goods

IT IS a commonplace, which we are prone to forget, that the measure of real wealth production of any country is to be found in the physical goods produced. War and preparation for war force us to turn our eyes away from the dollar sign and to this reality. We cannot defend ourselves or fight with dollars—we need guns, tanks, ships, airplanes, ammunition. Similarly we cannot eat, wear, or live in dollars, which are only useful as they enable us to acquire food, clothes, and shelter. Had we been able to see this clearly in the past decade—had we turned our immense productive machinery to making the things of peace as we are now obliged to use it to produce the things of war—our standard of living would have exceeded anything the world had ever seen. We could have afforded it—indeed, the tragedy of the period is that we thought we could not afford it.

We no longer hear the plaintive question: "Can we afford it?" for we all know that what we cannot afford is to fail to produce for defense. By the same token, however, when peace comes it is to be hoped that we shall have learned the lesson and that we shall produce for peace just as we must produce for war—up to the limit of our productive capacity. But there will be a great difference. What we produce for peace will make the world a better place to live in. Armaments protect but do not improve our way of life. If we learn to apply the sound economics of the engineer who thinks in terms of the production of tangible things rather than the economics of the financial operator who thinks in terms of dollars, we shall have done as much to preserve democracy for the future as all the armies that could be mobilized.

Despite the fact that during the past year we have been engaged in a large-scale,

though still not a full, defense effort, we have not so far encroached upon or reduced the standard of living of any group of our population. On the contrary, the standard has steadily increased through the absorption of the unemployed and a rise of income of the employed. Nevertheless we are stepping up our rearmament effort very rapidly, and civilian supply must give way as our defense production increases. During the past fiscal year we expended about \$6 billion for armaments. In the coming fiscal year we may divert anywhere from \$12 billion to \$18 billion to armaments. If we push up our national income to a maximum output of \$100 billion per year without a drastic rise in prices, and expend, say, \$20 billion on armaments, we should have \$80 billion left for other purposes. But it is quite possible that we shall have to divert anywhere from \$50 to \$40 billion to armaments to catch up with, to say nothing of surpassing, Germany. In which case other needs would have to be rigidly curtailed.

But the problem is not so simple as these figures, used purely as examples, indicate. In many cases defense requirements are already absorbing not just 40 per cent of output but, as in the case of aluminum and other strategic materials, 100 per cent. On the other hand, there are other categories where rearmament will impinge little if at all. This is particularly true of agricultural production. Hence the problem is not one of allocating a specified percentage of all classes of production between civilian and defense requirements. It is rather a problem of making such allocations as may be necessary in the different fields of activity. At present our problem is not one of guns or butter. In our case it is more nearly a question of guns versus more automobiles, refrigerators, and other durable goods, the purchase of which we must defer at this time in the interests of rearmament. And the extent to which we can avoid sacrifice depends upon our ability to increase production in those fields where the greatest shortages exist.

## Two types of control

THE fact that we have abundance of some kinds of goods, yet already are meeting drastic shortages in others, greatly affects the kind of policy we should adopt in meeting one of the great economic problems of any war: namely the control of prices. In general, it is well to distinguish between two very different kinds of price distortions that a great rearmament effort or war itself entails. First, there may be selective price distortions brought about as the government suddenly enters the market for munitions of all kinds. Second, there can be a general price distortion caused by the fact that the government is pouring out huge sums for rearmament, thus swelling payrolls and corporate disbursements, while at the same time the production of consumers' goods is being curtailed or only slightly expanded. This general phenomenon, where

the active purchasing power in the hands of the public outruns consumer output, is inflation.

It is also essential to distinguish two different ways by which prices can be controlled. One way I should call the *direct* method where the government steps in and keeps specific prices from getting out of hand. The other way I should call the *functional* controls by which the government seeks to curb the purchasing power in the hands of the public by broad fiscal policy or other means. Now it is perfectly apparent that in that sector of the economy where the government is a huge purchaser—the portion that might be called the military sector—we must have immediate and *direct* controls. Priorities, rationing, and specific price fixing are going to be the order of the day here. In the case of aluminum and machine tools, for instance, allocation is made not by a bidding up of prices to determine what buyer shall receive what, but by government edict. You may offer right now any price you want for a machine tool but it will not help your chances of getting it. It would be folly to leave distribution of any vital war material to the mercies of "the market."

But what of the more general problem of inflation? What of the bidding up in prices of consumers' goods that comes as the public receives increased purchasing power and comes up against a diminishing or static supply? Here too we might try to rely on direct controls, and indeed in some cases will to advantage. We may use a "rifle" not a "shotgun" technique. Nevertheless, the job of trying to control many consumer prices by direct action is more difficult than is often supposed. Who is to set the price of lingerie, and women's stockings, and boys' hats, and golf balls, and a

million other items that indirectly affect the cost of living? And how are we going to distribute the products equitably once the price is set? For when you fix a price you are just at the beginning of your troubles. You have taken away from the market its normal function of distribution and there will be more buyers at the fixed price than goods to go around. At the present time we are trying to fix prices on automobiles, and in this case we should do so. But you may have noticed that your auto dealer is having a much bigger say over your life than ever before. He is deciding whether you or the next man shall get the new car. And the only substitute for the dealer would be a government agent snooping about to do the distributing job.

It is well to remember that this is not a small country like England, where it is fairly easy to enforce government price edicts. It is not a Germany, where people are used to taking orders about prices and distribution. The fact is that in the civilian sector of the economy we have every reason for dropping back on traditional functional methods of price control—namely the curbing of consumer demand through taxation and other means. We have every reason, that is, to try to ward off inflation by keeping consumer purchasing power in adjustment with the output of consumers' goods and to avoid more totalitarian methods until absolutely necessary. We have every reason for framing an intelligent fiscal policy.

But I use the word intelligent advisedly. I do not hold for taxing all equally. For too long too many of our people have existed on too low a standard of living, in terms of the nation's capacity to produce. And we are not going to let the war

[Continued on page 150]

## THE BUDGET

The estimates of government receipts and expenditures for fiscal 1942 are Fortune's responsibility. They form an interesting commentary, however, on Governor Eccles's article on the war economy. The distinction between the bookkeeping deficit and the cash deficit of the government is chiefly accounted for by the fact that net Social Security receipts do not figure in the bookkeeping picture. To the big estimated cash deficit should be added about \$1 billion in the form of net disbursements by various agencies (chiefly the RFC), not in the budget. It should be remembered that private-capital investment may be smaller this year, offsetting to some degree the government's increased net expenditures. Nevertheless a cash deficit of \$9 to \$10 billion in a year when rearmament is damping output of consumers' goods is a danger signal.

### BOOKKEEPING BASIS:

	Fiscal year 1941 (millions of dollars)	Fiscal year 1942
Expenditures	\$12,710	\$22,160
Receipts:		
From existing taxes	\$7,607	\$9,408
From probable new taxes	7,607	11,600
Deficit	\$ 5,103	\$10,507
CASH BASIS:		
Expenditures	\$13,705	\$22,760
Receipts	9,288	15,800
Deficit	\$ 4,417	\$ 8,960

## Price Fixing Not Enough

[Continued from page 57]

make the situation worse. The basic needs as a matter of health and morale must be met. Low income groups should not be expected to make sacrifices in food, clothing, and other necessities, for they have had too little. The sacrifices must come from the more fortunate groups, those who can get along with fewer automobiles and other goods needed for defense but not essential for civilian well-being. In other words, restriction of consumer demand should start at the top and work down rather than start at the bottom and work up.

### The critical taxes

**T**HE power to tax is the most fundamental means of doing this. It is the most effective as well as the most equitable of all the broad functional powers at the command of the government. The tax system should be designed to recapture for the government a large part of the defense expenditures and, so far as possible, to reduce consumer demand for goods where the supply is inadequate.

To accomplish this aim we shall have to rely mainly upon four types of taxation: (1) corporation income and excess-profits taxes, (2) greatly increased normal and steeply graduated surtaxes on individual incomes, (3) high excise taxes on durable consumers' goods, and (4) inheritance and gift taxes.

During the emergency we shall have to rely heavily upon the excess-profits tax and the tax on corporate incomes. This is true because, generally speaking, business units are the greatest beneficiaries, directly and indirectly, from defense expenditures. The profits accruing from the expanding national income tend to become concentrated here in the first instance. Consequently, one of the surest ways to safeguard against price inflation is for the government to levy on such profits and divert them directly into the defense program before they are distributed into the general income stream through higher wages and increased dividends.

Perhaps the most compelling reason of all for the imposition of the excess-profits tax is that, if not taken by the government, such profits will lead to further demands for higher wages. If wage increases continue to be freely granted to those who have already received substantial increases, they will swell unduly the

volume of private purchasing power. Labor should certainly be willing to moderate its demands for increased wages, but it can not be expected to follow such a course if employers are permitted to retain excessive profits. Moreover, with increasing personal income taxes, many corporations may be expected to leave a large proportion of their profits undistributed. In the absence of an undistributed-profits tax, therefore, these will be beyond the reach of the government, unless recovered through heavy taxes on corporations.

The corporate form of ownership is the principal institution through which capitalism functions. Owners and managers of corporations, vitally interested as they are in preserving capitalism, have every reason to favor, not oppose, heavy taxation of their profits, for thereby they will help to protect the country against the inflationary dangers that would undermine the foundations of capitalism. They have the greatest stake in democracy—the most to preserve. They should not expect those who have the smallest stake to pay an unjust share of taxation.

During the emergency the excess-profits tax should in my opinion, be the keystone of a well-balanced program. Increased taxes, however, should not be imposed on the great numbers of small business concerns and on millions of individual taxpayers until they have been given every reasonable assurance that the funds they are being asked to provide will not go to swell the profits of wealthy individuals and corporations.

In addition to heavy taxation on corporations, personal income taxes need to be substantially increased, ultimately to a point far beyond anything now proposed, if inflation is to be avoided. Heretofore they have been exceedingly moderate, as compared with those in other countries, except in the very highest income groups. Now with expanding employment and payrolls, it is equitable and necessary that some of the benefits be recovered by the Treasury. Reducing exemptions, thereby broadening the base and increasing the number of income-tax payers, is necessary to help check excessive consumer buying power at this time. Broadening of the income base to include the lower income groups will obviate the need for taxes on the necessities of life. Indiscriminate sales taxes on all purchases are inappropriate and

[Continued on page 52]

## Price Fixing Not Enough

(Continued from page 13c)

inequitable. Such taxes fall heaviest on those with the least ability to pay—those who spend their entire income on necessities. They are indiscriminate, not selective. They would strike needlessly at consumption of food and other necessities that we can produce without impinging on defense.

On the other hand, heavy excise taxes on consumer durable goods of all kinds that compete with defense are of vital importance. Such taxes are added to the cost of the goods paid by the purchaser. Consequently they diminish the ability to buy and tend to reduce effective demand. Such taxes, applied for example to automobiles, are essential primarily as a means of bringing about the necessary diversion of productive facilities to our defense effort.

As for estate and gift taxes, there is little disagreement regarding the underlying purpose of these levies. This purpose is to subject the passage of wealth from generation to generation to an effective system of taxation at graduated rates. The amount of tax should not depend in any significant degree upon the form in which the wealth is transmitted. Existing exemptions should be greatly reduced, the rates increased, and loopholes closed.

### Bonds for all

WHILE taxation is the most important weapon for combating inflationary price rises by drawing off purchasing power, particularly from those areas where shortages exist, the tax structure must be supplemented by other means. Buying power needs to be further dampened by drawing off funds into government savings bonds and other U.S. securities. The sale of government securities to the public, other than commercial banks, will have the same effect on buying power as taxation in absorbing funds that otherwise might go to the market place. Furthermore, purchasers of such securities have the advantage of storing up buying power—in effect deferring demand—until such time as our productive machinery can revert from defense to civilian production. The transition to a more normal peacetime basis can be more readily effected without a postdefense slump if such a storehouse of buying power is created during this period. Funds then coming on the market can do so without bidding up prices since industry will be able to supply civilian demand when it no longer

is heavily concentrated on producing defense materials.

It is important that the volume of funds obtained through taxation and borrowing from the public be sufficient to cover all of the government's outlays during the defense period without resort to borrowings from commercial banks. For the sale of government securities to the banking system creates new deposits, that is, new money, and the volume of deposits has already reached formidable proportions. Demand deposits and currency outstanding now aggregate about \$15.7 billion as compared to about \$8.8 billion in 1918 during our participation in World War I, or about 40 per cent as much as we have today. And it should be recalled that the World War I price level was far higher than it is at present, thus requiring much more money to do the same volume of business. The volume of funds already created is more than ample for all present and prospective requirements. It is not necessary or desirable to add new deposits by selling government securities to the commercial banks. The Treasury, in fact, has declared a definite policy of avoiding this so far as possible.

Accordingly the Treasury has embarked upon a program intended to attract, through borrowings, accumulated and current savings of various groups. There are, broadly, three major categories of savings. One consists of individual, corporate, and trustee funds from small amounts up to \$50,000. A second consists of larger corporations, wealthy individuals, trustees, and various public and private bodies that now have or will have amassed funds available for short-term investment. A third group is composed of large individual and institutional investors, including insurance companies, with funds of more than \$50,000, who are interested in long-term investment.

So far as the first group is concerned, the present issues of savings bonds and stamps are well designed, as to rate, maturity, and other terms, to meet the requirements. As for the second category, it embraces funds of the type that frequently are not invested in long-term government securities and are not attracted by the low rates prevailing on such short-term issues as have been available. It would be desirable, in my judgment, as the Treasury needed the funds, to offer to this group regressed short-term issues, possibly

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## Price Fixing Not Enough

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Accordingly the Treasury has embarked upon a program intended to attract, through borrowings, accumulated and current savings of various groups. There are, broadly, three major categories of savings. One consists of individual, corporate, and trust funds from small amounts up to \$20,000. A second consists of larger corporations, wealthy individuals, trustees, and various public and private bodies that now have or will have unused funds available for short-term investment. A third group is composed of large individual and institutional investors, including insurance companies, with funds of more than \$20,000, who are interested in long-term investment.

So far as the first group is concerned, the present issues of savings bonds and stamps are well designed, as to rate, maturity, and other terms, to meet the requirements. As for the second category, it embraces funds of the type that frequently are not invested in long-term government securities and are not attracted by the low rates prevailing on such short-term issues as have been available. It would be desirable, in my judgment, as the Treasury seeks for funds, to offer to this group restricted short-term issues, possibly

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## Price Fixing Not Enough

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of two-year maturity, paying interest semi-annually of from 0.25 to 1 per cent, depending upon the length of time held, and redeemable on any interest-payment date on thirty days' notice. Such issues would not be available to commercial banks. Similarly, it would seem to me to be advisable to offer to the third group of the large individual and institutional investors long-term issues of registered securities, bearing interest at 2.5 per cent. These issues, likewise, would not be available to commercial banks.

The Treasury has announced available for issuance August 1, still another important type of issue, consisting of two forms of tax-anticipation notes to meet the requirements of both small and large taxpayers. These issues would serve to draw in funds ahead of tax-payment periods, thus offsetting some of the lag in tax collections and giving the government the use of the funds while paying interest to the taxpayer, who would be enabled out of current earnings to purchase securities that would be accepted in payment of future taxes.

### Excess reserves

**W**ITH such a rounded program of offerings available for the various categories of savers and investors, there would be little or no need for new open-market issues that have to be priced at from one to two points above the current market in order to assure the underwriting and distribution, which is done largely by the government bond dealers and the commercial banks. To the extent that tax revenues are insufficient to cover government expenditures, the reservoirs of savings can be directly tapped—though, as I have indicated, our reliance should be more and more on taxes as full economic activity is approached so that the budget deficit may be progressively reduced.

While the policy of tapping existing funds and avoiding creation of new funds in the banking system is in the right direction, the continued existence of the redundant volume of excess reserves remains a constant invitation to the banks to put these idle reserves into government bonds in to lend them in every other possible way. The chief effect of the superabundance of excess reserves has been to drive interest rates down to unprecedentedly low levels—short-term rates virtually to zero. The decline of rates to such extremes has tempted the banks

into more and more loans and investments in order to sustain earnings. Some increase in short-term rates that would result from reducing excess reserves to manageable proportions would be in the interest of the entire credit system. I believe this could be accomplished without materially affecting long-term rates, which would be likely to remain at relatively low levels because of the abundance of existing funds and absence of private demand in the long-term capital markets.

From the standpoint of government financing the retention of excess reserves had its own logic so long as the government was relying on open-market methods for financing the deficit. But, as we have seen, it is now necessary and advisable for the government to sell its bonds directly to individuals and institutional investors other than commercial banks, and to the extent that it does this the need of excess reserves disappears. Accordingly, a protective measure that needs to be invoked is the granting to the Reserve System of adequate authority to deal with excess reserves when necessary, as a safeguard against inflation.

For clearly, the more bank deposits are expanded on the basis of high reserves, the more difficult becomes the problem of control. During the past year currency and demand deposits in commercial banks have increased by about \$7 billion. This has been brought about by a large increase in the purchase of government securities, by expansion of loans and other investments, as well as by further acquisition of gold and silver. If this trend were permitted to continue indefinitely at this rate, it can readily be seen that the inflationary results would be disastrous. It is futile for the government to mop up purchasing power through taxation if at the same time an equivalent amount is put into the spending stream through bank-credit expansion. This means closing one door against a danger and leaving another wide open.

### Consumer credit

**T**HE subject of consumer credit is another field of great importance in which restraints need to be applied. As a check to curtail demand for consumer-durable goods, selective credit controls may need to be invoked applying to all types of installment credit. It is clear, for instance, that if an individual who pays \$500 in taxes and buys \$100 of savings bonds is

[Continued on page 157]

## Price Fixing Not Enough

[Continued from page 154]

able at the same time to obtain *Steady State* on consumer credit his buying power has not been curbed at all.

With national income rapidly expanding, the volume of consumer credit is likewise increasing. Further expansion of installment credit at this time would be an inflationary factor that should be controlled by the banking authorities. The field is now so broad that cooperative action, which has been proposed by various business and credit groups, would be entirely inadequate. Rather, it will be necessary to prescribe standard terms for the purchase of durable goods through regulation backed up by enforcement authority. Such an instrument, while new, has long been needed as a functional control measure since the rapid expansion of installment credit on the upswing and contraction on the downswing have tended in the past to be an unstabilizing influence on the economy.

One of the most important functional mechanisms that should be used as a stabilizing factor on the economy at all times is that of unemployment and old-age payroll taxes. This is the time when rates should be substantially increased and made to cover a much larger percentage of the population so that larger benefits may be provided later on when they will be most needed as an offset to a post-defense decline. In a depression these taxes are a drag on recovery, as they were in 1937, 1938, and 1939 because they took much more purchasing power out of pay envelopes than was paid out in benefits. In a defense boom, however, they are ideally adapted, and preferable to enforced savings plans such as have been resorted to in Great Britain, as a means of diminishing buying power.

### Fiscal policy or regulation

THE above measures constitute the basis of a broad, integrated fiscal and credit policy. How much further must we go in the way of direct controls? I believe that that depends to a large extent on how seriously we take the policy as outlined. Certainly some direct controls are needed. Price ceilings have rightly been invoked on various basic commodities on which defense draws most heavily and of which there are actual or prospective shortages. And the fact that a floor has been placed under basic agricultural prices is no reason for not putting a ceiling on them, as

well as on other things such as steel and copper, if they push up too far. There must also be restraint on wage increases which tend to start the spiral of wage-price-cost-of-living advances. Hoarding of commodities and speculative inventory accumulations must be dealt with vigorously through inventory surveys and reallocation of critical materials at prices to be determined under government authority. And broadly speaking, government action and policy must do away with or diminish so far as possible the incentives to put up prices.

To attempt, however, to impose a general price ceiling covering all transactions and commodities, raw materials as well as finished products and both the wholesale and retail fields, entails infinite complications. Such drastic action constitutes virtual dictatorship over practically all business. Nor is it necessary if a rounded and coordinated program such as I have outlined is followed, if Congress enacts the kind of tax legislation demanded by the times, and the other protective moves are made on all fronts.

It is, as so often in matters of public policy, a question of alternatives. Drastic, unpalatable, as high taxes and other functional mechanisms may be, they are infinitely preferable to the virtual dictatorship of prices, the enforced savings, the ration cards, complicated priorities, and all the other compulsions and interferences necessitated by more direct measures. These are going to be difficult enough to administer in the military sector of the economy, where they are essential to rearmament, without extending them to all consumers' goods.

But one thing is sure. We must prevent inflationary price developments, such as have caused economic havoc in every war and are potentially as destructive as war itself. When we talk of saving our system we mean saving a going concern, an economic system that functions to produce the greatest good for the greatest number. We propose to save it not only from the threat of foreign domination but also from the dangers of internal disintegration through shortsighted policies and half-hearted protective measures. If we will do whatever is needful, even though we may have to abandon for the time being some of our cherished economic freedoms, we shall bequeath to posterity a country that is strong and sound, an economic system that has vindicated itself.

TREASURY DEPARTMENT  
INTER OFFICE COMMUNICATION

*replace content*

to Secretary Morgenthau  
FROM Joseph J. O'Connell, Jr.

*finished*

DATE  
August 5, 1941.

Attached is a detailed analysis of the Emergency Price Control Act of 1941, together with a copy of the bill itself.

The bill contains authority to establish "fair and equitable" price ceilings for all commodities. In so doing consideration is to be given to the price prevailing for the commodity on July 29, 1941 and adjustments are to be made in the then existing price based on a number of factors. As to farm products there is a proviso that no ceiling may be established at a price below 110 per cent of parity, or the price prevailing on July 29, 1941, whichever is higher.

The bill contains authority to fix rents for low-cost housing accommodations in defense areas with a proviso intended to afford state and local communities an opportunity to take care of the situation before any rent ceiling can be established. It contains no authorization with respect to wages, public utility rates or credit control.

Under the bill all authority is given to the President, who may delegate his authority to any Federal Agency.

The bill provides for judicial review of all orders and regulations by an emergency court of appeals composed of Federal Judges designated for that purpose by the Chief Justice of the United States Supreme Court. Appeal may be had from any judgment of the Emergency Court of Appeals to the Supreme Court of the United States on writ of certiorari.

In addition to a straight criminal penalty for wilful violations of any provisions of the bill, the Government may enjoin violations and any purchaser may recover in a civil action from any person selling him a commodity in violation of a regulation or order.

*Joseph J. O'Connell Jr.*

ANALYSIS OF THE BILL ENTITLED  
"EMERGENCY PRICE CONTROL ACT OF 1941"  
(H.R. 5479 and S. 1810, 77th Congress)

The above bill is divided into three titles, Title I--General purpose and substantive provisions conferring authority, Title II--Administration and enforcement provisions, and Title III--Reports to Congress and definitions of terms.

TITLE I--GENERAL PROVISIONS AND AUTHORITY

SEC. 1. (a) Purposes.--Ten somewhat overlapping objectives are set forth. The more significant purposes may be condensed as follows: (1) to preserve the value of national currency against inflation, (2) to eliminate speculation, hoarding, and withholding of materials needed for national defense, (3) to stabilize prices in order to prevent economic disturbances (labor disputes, shortages of materials, etc.) which would interfere with the effective use of the Nation's resources for defense, (4) to prevent abnormal increases in rents, (5) to assure that defense appropriations are not dissipated by excessive prices, (6) to protect

- 2 -

persons with fixed incomes, and (7) to prevent a post-emergency collapse of values.

(b) Time Limit.--The Bill and all regulations and orders thereunder will terminate one year from the date of a declaration by the President or a concurrent resolution of the Congress that the continuance of the Bill is no longer necessary. During that one year termination period, the President is directed to exercise his authority "in such manner as to facilitate readjustment to normal conditions."

SEC. 2. (a) Commodity Prices.--Whenever in the judgment of the President the prices of any commodities appear to be rising in a manner inconsistent with the purposes of this Bill, he is authorized to establish price ceilings for such commodities which will be "generally fair and equitable" and which will effectuate the purposes of the Bill. In establishing a ceiling, the President is directed to start with the price prevailing for the commodity on July 29, 1941, and then to adjust it for factors such as speculative fluctuations, general increases or decreases in costs of

- 3 -

production and transportation, and general increases or decreases in the sellers' profits subsequent to July 29, 1940.

(b) Rents.--The President may designate defense-rental areas and defense-area housing accommodations therein, and recommend the stabilization of rents for such accommodations. If rents are not stabilized or reduced by State or local regulations within sixty days after the President's recommendation, the President shall establish rent ceilings for such accommodations as, in his judgment, will effectuate the purposes of this Bill.

(c) Standards.--This subsection gives the President broad authority to prescribe the form and manner, the classifications and differentiations, in any ceiling or ceilings which may be established. The President is specifically authorized to establish ceilings below the general market prices for commodities and housing accommodations.

(d) Disruptive Practices.--This subsection authorizes the President, whenever he deems it necessary to effectuate the purposes of the Bill, to regulate or prohibit with respect to any commodity, selling, speculative or manipulative

- 4 -

practices, hoarding, or other practices likely to result in price increases.

(e) Government Purchasing.--The President is authorized to buy, store, or use, or sell at public or private sale any commodity (without competitive bidding) upon such terms as he shall deem necessary to get production from marginal or high-cost producers, or to prevent price increases. The proceeds of any sale under this subsection remain as a revolving fund to carry out its provisions.

SEC. 3. Agricultural Commodities.--This section is specifically made independent of section 2, and provides that no ceiling shall be established for any agricultural commodity below (1) 110 per cent of the parity price or comparable price, as determined by the Secretary of Agriculture, or (2) the market price prevailing for such commodity on July 29, 1941 (whichever is higher).

SEC. 4. (a) Existing Contracts.--This subsection makes it unlawful, regardless of any agreement, lease, or other obligation entered into before or after the Bill, for any person to sell or deliver any commodity or receive any rent, or take any action, in violation of any regulation

- 5 -

under this Bill (or to offer or agree to do so). However, no person, under this Bill, may be required to sell any commodity or offer any accommodations for rent.

(b) Disclosure of Information.--It is unlawful for any officer or employee of the United States to disclose (other than in the course of official duty) any information contained under this Bill, or to use it for his personal benefit.

## TITLE II - ADMINISTRATION AND ENFORCEMENT

SEC. 201. (a) Regulations.--The President is empowered to issue such regulations and orders as he deems necessary to carry out the purposes of the Bill.

SEC. 201. (b) Delegation of Power.--Under this section, the President is enabled to delegate his powers under the Bill to any other Federal agency. It is provided that all references in the Bill to the President shall include, in addition to the President, any department, agency, officer, or employee that the President may designate or appoint for the execution of the authority vested in the President by the Bill.

- 6 -

SEC. 202. (a) Obtaining Information.--The President is authorized to make such studies and investigations and to obtain such information as he deems necessary to assist him in the administration of the Bill. He is authorized to subpoena witnesses for such investigations.

SEC. 202. (b) Disclosure of Information.--The President is not to disclose any information obtained under the Bill that he deems confidential unless he determines that the withholding thereof is contrary to the interest of the national defense and security.

SEC. 203. (a) Administrative Review of Regulations.--Regulations or orders establishing price ceilings may be issued after such inquiry as the President deems necessary. A person aggrieved by such regulation or order may file a protest (in accordance with regulations prescribed by the President) within sixty days after the issuance of such an order, with extension of time when the protest is based solely on grounds arising after the expiration of sixty days. The President shall either grant or deny such protest, fix a date for a hearing of the protest, or provide the protestant with the opportunity to present further evidence.

- 7 -

SEC. 204. Judicial Review of Orders and Regulations.--

In subsection (c), there is created the Emergency Court of Appeals to consist of three or more judges to be designated by the Chief Justice of the United States from judges of United States district courts and courts of appeal. Any protestant who is aggrieved by the denial of his protest may, within thirty days after such a denial, file a complaint with the Emergency Court of Appeals, praying that the regulation or order protested be set aside. No regulation or order shall be set aside, in whole or in part, unless the complainant establishes to the satisfaction of the court that the regulation or order is not in accordance with law, or is arbitrary or capricious. Within thirty days after the entry of a judgment by the Emergency Court of Appeals, a petition for a writ of certiorari may be filed in the Supreme Court of the United States, and thereupon the judgment shall be subject to review by the Supreme Court in the same manner as a judgment of a circuit court of appeals. The Emergency Court of Appeals and the

- 8 -

Supreme Court upon review shall have exclusive jurisdiction to determine the validity of any ceiling regulation or order, and any provision of this Bill.

SEC 205. (a) Injunctions.--The President is authorized to make application to an appropriate court (apparently State, Territorial, as well as Federal District Courts) for an order enjoining any person from engaging in any acts or practices which constitute violations of the Bill or regulations made thereunder. See Section 205. (e).

SEC. 205. (b) Civil Penalties.--If any person selling a commodity violates a regulation or order prescribing a price ceiling, the buyer of the commodity may bring suit to rescind the sale, or may bring an action for \$50 or treble the amount by which the consideration exceeded the applicable ceiling, whichever is the greater, plus reasonable attorney's fees and costs. If the buyer of a commodity fails to bring an action within six months after delivery of the commodity, the President may, within the succeeding six months, bring such action on behalf of the United States.

- 9 -

SEC. 205. (c) Licenses.--The President may require a license as a condition of engaging in any transaction with respect to which a regulation or order shall be issued under this Bill. It is expressly provided that no such license may be required as a condition of selling or distributing newspapers, periodicals, books, or other printed or written material. If, in the President's judgment, a person has violated any of the provisions of a license, procedure is established whereby the President may revoke the license after a warning notice. Within thirty days after issuance of an order of revocation, the licensee may file a petition to review such action in the Emergency Court, which has exclusive jurisdiction to affirm, set aside, or modify the suspension or revocation of the license.

SEC. 205. (d) Criminal Penalties.--Any person who willfully violates any provision of this Bill or any regulation, order, or requirement thereunder, or who willfully falsifies any document or report required to be kept under the Bill shall, upon conviction thereof, be fined not more than \$5,000, or imprisoned for not more than one year, or both.

- 10 -

SEC. 205. (e) Jurisdiction of Courts.--The district courts of the United States shall have jurisdiction of violations of the Bill and of regulations thereunder, and shall have concurrent jurisdiction with State and Territorial courts of all civil proceedings to enforce any liability under the Bill or to enjoin any violation of the Bill or any regulation thereunder. Such civil and criminal proceedings may be brought in any district in which any act or transaction constituting the violation occurred.

SEC. 205. (f) Reliance on Regulations.--No person shall be liable for damages or penalties for any act done in reliance on any provision of the Bill or regulations of the President, whether rescinded, modified, or declared invalid.

- 11 -

## TITLE III - MISCELLANEOUS

SEC. 301. Quarterly reports.--The President, from time to time, but not less frequently than once every ninety days, shall transmit to the Congress a report of operations under the Act.

SEC. 302. Definitions.--The following terms are defined:

(a) Sale.--Includes dispositions, exchanges, leases, and other transfers. Also contracts and offers to do the same.

(b) Price.--The consideration demanded or received in connection with the sale of the commodity.

(c) Commodity.--Includes services rendered in connection with the processing, distribution, storage, installation, repair, or negotiation of purchases or sales, or a commodity, or in connection with the operation of any service establishment. Note.--Excluded from the scope of the Bill are (1) wages and (2) rates charged by common carriers and public utilities.

(d) Defense-rental areas.--Any area designated by the President as an area where defense activities threaten to result in a housing shortage.

- 12 -

(e) Defense-area housing accommodations.--Housing accommodations within any defense-rental area which (subsequent to August 31, 1940) rented for \$15 per room per month or less and which have increased in rent 10 per cent or more at the time of the President's designation.

(f) Person.--Includes the United States or any agency thereof or any other government (presumably a foreign government).

(g) Ceiling.--Maximum consideration which may be received for commodities or housing (in defense-rental area). Ceiling may be in terms of commissions, fees, or other charges, or allowances.

(h) Documents.--Includes records, books, accounts, correspondence, memoranda, drafts, and copies thereof.

(i) District Court.--Any district court of the United States and the United States Court for any Territory.

77TH CONGRESS  
1ST SESSION

# H. R. 5479

## IN THE HOUSE OF REPRESENTATIVES

AUGUST 1, 1941

MR. STEAGALL introduced the following bill; which was referred to the Committee on Banking and Currency

## A BILL

To further the national defense and security by checking speculative and excessive price rises, price dislocations, and inflationary tendencies, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*  
2 *tives of the United States of America in Congress assembled,*

### TITLE I—GENERAL PROVISIONS AND

#### AUTHORITY

#### PURPOSES; TIME LIMIT

6 SECTION 1. (a) It is hereby declared that it is in the  
7 interest of the national defense and security and the purposes  
8 of this Act are (1) to preserve the value of the national  
9 currency against the consequences of price and credit infla-  
10 tion; (2) to stabilize prices and to prevent speculative, un-

1 warranted, and abnormal increases in prices and rents; (3)  
 2 to prevent economic disturbances, labor disputes, burdens  
 3 upon interstate and foreign commerce, interference with the  
 4 effective use of the Nation's resources for defense, and  
 5 impairment of national unity and morale, which would result  
 6 from unwarranted increases in prices, rents, and the cost of  
 7 living; (4) to eliminate and prevent profiteering, hoarding,  
 8 manipulation, speculation, and other disruptive practices  
 9 resulting from abnormal market conditions or scarcities caused  
 10 by or contributing to the national emergency; (5) to prevent  
 11 prospects of price rises from encouraging the accumulation  
 12 and withholding of materials needed for national defense, and  
 13 from impeding long-term commitments for production; (6)  
 14 to assure that defense appropriations are not dissipated by  
 15 excessive prices; (7) to obtain the maximum necessary pro-  
 16 duction without undue profits to low-cost producers; (8) to  
 17 protect persons with relatively fixed and limited incomes,  
 18 investors, and persons dependent on life insurance, annuities,  
 19 and pensions, from undue impairment of their standard of  
 20 living; (9) to prevent a post-emergency collapse of values,  
 21 and the reappearance of price and cost disparities for farmers  
 22 and other primary producers; and (10) to provide pro-  
 23 cedures for administration and review which will fairly pro-  
 24 tect the interests of those subject to this Act, without

1 endangering the dominant public interest in the accomplish-  
 2 ment of the foregoing purposes.

3 (b) The provisions of this Act, and all regulations, or-  
 4 ders, and requirements thereunder, shall terminate upon the  
 5 expiration of one year from the date of a declaration by the  
 6 President, or the Congress by concurrent resolution, that  
 7 the further continuance of the authority granted by this Act  
 8 is not necessary in the interest of the national defense and  
 9 security; except that as to offenses committed, or rights or  
 10 liabilities incurred, prior to the expiration of one year from  
 11 the date of such declaration, the provisions of this Act and  
 12 such regulations, orders, and requirements, shall be treated as  
 13 still remaining in force for the purpose of sustaining any  
 14 proper suit, action, or prosecution with respect to any such  
 15 right, liability, or offense. During such one-year period the  
 16 authority granted by this Act to the President shall be  
 17 exercised in such manner as to facilitate readjustment to  
 18 normal conditions.

#### 19 PRICES, RENTS, AND MARKET PRACTICES

20 SEC. 2. (a) Whenever in the judgment of the President  
 21 the price or prices of a commodity or commodities have  
 22 risen or threaten to rise to an extent or in a manner in-  
 23 consistent with the purposes of this Act, he shall by regula-  
 24 tion or order establish such ceiling or ceilings as in his

1 judgment will be generally fair and equitable to buyers and  
 2 sellers of such commodity or commodities and will effectuate  
 3 the purposes of this Act. So far as practicable, in establish-  
 4 ing any ceiling for any specified commodity, the President  
 5 shall ascertain and give due consideration to the prices pre-  
 6 vailing for the commodity on or about July 29, 1941, and  
 7 shall make adjustments for such relevant factors as he may  
 8 determine and deem to be of general applicability in respect  
 9 of the commodity, including the following: Speculative fluc-  
 10 tuations, general increases or decreases in costs of production  
 11 and transportation, and general increases or decreases in  
 12 profits earned by sellers of the commodity, during and sub-  
 13 sequent to the year ending July 29, 1941. Every regula-  
 14 tion or order establishing any ceiling under this subsection  
 15 shall be accompanied by a statement of the considerations  
 16 involved in the issuance of such regulation or order.

17 (h) Whenever in the judgment of the President such  
 18 action is necessary or proper in order to effectuate the pur-  
 19 poses of this Act, he shall issue declaration designating  
 20 defense-rental areas and defense-area housing accommoda-  
 21 tions, and setting forth the necessity for, and recommenda-  
 22 tions with reference to, the stabilization or reduction of rents  
 23 for defense-area housing accommodations within each area  
 24 so designated. If within sixty days after the issuance of any  
 25 such recommendations rents for any such accommodations

1 have not in the judgment of the President been stabilized or  
 2 reduced by State or local regulation, or otherwise, in accord-  
 3 ance with the recommendations, the President shall by regu-  
 4 lation or order establish such ceiling or ceilings for such  
 5 accommodations as in his judgment will effectuate the pur-  
 6 poses of this Act. In designating defense-rental areas or  
 7 defense-area housing accommodations, in prescribing ceilings  
 8 for such accommodations, and in selecting persons to ad-  
 9 minister such ceilings, the President shall, to such extent  
 10 as he determines to be practicable, consider any recommen-  
 11 dations which may be made by State and local officials con-  
 12 cerned with housing or rental conditions in any defense-rental  
 13 area.

14 (c) Any ceiling or ceilings may be established in such  
 15 form and manner, may contain such classifications and dif-  
 16 ferentiations, and may provide for such adjustments, as in  
 17 the judgment of the President are necessary or proper in  
 18 order to effectuate the purposes of this Act. The President  
 19 may establish a ceiling or ceilings below the general market  
 20 prices for the commodity or commodities, or below the rent  
 21 or rents, as the case may be, in effect at the time of the  
 22 establishment of such ceiling or ceilings.

23 (d) Whenever in the judgment of the President such  
 24 action is necessary or proper in order to effectuate the pur-  
 25 poses of this Act, he may, by regulation or order, regulate

1 or prohibit, with respect to any commodity, speculative or  
 2 manipulative practices, selling, marketing, or inventory prac-  
 3 tices (including practices relating to changes in form or  
 4 quality), hoarding, or other practices, which in his judg-  
 5 ment are equivalent to or are likely to result in price in-  
 6 creases inconsistent with the purposes of this Act.

7 (e) Whenever in the judgment of the President such  
 8 action is necessary or proper in order to effectuate the pur-  
 9 poses of this Act, he may, on behalf of the United States,  
 10 without regard to any provision of law requiring competitive  
 11 bidding, buy, store, or use, or sell at public or private sale,  
 12 any commodity, upon such terms as he shall deem necessary  
 13 to obtain the maximum necessary production of marginal or  
 14 high-cost producers, or to prevent price increases inconsistent  
 15 with the purposes of this Act. The proceeds of any sale  
 16 under this subsection shall be used as a revolving fund for  
 17 carrying out the provisions of this subsection.

18 (f) No power conferred by this section shall be con-  
 19 strued to authorize any action contrary to the provisions and  
 20 purposes of section 3.

#### 21 AGRICULTURAL COMMODITIES

22 SEC. 3. (a) No ceiling shall be established for any agri-  
 23 cultural commodity below (1) 110 per centum of the parity  
 24 price or comparable price for such commodity, as determined

1 and published by the Secretary of Agriculture, or (2) the  
 2 market price prevailing for such commodity on July 29,  
 3 1941.

4 (b) For the purposes of this Act, parity prices for agri-  
 5 cultural commodities shall be determined and published by  
 6 the Secretary of Agriculture as authorized by law.

7 (c) The provisions of section 2 of this Act shall not be  
 8 construed to authorize any action contrary to the provision  
 9 and purposes of this section.

#### 10 PROHIBITIONS

11 SEC. 4. (a) It shall be unlawful, regardless of any  
 12 agreement, lease, or other obligation heretofore or hereafter  
 13 entered into, for any person to sell or deliver any commodity,  
 14 to demand or receive any rent, or otherwise to do or omit  
 15 to do any act, in violation of any regulation, order, or other  
 16 requirement, under this Act, or to offer or agree to do any  
 17 of the foregoing: *Provided*, That nothing in this Act shall  
 18 be construed to require any person to sell any commodity  
 19 or to offer any accommodations for rent.

20 (b) It shall be unlawful for any officer or employee  
 21 of the Government to disclose, otherwise than in the course  
 22 of official duty, any information obtained under this Act,  
 23 or to use any such information for personal benefit.

1 TITLE II—ADMINISTRATION AND ENFORCE-  
2 MENT

3 ADMINISTRATION: PERSONNEL

4 SEC. 201. (a) The President may, from time to time,  
5 issue such regulations and orders as he may deem necessary  
6 or proper in order to carry out the purposes and provisions  
7 of this Act, and to prevent the circumvention or evasion  
8 thereof.

9 (b) Wherever reference is made in this Act to the  
10 President, such reference shall include, in addition to the  
11 President, any department, agency, officer, or employee,  
12 designated or appointed by the President for the execution  
13 of any power, authority, or discretion vested in the President  
14 by this Act. Industrial, price, and other experts appointed  
15 under this Act may be appointed without regard to the  
16 civil-service laws.

17 OBTAINING INFORMATION

18 SEC. 202. (a) The President may make such studies  
19 and investigations, and obtain or require the furnishing of  
20 such information under oath or affirmation or otherwise, as  
21 he deems necessary or proper to assist him in prescribing  
22 any regulation or order under this Act, and in the adminis-  
23 tration and enforcement of this Act, and regulations and  
24 orders thereunder. For such purposes the President may  
25 administer oaths and affirmations, may require by subpoena

1 or otherwise the attendance and testimony of witnesses and  
2 the production of documents at any designated place, may  
3 require persons to permit the inspection and copying of  
4 documents, and the inspection of inventories, and may, by  
5 regulation or order, require the making and keeping of  
6 records and other documents and the making of reports. No  
7 person shall be excused from complying with any require-  
8 ment under this section because of his privilege against self-  
9 incrimination, but the immunity provisions of the Compul-  
10 sory Testimony Act of February 11, 1893 (U. S. C., 1934  
11 edition, title 49, sec. 46), shall apply with respect to any  
12 individual who specifically claims such privilege.

13 (b) The President shall not publish or disclose any  
14 information obtained under this Act that he deems con-  
15 fidential unless he determines that the withholding thereof  
16 is contrary to the interest of the national defense and security.

17 PROCEDURE

18 SEC. 203. (a) Regulations or orders establishing any  
19 ceiling or ceilings may be issued after such inquiry as the  
20 President deems necessary or proper. Within a period of  
21 sixty days after the issuance of any such regulation or order  
22 any person subject to the provisions thereof may, in ac-  
23 cordance with regulations to be prescribed by the President,  
24 file a protest specifically setting forth objections to such  
25 regulation or order and affidavits or other written evidence

1 in support of such objections. At any time after the ex-  
 2 piration of such sixty days any person subject to the pro-  
 3 visions of such regulation or order may file such a protest  
 4 based solely on grounds arising after the expiration of such  
 5 sixty days. Statements in support of any such regulation  
 6 or order may be received and incorporated in the transcript  
 7 of the proceedings at such times and in accordance with  
 8 such regulations as may be prescribed by the President.  
 9 Within a reasonable time after the filing of any protest  
 10 under this subsection, but in no event more than thirty days  
 11 after such filing or ninety days after the issuance of the  
 12 regulation or order in respect of which the protest is filed,  
 13 whichever occurs later, the President shall either grant or  
 14 deny such protest in whole or in part, notice such protest  
 15 for hearing, or provide an opportunity to present further  
 16 evidence in connection therewith.

17 (b) In any proceedings under this Act the President  
 18 may take official notice of economic and other facts, in-  
 19 cluding facts found by him as a result of action taken under  
 20 section 202, and may limit such proceedings to the filing  
 21 of affidavits or other written evidence, or the filing of briefs.

#### 22 REVIEW

23 SEC. 204 (a) Any protestant who is aggrieved by the  
 24 denial or partial denial of his protest, may, within thirty  
 25 days after such denial, file a complaint with the emergency

1 court of appeals, created pursuant to subsection (c), pray-  
 2 ing that the regulation or order protested be set aside in  
 3 whole or in part. A copy of such complaint shall forthwith  
 4 be served on the President who shall certify and file with  
 5 such court a transcript of the proceedings in connection  
 6 with the protest which shall include a statement of the  
 7 materials of which the President has taken official notice.  
 8 Upon the filing of such transcript the court shall have ex-  
 9 clusive jurisdiction to affirm or set aside such regulation or  
 10 order, in whole or in part, or to remand the proceeding:  
 11 *Provided*, That the regulation or order may be modified or  
 12 rescinded by the President at any time notwithstanding the  
 13 pendency of such complaint. No objection to any regulation  
 14 or order, and no evidence in support of any objection  
 15 thereto, shall be considered by the court, unless such objec-  
 16 tion shall have been set forth by complainant in the protest  
 17 or such evidence shall be contained in the transcript. If  
 18 application is made to the court by either party for leave  
 19 to introduce additional evidence which was either offered to  
 20 the President and not admitted, or which could not reasonably  
 21 have been offered to the President, and the court determines  
 22 that such evidence is material, the court shall order the evi-  
 23 dence to be presented to the President. The President shall  
 24 promptly receive the same, and such other evidence as he  
 25 deems necessary or proper, and thereupon he shall certify

1 and file with the court a transcript thereof, and any modifi-  
 2 cation made in the regulation or order as a result thereof,  
 3 except that on request by the President, any such additional  
 4 evidence may be presented directly to the court.

5 (b) No such regulation or order shall be set aside, in  
 6 whole or in part, unless the complainant establishes to the  
 7 satisfaction of the court that the regulation or order is not  
 8 in accordance with law, or is arbitrary or capricious. The  
 9 effectiveness of a judgment of the court setting aside in whole  
 10 or in part any such regulation or order shall be postponed  
 11 until the expiration of thirty days from the entry thereof,  
 12 except that if a petition for a writ of certiorari is filed with  
 13 the Supreme Court under subsection (d) within such thirty  
 14 days, the effectiveness of such judgment shall be postponed  
 15 until an order of the Supreme Court denying such petition  
 16 becomes final, or until other final disposition of the case by  
 17 the Supreme Court.

18 (c) There is hereby created a court of the United States  
 19 to be known as the Emergency Court of Appeals, which shall  
 20 consist of three or more judges to be designated by the Chief  
 21 Justice of the United States from judges of United States  
 22 district courts and courts of appeals. The Chief Justice of  
 23 the United States shall designate one of such judges as chief  
 24 judge of the Emergency Court of Appeals, and may, from  
 25 time to time, designate additional judges for such court and

1 revoke previous designations. The chief judge may, from  
 2 time to time, divide the court into divisions of three or more  
 3 members, and any such division may render judgment as the  
 4 judgment of the court. The court shall have the powers  
 5 of a district court with respect to the jurisdiction conferred  
 6 on it by this Act, except that it shall exercise its powers and  
 7 prescribe rules governing its procedure in such manner as  
 8 to expedite the determination of cases of which it has jurisdic-  
 9 tion under this Act. The court shall have a seal, hold ses-  
 10 sions at such places as it may specify, and appoint a clerk  
 11 and such other employees as it deems necessary or proper.

12 (d) Within thirty days after entry of a judgment, inter-  
 13 locutory or final, by the Emergency Court of Appeals, in-  
 14 cluding a judgment under section 205 (c) (2), a petition  
 15 for a writ of certiorari may be filed in the Supreme Court  
 16 of the United States, and thereupon the judgment shall be  
 17 subject to review by the Supreme Court in the same manner  
 18 as a judgment of a circuit court of appeals as provided in  
 19 section 240 of the Judicial Code, as amended (U. S. C.,  
 20 1934 edition, title 28, sec. 347). The Supreme Court shall  
 21 expedite the disposition of all causes filed therein pursuant  
 22 to this subsection. The Emergency Court of Appeals, and  
 23 the Supreme Court upon review of judgments of the Emer-  
 24 gency Court of Appeals, shall have exclusive jurisdiction to  
 25 determine the validity of any ceiling regulation or order, and

1 of the provisions of this Act authorizing such regulation or  
 2 order. Except as provided in this section, no court, Federal,  
 3 State, or Territorial, shall have power to consider such  
 4 validity, or to stay, restrain, enjoin, or set aside, in whole or  
 5 in part, any such provision of this Act, or any provision of  
 6 any such regulation or order.

7 ENFORCEMENT

8 SEC. 205. (a) Whenever in the judgment of the President  
 9 any person has engaged or is about to engage in any acts  
 10 or practices which constitute or will constitute a violation  
 11 of this Act, or of any regulation, order, or requirement there-  
 12 under, he may make application to the appropriate court for  
 13 an order enjoining such acts or practices, or for an order  
 14 enforcing compliance with this Act or such regulation, order,  
 15 or requirement, and upon a proper showing a permanent or  
 16 temporary injunction, restraining order, or other order shall  
 17 be granted without bond.

18 (b) If any person selling a commodity violates a regu-  
 19 lation or order prescribing a ceiling or ceilings, the person  
 20 who is the buyer of the commodity may either bring suit  
 21 to rescind the sale, or bring an action for \$50 or treble the  
 22 amount by which the consideration exceeded the applicable  
 23 ceiling, whichever is the greater, plus reasonable attorneys'  
 24 fees and costs as determined by the court. No person who  
 25 in good faith brings suit or action under this subsection within

1 six months after delivery is completed shall be subject to  
 2 punishment, with respect to the transaction constituting the  
 3 basis of such suit or action, and no person who buys a com-  
 4 modity for use or consumption other than in the course of  
 5 trade or business shall be subject to punishment, for con-  
 6 spiracy to violate, or for aiding and abetting a violation of,  
 7 any provision of this Act or any regulation or order there-  
 8 under. If the buyer fails to bring such suit or action in good  
 9 faith within six months after delivery is completed, the Presi-  
 10 dent may, within the succeeding six months, bring such ac-  
 11 tion under this subsection on behalf of the United States.  
 12 Institution of such action by the President within such suc-  
 13 ceeding six months, or institution by the buyer of a suit or  
 14 action in good faith, shall bar subsequent institution of any  
 15 suit or action with respect to the same transaction. Any  
 16 suit or action under this subsection may be brought in any  
 17 court of competent jurisdiction, and shall be instituted within  
 18 one year after delivery is completed. For the purposes of  
 19 this subsection and subsection (c) the payment or receipt of  
 20 rent shall be deemed the buying or selling of a commodity  
 21 as the case may be.

22 (c) (1) Whenever in the judgment of the President  
 23 such action is necessary or proper in order to carry out  
 24 the provisions and purposes of this Act, he may by regula-  
 25 tion or order issue or require a license as a condition of

1 engaging in any transaction with respect to which a regula-  
 2 tion or order may be issued under this Act. No such  
 3 license shall contain any provision which could not be  
 4 prescribed by regulation, order, or requirement under this  
 5 Act: *Provided*, That no such license may be required as a  
 6 condition of selling or distributing newspapers, periodicals,  
 7 books, or other printed or written material.

8 (2) Whenever in the judgment of the President a  
 9 person has violated any of the provisions of a license issued  
 10 under this subsection a warning notice shall be sent by regis-  
 11 tered mail to such person. If the President finds, after  
 12 opportunity for hearing upon at least ten days' notice, that  
 13 a warning notice has been sent and that a violation of any  
 14 of the provisions of a license has occurred subsequent to  
 15 the receipt of such warning notice, he may by order suspend  
 16 or revoke such person's license. Such suspension or revoca-  
 17 tion shall not confer any immunity from the other provisions  
 18 of this section. Within thirty days after issuance of such  
 19 order of suspension or revocation the licensee may file a  
 20 petition to review such action in the Emergency Court.  
 21 Thereupon the President shall certify and file with such  
 22 court a transcript of the record upon which the order com-  
 23 plained of was entered. Upon the filing of such transcript  
 24 the court shall have exclusive jurisdiction to affirm or set  
 25 aside, in whole or in part, the suspension or revocation of

1 the license, or to remand the proceeding: *Provided*, That  
 2 the President may modify or rescind the requirement of  
 3 the license or the suspension or revocation at any time not-  
 4 withstanding the pendency of the petition to review. The  
 5 court may, upon good cause shown, stay the effectiveness  
 6 of the suspension or revocation. The revocation or suspen-  
 7 sion shall be affirmed if the finding of violation after receipt  
 8 of warning notice is supported by substantial evidence in  
 9 the record.

10 (d) Any person who willfully violates any provision of  
 11 this Act or any regulation, order, or requirement there-  
 12 under, and any person who willfully falsifies in any mate-  
 13 rial respect a document or report required to be kept or filed  
 14 thereunder, shall, upon conviction thereof, be fined not more  
 15 than \$5,000, or imprisoned for not more than one year, or  
 16 both. Whenever the President has reason to believe that  
 17 any person is liable to punishment under this subsection,  
 18 he may certify the facts to the Attorney General, who may,  
 19 in his discretion, cause appropriate proceedings to be brought.

20 (e) The district courts shall have jurisdiction of viola-  
 21 tions of this Act and of regulations, orders, or requirements  
 22 thereunder, and concurrently with State and Territorial  
 23 courts, of all civil proceedings to enforce any liability or duty  
 24 created by, or to enjoin any violation of, this Act or any  
 25 regulation, order, or requirement thereunder. Such civil

1 proceedings and any criminal proceedings may be brought  
 2 in any district in which any act or transaction constituting  
 3 the violation occurred. Any such civil proceedings may also  
 4 be brought in the district in which the defendant resides or  
 5 transacts business, and process in such cases may be served  
 6 in any district wherein the defendant resides or transacts  
 7 business or wherever the defendant may be found. No costs  
 8 shall be assessed against the United States Government in  
 9 any proceeding under this Act.

10 (f) No person shall be held liable for damages or penal-  
 11 ties in any Federal, State, or territorial court, on any grounds  
 12 for or in respect of anything done or omitted to be done in  
 13 good faith pursuant to any provision of this Act or any  
 14 regulation, order, or requirement thereunder, notwith-  
 15 standing that subsequently such provision, regulation, order,  
 16 or requirement may be modified, rescinded, or determined to  
 17 be invalid. The President may intervene in any suit or  
 18 action wherein a party relies for ground of relief or defense  
 19 upon this Act or any regulation, order, or requirement  
 20 thereunder.

### 21 TITLE III—MISCELLANEOUS

#### 22 QUARTERLY REPORT

23 SEC. 301. The President from time to time, but not less  
 24 frequently than once every ninety days, shall transmit to the  
 25 Congress a report of operations under this Act. If the

1 Senate or the House of Representatives is not in session, such  
 2 reports shall be transmitted to the Secretary of the Senate, or  
 3 the Clerk of the House of Representatives, as the case  
 4 may be.

#### 5 DEFINITIONS

6 SEC. 302. As used in this Act—

7 (a) The term "sale" includes sales, dispositions, ex-  
 8 changes, leases, and other transfers, and contracts and offers  
 9 to do any of the foregoing. The terms "sell," "selling,"  
 10 "seller," "buy," and "buyer," shall be construed accordingly.

11 (b) The term "price" means the consideration  
 12 demanded or received in connection with the sale of a  
 13 commodity.

14 (c) The term "commodity", in addition to commodi-  
 15 ties, articles, products, and materials, includes services ren-  
 16 dered in connection with the processing, distribution, storage,  
 17 installation, repair, or negotiation of purchases or sales, or  
 18 a commodity, or in connection with the operation of any  
 19 service establishment: *Provided*, That nothing in this Act  
 20 shall be construed to authorize the regulation of (1) com-  
 21 pensation paid by an employer to any of his employees,  
 22 or (2) rates charged by any common carrier or other public  
 23 utility.

24 (d) The term "defense-rental area" means any area  
 25 designated by the President as an area where defense activi-

1 tive have resulted or threaten to result in a shortage of rental  
2 housing accommodations.

3 (e) The term "defense-area housing accommodations"  
4 means housing accommodations within any defense-rental  
5 area which are designated by the President, and (1) which  
6 were, subsequent to August 31, 1940, rented or offered for  
7 rent at a rate of \$15 per room per month, or less, and which  
8 at the time of such designation are being rented or offered  
9 for rent at a rate of 10 per centum or more, in excess thereof;  
10 or (2) which are comparable in rental value to any accom-  
11 modations referred to in clause (1).

12 (f) The term "person" includes an individual, corpora-  
13 tion, partnership, association, or any other organized group  
14 of persons, or legal successor or representative of the fore-  
15 going, and includes the United States or any agency thereof,  
16 or any other government, or any of its political subdivisions,  
17 or any agency of any of the foregoing: *Provided*, That no  
18 punishment by fine or imprisonment provided by this Act  
19 shall apply to the United States, or to any such government,  
20 political subdivision, or agency.

21 (g) The term "ceiling", as applied to prices of com-  
22 modities means the maximum consideration which may be  
23 demanded or received for such commodities, and as applied  
24 to rents, means the maximum consideration which may be  
25 demanded or received for the use of defense-area housing

1 accommodations. Ceilings may be formulated in terms of  
2 prices, rents, margins, commissions, fees, or other charges, or  
3 allowances.

4 (h) The term "documents" includes records, books, ac-  
5 counts, correspondence, memoranda, and other documents,  
6 and drafts and copies of any of the foregoing.

7 (i) The term "district court" means any district court  
8 of the United States, and the United States Court for any  
9 Territory.

#### 10 SEPARABILITY

11 SEC. 303. If any provision of this Act or the applica-  
12 tion of such provision to any person or circumstances shall  
13 be held invalid, the validity of the remainder of the Act  
14 and the applicability of such provision to other persons or  
15 circumstances shall not be affected thereby.

#### 16 SHORT TITLE

17 SEC. 304. This Act may be cited as the "Emergency  
18 Price Control Act of 1941".

MEMORANDUM

August 5, 1941

To: PRICE ADMINISTRATION COMMITTEE  
From: R. K. Thompson, Secretary

Attached hereto are the following:

1. Minutes of the meeting of July 30.
2. Price schedule No. 13.
3. Price schedule No. 14.
4. Civilian allocation program for materials used in the manufacture of cans for food preservation.
5. Civilian allocation program for materials to be used in the program of the Rural Electrification Administration.
6. Civilian allocation program for chlorine.
7. Civilian allocation program for rayon yarn.
8. Civilian allocation program for cotton linters.

Confidential.

## Summary of Stenographic Transcript of Meeting of Price Administration Committee.

July 30, 1941  
11:00 a.m.

Present: Mr. Henderson, Chairman, Messrs. Wickard, Stevens, March, Pike, Nelson, Clayton, O'Connell, Barnes, Whitcomb, Ezekiel, Galbraith, Weiner, Hoover, Emerson, Plummer, Thompson.

1. Price legislation.

Mr. Henderson advised the Committee that the price legislation bill would probably be introduced in Congress either today or tomorrow; that it will be sponsored in the Senate by Senator Glass and by Representative Steagall in the House of Representatives and will be considered by the Banking and Currency Committees of both Houses.

2. Meeting with Wholesalers' and Retailers' Councils.

Mr. Henderson stated that the 'Wholesalers' and Retailers' Councils had been requested to meet with the OPACS yesterday inasmuch as the sudden discussion of shortages and the prospect of a cut in consumers' durable goods, taken together with other things, have occasioned some difficulty with the distributive groups. He added that it is expected that some arrangement will be worked out whereby the wholesalers and retailers will have some representatives here to supplement the representatives they already have here to work with OPACS.

3. Automobile Situation.

On Tuesday, July 29, Mr. Henderson stated, a luncheon was given by Mr. Knudsen and him for representatives of the automobile industry. He said the OPACS was prepared to submit to the industry an allocation among the nine passenger and light-truck manufacturers based on 600,000 cars for the first three months and to discuss with them the question whether it was a reasonable schedule. The industry, he said, had submitted to OPM, and had furnished us with a copy, a proposal to make approximately 781,000 passenger cars which, taken together with light trucks, makes at least 300,000 units a month for the first three months. This schedule was about 50 per cent higher than suggested by the OPACS. Mr. Henderson stated that the idea of the period we suggested and the general principles and standards to govern the percentage allocation, particularly to the smaller companies, seemed to be fairly acceptable, and the companies were asked to submit their heavy-truck production schedule plus their percentage of defense orders. He added that when that is received he expected, jointly with OPM, to make a disposition

of the allocations for the first three months period and that the industry had been advised that it would probably be somewhat below the 781,000 passenger cars they had proposed. He stated that the issue as to where the ultimate power of allocation by industries will lie is still not determined.

#### 4. Cotton textiles

Mr. Galbraith referred to the price schedules on grey goods and combed yarn and stated that the levels established in those cases were felt to be fair, but that both of these industries now feel some change should be made in view of the rising price of cotton. He added that the situation has become worse as a result of proposed Congressional action freezing cotton stocks so that Government owned cotton can not be sold.

In this connection, Secretary Wickard outlined in detail the factors surrounding such proposed action and with respect to the cotton situation, and stated that he felt if such legislation were enacted by Congress, the President would probably veto it. Mr. Henderson inquired whether it was felt the President should make any statement at this time regarding the proposed legislation or wait until it has been enacted by Congress. Following a lengthy discussion of the proposed legislation it was understood that the matter would be considered further by Messrs. Henderson, Wickard, and Galbraith later today in order to determine the procedure to be followed.

#### 5. Silk situation.

Mr. Galbraith stated that steps are being taken to freeze the price on silk as of the level prevailing before the upsurge prior to the crisis and that it was expected to issue a price order within the next few days. He added that following the elimination of details and the exploration of what needs to be done and what can be done on finished silk products, meetings will be held on alternative sources of supply for silk and hosiery mills and on the question of expanding nylon and rayon capacity further, and also the question of substitute materials.

During the discussion of this matter Mr. Stevens stated that during the recent investigation of United States-Japan trade relations by the Export Control Board, a study was made on the silk industry and he felt a good many items were contained in the study that might be of value to OPACS. He said studies of other commodities were also made at the same time and it was understood the matter would be explored in order to determine whether the other studies would be of value to OPACS.

#### 6. Stockpiling program.

Mr. Clayton referred to his statement at a previous meeting of the Committee regarding the difficulty being encountered in developing

stockpiles of some of the much needed materials and stated that, while there is an alternative method by which we might obtain a stockpile in some of the materials now being consumed in toto by industry, i.e., by matching Government dollars with consumers' dollars and by bidding up to a point where the consumers are run out of the market, thereby permitting the Government to buy the material, he wanted to be sure the Committee was in agreement that this practice should not be followed. It was the consensus of those present that this practice should not be followed. Mr. Nelson said he thought the problem involved in developing stockpiles was one of conservation, simplification and allocation, with the savings being placed in the stockpile. Mr. Nelson requested Mr. Clayton to appoint someone from his office to work on the problem with him.

7. Farm equipment priorities.

Mr. Ezekiel stated that the Office of Agricultural Defense Relations is concerned about the relative ineffectiveness of priorities to get farm equipment and machinery produced because, although priorities are recommended, frequently the OPM scales them down to such a very low rating that it doesn't mean anything. He inquired whether there had been any change in this situation. Mr. Weiner replied that, while an allocation program has been issued, an accompanying order has not, but stated that the fact that it is on its way, and there is evidence that a position has been taken on the question by those in authority in Washington, gives the industry a talking point in obtaining materials they could not otherwise get.

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The meeting adjourned at 12:30 p.m. to meet on Wednesday, August 6 at 11:00 a.m. in Room 501, at 2501 Qua Street, N.W.

OFFICE FOR EMERGENCY MANAGEMENT  
Office of Price Administration and Civilian Supply

166

For Sunday AM's  
August 3, 1941

PM 864

Moving swiftly to avert complete dislocation of the silk hosiery and civilian silk weaving industry, now threatened by suspension of all civilian silk processing, the Office of Price Administration and Civilian Supply today announced an emergency program requiring rayon yarn producers to set aside immediately an amount equal to one-tenth of their total daily output and a like amount of yarn stocks on hand, for allocation among the manufacturers of hosiery and other products heretofore made largely or wholly of silk.

It is required that the types of yarn set aside shall be those types adaptable to the manufacture of hosiery and other products normally made of silk. Of the total stocks of yarn thus accumulated, not less than 70% will be made available at once to hosiery mills. The remaining 30% will be available to manufacturers whose products have been made largely or wholly of silk or to relieve cases of undue hardship which the order may result in to present customers of the rayon industry or others.

Because of its emergency character, the present program will only apply to rayon yarn production for the months of August and September.

In the meantime, an advisory panel will be appointed by OPACS to consider such future adjustments of the program as may become necessary as rayon production increases, consumer reactions to silk substitutes are observed, and present customers of the rayon industry adjust themselves to the new conditions. On this panel will be represented the rayon industry and its present customers, the hosiery industry, employees of all industries concerned, distributors and retailers of all the products involved, and the consuming public.

Total present capacity of the rayon industry is not sufficient to satisfy the aggregate requirements of defense and civilian industries, plus the new overnight demand that has arisen from hosiery mills and others now cut off from all raw silk supplies.

Hence, imposition of an allocation program on rayon yarn producers was decided upon by OPACS as the only alternative to the widespread unemployment and economic dislocation that inevitably would result were the manufacturers of silk hosiery and other types of civilian silk goods forced to suspend operations.

Conferences with hosiery manufacturers and rayon producers, at which all aspects of the silk shortage problem were explored, have been held by OPACS during the past several days. These meetings developed information that (1) rayon yarn is the only substitute for silk in hosiery manufacture immediately available in the necessary quantities and sizes; (2) distress caused by allocation of a proportion of the production of rayon yarn to hosiery mills and other users of silk would by no means be as severe as that which would follow the compulsory closing of virtually every

- 2 -

hosiery mill in the country, and (3) mechanical problems surrounding substitution of rayon for silk can be readily solved by hosiery manufacturers.

The allocation program will be administered by the Office of Production Management.

Text of the program is attached.

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## TITLE 32 - NATIONAL DEFENSE

PM 864

CHAPTER XI. OFFICE OF PRICE ADMINISTRATION  
AND CIVILIAN SUPPLY

## Part 1337 - Civilian Allocation Program for Rayon Yarn

The unavailability of raw silk has created a threat of widespread unemployment among employees of manufacturers of hosiery, as well as among employees of other manufacturers whose products have heretofore been made largely or wholly from silk. Many of these manufacturers are in a position to use rayon yarn as a substitute for silk. The total output of the rayon yarn industry, however, is at present insufficient to meet the total of defense needs and existing civilian demand, plus this new civilian demand caused by the proposed substitution of rayon yarn for silk. Therefore, in fairness to the rayon yarn industry, to the present customers of that industry, to the hosiery industry, to the other industries heretofore using silk, and to the employees of all the industries concerned, it is necessary that an allocation program for rayon yarn be formulated. The basic purpose of the present program is to prevent unemployment and other economic dislocations by assuring an immediate supply of rayon to manufacturers now using silk. If necessary, this program will be adjusted month by month, as the need appears, as rayon yarn production increases, as knowledge is gained of the consumer reception accorded products using rayon yarn as a silk substitute, and as the present customers of the rayon yarn producers adjust themselves to the conditions resulting from decreased supplies. For the present, however, it is essential that immediate needs be provided for.

Accordingly, pursuant to the powers vested in me by Executive Order No. 8734, particularly Section 2(a) thereof, the following program is announced:

1337.1 Allocation of Materials. During the months of August and September, 1941, beginning with the effective date of this program, every producer of rayon yarn shall set aside, reserve, and hold for disposition as specified by this program an amount of rayon yarn of the types set forth below equal to 10% of his total daily output of rayon yarn. In addition, every producer shall similarly set aside, reserve, and hold an amount of rayon yarn of the types set forth below equal to 10% of all stocks of rayon yarn on hand on the effective date of this program. Of the rayon yarn thus required to be set aside, reserved and held, 70% shall be made available immediately to manufacturers of hosiery. The remaining 30% shall be made available immediately to other manufacturers whose products have heretofore been made largely or wholly from silk: to present customers of the rayon industry whose employees, owners, or customers may be caused undue or unreasonable hardship by shortage of yarn; and to such other persons, including dealers in rayon yarn and manufacturers of hosiery, as may be caused undue or unreasonable hardship by shortage of yarn. Determination of the existence of undue or unreasonable hardship in such cases shall be made by the Director of Priorities of the Office of Production Management, in concurrence with the Director of Civilian Allocation of the Office of Price Administration and Civilian Supply.\*

\*1337.1 to 1337.9, inclusive, issued pursuant to the authority contained in Executive Order No. 8724.

1337.2 Disposal of Yarn Allocated but not Purchased. If on the last day of August or on the last day of September any of the amounts of rayon yarn required to be set aside during the particular month have not been purchased by persons permitted to make purchases under 1337.1, the producer of such rayon yarn shall be free to dispose of it as he sees fit, except that he shall not sell such yarn for resale as yarn.\*

1337.3 Allocation by Types. Every rayon producer who is required by 1337.1 to set aside, reserve, and hold rayon yarn shall set aside for such purposes types of rayon yarn from which it is practical to manufacture hosiery and other products heretofore made largely or wholly from silk. So far as the individual producer's plant and method of doing business make such a course possible, the amount of yarn so set aside, by types, shall be in approximate proportion to the general demand therefor by manufacturers of hosiery and by other manufacturers whose products have heretofore been made largely or wholly from silk.\*

1337.4 Definitions. For the purposes of this program,

(1) "Rayon yarn" means continuous filament rayon yarn made by the cupra-ammonium, viscose or acetate process.

(2) "Person" means and includes any individual, partnership, association, corporation, or other form of enterprise.\*

1337.5 Advisory Panel. To advise the Director of Civilian Allocation on future adjustments of this program, there shall be appointed by the Office of Price Administration and Civilian Supply an advisory panel, to include representatives of the following groups: the rayon yarn producing industry, the

present customers of that industry, the hosiery industry, the employees of all the industries concerned, the distributors (including retailers) of all the products involved, and the consuming public.\*

1337.6 Avoidance of Excessive Inventories. No user of rayon yarn shall accumulate or maintain more than 30 days' supply of such yarn.\*

1337.7 Reports. Every producer of rayon yarn shall each month report to the Office of Production Management the manner of its compliance with this program, and such report shall include a certified statement of the production of rayon yarn by such producer, together with a statement of such producer's sales of rayon yarn to manufacturers of hosiery and to other manufacturers whose products have heretofore been made largely or wholly from silk.\*

1337.8 Enforcement. This program shall be administered and enforced by the Office of Production Management.\*

1337.9 Effective date. The effective date of this program shall be August 4, 1941.

Issued this 2nd day of August, 1941.

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Leon Henderson  
Administrator

Certified to be a true copy of the original

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John E. Hamm  
Deputy Administrator

OFFICE FOR EMERGENCY MANAGEMENT

123

Office of Price Administration and Civilian Supply

For A.M. Release  
Saturday, August 2, 1941

PM 848

Provisions for a substantial increase in the supply of chemical grade cotton linters, essential to the production of rayon and smokeless powder, are contained in a civilian allocation program promulgated today by the Office of Price Administration and Civilian Supply.

At the same time, OPACS requested the trade not to charge in excess of 3.35¢ per pound for new linters of chemical grade, 73% cellulose, f.o.b. crusher's mill, with a quality differential of plus or minus 0.07¢ per pound for every 1% of variation in cellulose content from the basic 73%.

This program was decided upon by OPACS after consultation with producers of cotton linters, bleachers who process linters for the chemical industry, and representatives of the Army, the Office of Production Management, and the Department of Agriculture.

Cotton linters are obtained by cutting from cottonseed the lint that remains after ginning. Linters come in three principal grades: "mill run", obtained by cutting all of the lint from the seed in one operation; "first cut", gathered by making a first cut of lint further away from the seed pod than in cutting mill run, and "second run", obtained by a second cut made after the first cut. It is the second cut that finds its principal outlet in the manufacture of chemical cellulose, a base material in rayon and smokeless powder.

Estimates are that unless supplies are augmented the greatly increased demand for chemical grade linters by makers of smokeless powder will leave an insufficient amount available for civilian industry, principally rayon producers.

The program proposes to provide substantially increased supplies by two methods: first, by requiring that no cottonseed oil crushing mill using more than one cut in the production of linters shall cut "first cut" linters to a higher proportion than 30% of its total cut; second, by providing that all "second run" chemical grade linters and at least 80% of "mill run" linters produced by cottonseed oil crushing mills must be sold, if at all, for ultimate use in the chemical industry.

Processors of "mill run" or second cut chemical grade linters may not make any deliveries of these grades other than for use in the chemical industry on and after July 31, 1941, regardless of any prior contracts or other commitments.

Relief from this latter provision may be sought and permission to make delivery may be granted by the Director of Priorities of the Office of Production

Management with the concurrence of the Director of Civilian Allocation of the Office of Price Administration and Civilian Supply.

None of the restrictive measures contained in the program apply to sales or deliveries to the United States Government or to any other government whose defense the President deems vital to the defense of the United States.

Cottonseed oil crushing mills producing linters are required to report monthly to the Office of Production Management the manner of their compliance with the program.

The program will be administered by the Office of Production Management. Text of the program is attached.

TITLE 32 - NATIONAL DEFENSE

CHAPTER XI: OFFICE OF PRICE ADMINISTRATION AND CIVILIAN SUPPLY

Part 1335 - Chemicals

Civilian Allocation Program for Cotton Linters 1/

It is essential that there be provided an increasing supply of chemical grade cotton linters, used both in chemical manufacture and in the making of smokeless powder. Cotton linters are cut from cottonseed in such a manner that first cut or mattress linters are not available for chemical processing. It is therefore necessary to require that only a limited amount of the total cut be removed in the first cut process.

Accordingly, pursuant to the powers vested in me by Executive Order No. 8734, particularly Section 2(a) thereof, the following program is announced:

1335.11 Cutting of Linters. No cottonseed oil crushing mill engaged in the production of cotton linters and using more than one cut in the process shall cut first cut linters to a higher proportion than 20% of its total cut.\*

\*1335.11 to 1335.15, inclusive, issued pursuant to Executive Order No. 8734.

1335.13 Sale of Linters. No cottonseed oil crushing mill making more than one cut shall sell any of its second cut chemical grade linters, nor shall any mill making but one cut sell more than 20% of its mill run linters, other than for ultimate use in the chemical industry; nor, on and after July 31, 1941, regardless of the terms of any contract of sale or purchase, or other commitment, entered into prior to such date, shall any person in possession of mill run or second cut chemical grade linters make any deliveries thereof other than in accordance with the foregoing, except that any person seeking to deliver linters in accordance with such a contract of sale entered into prior to July 31, 1941 may apply for permission to make such delivery. Permission to make delivery may be granted by the Director of Priorities of the Office of Production Management, with the concurrence of the Director of Civilian Allocation of the Office of Price Administration and Civilian Supply. Provided, however, that nothing in this program shall be construed to apply to sales or deliveries to the United States, or to the Government of any country whose defense the President deems vital to the defense of the United States.\*

1/ Appears in Federal Register, August 1, 1941, Volume 6.

OFFICE FOR EMERGENCY MANAGEMENT

175

Office of Price Administration and Civilian Supply

For Sunday AM's  
August 3, 1941

PM 865

Ceiling prices on the principal grades of raw silk and silk waste, based on quotations that prevailed on July 21, 1941, are established in Price Schedule No. 14, announced yesterday by Leon Henderson, Administrator, Office of Price Administration and Civilian Supply.

No provision is made in the schedule for completion of existing contracts on the spot market or liquidation of open positions on the Commodity Exchange, Inc., New York, at higher than maximum prices. These problems will be considered by OPACS when the exact procedure that other agencies of the Government will follow to obtain silk supplies for defense needs has been worked out.

Maximum price for the basic grade of raw silk, known as D Grade, 13/15 denier, is set at \$3.08 per pound. Other grades, weights and types are priced in relation to this basic grade.

Text of Price Schedule No. 14 is attached.

## OFFICE OF PRICE ADMINISTRATION AND CIVILIAN SUPPLY

PM 865

## Price Schedule No. 14 - Raw Silk and Silk Waste

During the week of July 21, 1941, the price of raw silk rose sharply. This advance was due to fear on the part of traders that, as a result of the changed situation in the Far East, the supply of raw silk coming to this country from the Orient would be cut off, or at least seriously curtailed. Because of the probability that the supply of raw silk will be limited to that presently on hand, a large part of which may be required for defense needs, the danger is grave that the price of raw silk and silk waste, unless subjected to control, will continue to rise.

Accordingly, pursuant to and under the authority vested in me by Executive Order No. 8734, it is hereby directed that:

Sec. 1 Maximum prices for raw silk and silk waste. On and after August 4, 1941, regardless of the terms of any contract of sale or purchase, or other commitment, except as may be provided in a supplement or supplements to this Schedule, no person shall sell, offer to sell, deliver or transfer at a price, raw silk or silk waste to any person, and no person shall buy, offer to buy or accept delivery of, raw silk or silk waste from any person at prices higher than the maximum prices set forth in Appendix A, incorporated herein as Section B. Lower prices than those set forth in Appendix A, however, may be charged, demanded, paid or offered.

Sec. 2 Records. Every person who sells or delivers, or purchases or accepts delivery of, raw silk or silk waste, shall keep for inspection by the Office of Price Administration and Civilian Supply and preserve for a period of not less than one year, complete and accurate records of every sale, delivery, purchase, or acceptance of delivery of raw silk made, which records shall show

the dates thereof, the name and address of the person from whom or to whom each such purchase, sale or delivery was made, the price paid or received, and the quantity of each kind or grade so sold, delivered, purchased, or accepted for delivery.

Sec. 3. Affirmations of Compliance. On or before September 10, 1941, and on or before the 10th day of each month thereafter, every person who, during the preceding calendar month, has sold, or delivered, or purchased, or accepted delivery of raw silk or silk waste, shall submit to the Office of Price Administration and Civilian Supply an affirmation of compliance on Form 114:1 (set forth in Appendix B, which is incorporated herein as Section 9) containing a sworn statement that during such month all such sales, purchases or deliveries were made at prices in conformity with this Schedule or with any exception or modification thereof. Copies of Form 114:1 can be procured from the Office of Price Administration and Civilian Supply, or, provided that no change is made in the style and content of the form and that it is reproduced on 8x10 $\frac{1}{2}$ " paper, they may be prepared by persons required to submit affirmations hereunder.

Sec. 4. Enforcement. In the event of refusal or failure to abide by the price limitations, report requirements, and other provisions contained in this Schedule, or in the event of any evasion or attempt to evade the price limitations or other provisions contained in this Schedule, the Office of Price Administration and Civilian Supply will make every effort to insure (i) that the Congress and the public are fully informed of any failure to abide by the provisions of this Schedule, and (ii) that the powers of the Government are fully exerted in order to protect the public interest and the interests of those persons who conform with this Schedule in the observance of the maximum prices herein set forth. Persons who have evidence of the demand or receipt of prices above the limitations set forth, or any evasion of or effort to evade such prices, or of speculation, or of

the hoarding or accumulation of unnecessary inventories of raw silk or silk waste, are urged to communicate with the Office of Price Administration and Civilian Supply.

Sec. 5. Supplemental Schedule and Report Requirements. Supplements further defining the scope of this Schedule and, if necessary, requiring reports to the Government, will be issued from time to time when found appropriate.

Sec. 6. Modification of the Price Schedule. Persons complaining of hardship or inequity in the operation of this Schedule may apply to the Office of Price Administration and Civilian Supply for approval of any modification thereof or exception therefrom.

Sec. 7. Definitions. When used in this Schedule, the term

(a) "person" includes an individual, partnership, association, corporation or other business entity;

(b) "raw silk" means the types, deniers and grades of raw silk set forth in Appendix A of this Schedule;

(c) "silk waste" means the types of silk waste set forth in Appendix A of this Schedule.

Sec. 8 Appendix A. Maximum Prices for Raw Silk and Silk Waste

Grade & Percentage      Prices per pound, ex seller's warehouse

		13/15 denier <u>Japan, white</u>	20/22 Denier <u>Japan, white</u>	20/22 denier <u>Japan, yellow</u>	<u>China steam filatures</u>
E	(77%)	\$3.06	\$3.00	\$2.95	
D	(78%)	3.08	3.02	2.97	\$2.97
C	(81%)	3.10	3.04	2.99	2.99
B	(83%)	3.12	3.07	3.02	3.02
A	(85%)	3.15	3.10	3.05	3.10
AA	(87%)	3.18	3.15	3.10	3.15
AAA	(90%)	3.24	3.20	3.15	3.20
Special AAA	(92%)	3.33	3.29	3.24	
	(93%)	3.43			
	(94%)	3.53			
	(95%)	3.63			

Canton silk	- \$2.40 per lb., ex seller's warehouse.
Tsatlee silk	- \$2.40 per lb., " " " "
Tsatlee double extra	- \$2.55 per lb., " " " "
Tussah silk	- \$1.60 per lb., " " " "

Imported Silk Waste

Canton Open Waste	64¢ per lb., ex seller's warehouse.
China Long Waste	92¢ per lb., " " " "
Pierced Cocoons	85¢ per lb., " " " "
Peignees	\$1.85 per lb., in bond, Warehouse, Port of New York.

Domestic Silk Waste

Winders waste (untwisted)	untinted 90¢ per lb., F.O.B. Shipping Point
	Tinted 85¢ per lb., " " "
Tram Waste (1-5 turns per inch)	80¢ per lb., " " "
Crepe or Grenadine waste (6 or more turns per inch)	22¢ per lb., " " "
Cut skeins	95¢ per lb., " " "

Sec. 9 Form No. 114:1

OFFICE FOR EMERGENCY MANAGEMENT  
OFFICE OF PRICE ADMINISTRATION AND CIVILIAN SUPPLY

AFFIRMATION OF COMPLIANCE  
FOR BUYERS AND SELLERS OF RAW SILK OR SILK WASTE 1/

For the purpose of making an affirmation of compliance with Price Schedule No. 14 of the Office of Price Administration and Civilian Supply, required by Section 3 thereof, I have examined the records for the month of \_\_\_\_\_, 194\_\_\_\_, of \_\_\_\_\_

\_\_\_\_\_  
(Name of Buyer) (Address)  
of which concern I am \_\_\_\_\_. During that period the above-named concern has not sold, delivered, purchased or accepted delivery of raw silk or silk waste at prices in excess of those established by the aforesaid Price Schedule No. 14. 2/

\_\_\_\_\_  
(Signature)

Subscribed and sworn to before me this \_\_\_\_\_ day of \_\_\_\_\_, 194\_\_\_\_.

\_\_\_\_\_  
(Notary Public)  
My commission expires \_\_\_\_\_

- 1/ This affirmation must be signed by the buyer or by the seller, or by a partner or officer of the buyer or seller.
- 2/ In the event that any sales, purchases or deliveries of raw silk or silk waste have been made at prices in excess of those established by the Schedule, the above text should be suitably changed and a list should be appended hereto giving with respect to each such sale, purchase or delivery, the date thereof, the name of the seller or purchaser, as the case may be, the quantity, type and grade of raw silk or silk waste sold, purchased or delivered, and the reasons for exceeding the maximum price.

Issued this 2nd day of August, 1941.

/s/ Leon Henderson  
\_\_\_\_\_  
Leon Henderson  
Administrator

Certified to be a true copy of the original

\_\_\_\_\_  
John E. Hamm, Deputy Administrator

## OFFICE FOR EMERGENCY MANAGEMENT

## OFFICE OF PRICE ADMINISTRATION AND CIVILIAN SUPPLY

For immediate release  
August 1, 1941

PM 842

Ceiling prices for Douglas fir plywood, as well as for the Douglas fir peeler logs from which such plywood is made, are established in Price Schedule No. 13, announced today by Leon Henderson, Administrator, Office of Price Administration and Civilian Supply.

Price advances so steep as to be inflationary in character have accompanied the greatly increased demand for plywood from defense and civilian sources, Mr. Henderson states, and his office has determined that maximum prices for plywood and peeler logs should be imposed at the price levels prevailing on or about May 1, 1941.

In the case of plywall and plypanel, two types of plywood widely used for a variety of defense and civilian purposes, price increases totalling about 20% have taken place in slightly less than a year, with the most recent advance of 8% going into effect on May 15, 1941. This latter increase is eliminated by the price schedule.

"Price increases of the extent that have occurred in the plywood industry are unwarranted and cannot be justified by the moderate advances that have taken place in costs," Mr. Henderson said. "Since demand has grown to the point where it cannot be satisfied by the existing capacity of the industry, the sharp rise in prices cannot increase supplies and, hence, can serve no other purpose than to contribute to an inflationary spiral."

Efforts of CPACS to obtain voluntary cooperation from producers of plywood have been frustrated by the refusal of certain members of the industry to join in such a program.

In the defense effort Douglas fir plywood in its several forms is used in the production of airplanes, pontoon bridges, and small boats. It finds a multitude of applications in the construction industry and in the building of houses and cantonments.

The schedule stipulates that on and after August 5, 1941, regardless of the terms of any contract of sale or purchase or other commitment, no manufacturer or manufacturer's agent sell or delivery any Douglas fir plywood at prices in excess of the following maximums for the principal grades:

- 2 -

Type	Use	Max. Price Per M. Sq. Feet
Plywall (1/4-")	Wallboard	\$28.00
Plyscord (5/16-")	Sheathing	25.30
Industrial and Automobile Grades (1/4-")	.....	29.20
Flyform (9/16-")	Concrete forms, etc.	77.10
Flypanel (3/8-")	Partitions	41.45

The foregoing prices are f.o.b. mill points for carload lots. Maximum prices for less than carload lots average about 9 $\frac{1}{2}$  percent higher, according to the schedule.

The schedule is confined to logging operators producing peeler logs and manufacturers of plywood. No present restrictions are imposed on distributors. However, by separate negotiation with the Office of Price Administration and Civilian Supply, the United States Plywood Co. of New York City, and Harbor Plywood Corp., Hoquiam, Wash., the two large producers of plywood which also do their own distributing, have agreed that in cases where delivery to the buyer is made from one of their warehouses, rather than directly from their mills, the delivered price to buyers within the usual free delivery zone shall not exceed the f.o.b. mill carload price of the schedule plus the freight charge from the mill to the warehouse, where paid by the manufacturer, plus 20% on purchases of \$200 or more, or 25% on purchases of less than \$200. A lesser margin shall be charged wherever possible, according to each separate agreement. These agreements go into effect concurrently with the price schedule.

"It is expected that other distributors and retailers will adhere to the maximum margins set up by these agreements," Mr. Henderson stated.

Douglas fir peeler logs, the primary source of Douglas fir plywood, are cut for the most part in Oregon and Washington. In general, peeler grades are determined by the diameter of the log, which ranges downward from somewhat about 55- to a maximum of 38-. Logs of lesser diameter also are usable, however, with the lowest grade around 20-.

Because grading practices differ among logging companies throughout the northwest, OPAOS in its price schedule based the ceiling prices for peeler logs on the quotations that prevailed on May 1, 1941, in order to enable logging operators to adjust their business with a minimum of disturbance.

Prices of peeler logs on May 1, 1941, ranged from approximately \$26 to \$39 per thousand board feet, log scale, in the State of Washington, and from approximately \$24 to \$34 per thousand board feet, log scale, in the State of Oregon, depending on quality. These prices provide a liberal margin over costs.

- 3 -

The schedule requires manufacturers of plywood to keep detailed records of every sale of plywood and of every purchase of peeler logs for inspection by the Office of Price Administration and Civilian Supply.

Another section of the schedule forbids direct or indirect evasions of the ceiling prices by means of excessive delivery charges or unusual terms of sale. The purchaser in all cases is given the option of making his own transportation arrangements.

Text of the schedule is attached.

CHAPTER XI - OFFICE OF PRICE ADMINISTRATION  
AND CIVILIAN SUPPLY

## Part 1312 - Lumber and Lumber Products

PRICE SCHEDULE NO. 13 - Douglas Fir Peeler Logs and  
Douglas Fir Plywood

Douglas Fir plywood, made primarily from Douglas fir peeler logs, is widely used as a building material, as a form for concrete shapes, as lining for the inside of freight cars and trucks, and as a display material. In the defense program, it has been extensively employed in the construction industry, and in the production of aircraft, pontoon bridges, and small boats. The recent increased use of plywood stemming from the defense program and the accompanying expanded economic activity has so increased demand for plywood and peeler logs that current requirements considerably exceed the existing capacity of the industry. As a consequence, inflationary pressure has been exerted upon the prices of these products, causing them to rise greatly in excess of previously existing levels in the industry. Such price increases have markedly outstripped cost advances. Certain members of the plywood industry have refused to cooperate voluntarily with the Office of Price Administration and Civilian Supply in maintaining stable prices, and those producers who have cooperated by withdrawing price increases have therefore been subjected to unjust discrimination.

Accordingly, on the basis of information secured by this Office, and under the authority vested in me by Executive Order No. 8734, it is hereby directed that:

1312.1 Definitions. When used in this Schedule:

(a) The term "person" means an individual, corporation association, partnership, or other business entity.

(b) The term "manufacturer" means a person operating a mill which processes Douglas fir peeler logs into Douglas fir plywood.

(c) The term "less than carload" means a quantity of one or more grades or sizes of Douglas fir plywood, the aggregate weight of which is less than 38,000 pounds. Either Douglas fir doors, or Douglas fir millwork, or both, may be included with plywood in computing such aggregate weight.

(d) The term "Douglas fir peeler log" means a Douglas fir log suitable for the manufacture by rotary cutting of Douglas fir plywood.\*

\*1312.1 to 1312.10, inclusive issued pursuant to the authority contained in Executive Order No. 8734.

1312.2 Maximum Prices Established for Douglas Fir Peeler Logs.

On and after August 5, 1941, regardless of the terms of any contract of sale or purchase or other commitment, no sale or delivery, or offer of sale or delivery, of Douglas fir peeler logs, shall be made to manufacturers of Douglas fir plywood at a price in excess of that received by the seller for a sale or delivery on May 1, 1941, of Douglas fir peeler logs of the same grade and quality, and to the same purchaser. In the event that no sale or delivery of the same grade and quality was made by such seller to such purchaser on May 1, 1941, the maximum price shall be the price received by the seller for the latest sale or delivery to the purchaser of the same grade and quality made prior to May 1, 1941. In the event that no sale or delivery of the same grade and quality was previously made by such seller to such purchaser, the maximum price shall be determined by the price received for the most similar sale of the same grade and quality on or before May 1, 1941.\*

1312.3 Maximum Prices Established for Sales of Douglas Fir Plywood by Manufacturers. On and after August 5, 1941, regardless of the terms of any contract of sale or purchase or other commitment, no manufacturer (or commission salesman, manufacturer's representative, or other manufacturer's agent) shall sell or deliver, or offer to sell or deliver, any Douglas fir plywood to any purchaser, for delivery at the manufacturer's mill to such purchaser or to a carrier consigned to such purchaser, at a price in excess of the maximum prices set forth in 1312.10 hereof\*.

1312.4 Less than Maximum Prices. A lower price than the maximum price may be charged, demanded, offered, or paid.\*

1312.5 Evasions. The price limitations set forth in this Price Schedule shall not be evaded by charges for credit terms, charges for prompt or early delivery, charges for delivery which exceeds the actual cost of such delivery, or by other direct or indirect methods, nor shall discounts, or other terms and conditions of sale, be made more onerous to the purchaser than those available or in effect on August 1, 1941. The seller shall in all cases give the purchaser the option whether the latter shall make his own transportation arrangements.\*

1312.6 Records. Every manufacturer of Douglas fir plywood who, during any calendar month, shall sell one carload or more of plywood, or who shall purchase any Douglas fir peeler logs, shall keep for inspection by the Office of Price Administration and Civilian Supply, and preserve for a period of not less than one year, a complete and accurate record of every sale of plywood, and of every purchase of peeler logs, made during such month, including the names of buyers and sellers, the dates of the purchases or sales, the prices, and the quantities and grades of the plywood so purchased or sold, and of the peeler logs so purchased.\*

1312.7 Enforcement. In the event of refusal or failure to abide by the price limitations and other provisions contained in this Schedule, or in the event of any evasion or attempt to evade the price limitations or other provisions contained in this Schedule, the Office of Price Administration and Civilian Supply will make every effort to assure (a) that the Congress and the public are fully informed of any failure to abide by the provisions of this Schedule, and (b) that the powers of the Government are fully exerted in order to protect the public interest and the interests of those persons who conform with this Schedule in the observance of the maximum prices and other provisions herein set forth. Persons who have evidence of the demand or receipt of prices above the limitations set forth, or any evasion or efforts to evade such requirements, or of speculation, or manipulation of prices of Douglas fir peeler logs or of Douglas fir plywood, for which maximum prices are herein established, or of the hoarding or accumulation of unnecessary inventories thereof, are urged to communicate with the Office of Price Administration and Civilian Supply.\*

1312.8 Modification. This Schedule is issued upon the basis of presently existing conditions and is subject to adjustment or revision. Persons complaining of hardship or inequity in the operation of this Schedule may apply to the Office of Price Administration and Civilian Supply for approval of any proposed modification thereof or exception thereto.\*

1312.9 When Schedule Becomes Effective. This Schedule shall become effective August 5, 1941.\*

1312.10 Maximum Prices for Douglas Fir Plywood

(a) The maximum prices for standard grades b/ moisture-resistant type Douglas fir plywood shall be as follows:

		Price Per M. Sq. Ft.	
		f.o.b. Mill	
		C/L	LC/L
<u>Plyacord - All sizes up to 48"x96"</u> (Douglas Fir Plywood Sheathing)			
5/16"	3 Ply, Rough . . . . .	\$25.30	\$26.40
3/8"	3 Ply, Rough . . . . .	30.30	31.75
1/2"	3 or 5 Ply, at mill's option, Rgh. . .	40.45	43.00
5/8"	3 Or 5 Ply, at mill's option, Rgh. . .	50.55	53.95

<u>Flywall - All sizes up to 48"x96"</u> (Douglas Fir Plywood Wallboard)			
5/16"	3 Ply S2S to 1/4" . . . . .	28.00	29.20
7/16"	3 Ply S2S to 3/8" . . . . .	38.50	40.90
9/16"	5 Ply S2S to 1/2" . . . . .	52.50	56.15
1/4"	Studding Strips (Per M Linsal Ft.)	5.30	5.30

<u>Plyform - All sizes up to 48"x96"</u> (Concrete Form Panels)			
5/16"	3 Ply S2S to 1/4" . . . . . (Form Liners)	45.00	48.55
9/16"	5 Ply S2S to 1/2" . . . . .	77.10	84.15
5/8"	5 Ply S2S to 9/16" . . . . .	82.40	90.00
11/16"	5 Ply S2S to 5/8" . . . . .	86.50	94.15
3/4"	5 Ply S2S to 11/16" . . . . .	91.75	99.95
13/16"	5 Ply S2S to 3/4" . . . . .	95.30	104.05

<u>Automobile and Industrial Plywood</u> (Rough Panels Only)			
1/4"	Rough, 3 Ply - sizes up to 48"x96"	29.20	31.95
5/16"	Rough, 3 Ply - Ditto	29.20	31.95
3/8"	Rough, 3 Ply - "	35.00	38.50
1/2"	Rough, 5 Ply - "	48.80	53.40
9/16"	Rough, 5 Ply - "	53.75	58.90
5/8"	Rough, 5 Ply - "	58.75	64.35
11/16"	Rough, 5 Ply - "	63.70	69.80
3/4"	Rough, 5 Ply - "	68.65	75.20
7/8"	Rough, 5 Ply - "	73.60	80.05
7/8"	Rough, 7 Ply - "	82.30	90.10

b/ Grades shall be in accord with the standards of the United States Department of Commerce, National Bureau of Standards, as contained in Commercial Standard CS45-40 (Douglas Fir Plywood, Domestic Grades), Fourth Edition, effective August 20, 1940.

Price Per M Sq. Ft.  
f.o.b. Mill  
 C/L LC/L

Plypanel (Sound 2 Sides)

3/16"	3 Ply S2S to 1/8"	24" and under	\$35.65	\$38.85
		over 24" to 36"	36.65	39.80
1/4" or 1/4"	3 Ply S2S to 3/16"	over 36" to 48"	38.50	41.85
5/16"	3 Ply S2S to 1/4"	24" and under	32.15	35.35
		over 24" to 36"	33.15	36.30
		over 36" to 48"	35.00	38.35
3/8"	3 Ply S2S to 5/16"	24" and under	38.70	42.35
		over 24" to 36"	39.65	43.35
		over 36" to 48"	41.45	45.30
7/16"	3 Ply S2S to 3/8"	24" and under	43.25	47.45
		over 24" to 36"	44.20	48.45
		over 36" to 48"	46.05	50.45
1/2"	5 Ply S2S to 7/16"	24" and under	58.95	64.55
		over 24" to 36"	59.85	65.50
		over 36" to 48"	61.70	67.60
9/16"	5 Ply S2S to 1/2"	24" and under	58.95	64.55
		over 24" to 36"	59.85	65.50
		over 36" to 48"	61.70	67.60
5/8"	5 Ply S2S to 9/16"	24" and under	69.95	76.55
		over 24" to 36"	70.90	77.65
		over 36" to 48"	72.70	79.65
11/16"	5 Ply S2S to 5/8"	24" and under	59.95	76.55
		over 24" to 36"	70.90	77.65
		over 36" to 48"	72.70	79.55
3/4"	5 Ply S2S to 11/16"	24" and under	79.25	86.75
		over 24" to 36"	80.10	87.70
		over 36" to 48"	81.90	89.75
13/16"	5 Ply S2S to 3/4"	24" and under	79.25	86.75
		over 24" to 36"	80.10	87.70
		over 36" to 48"	81.90	89.75
7/8"	5 Ply S2S to 13/16"	24" and under	88.35	96.80
		over 24" to 36"	89.30	97.75
		over 36" to 48"	91.10	99.85
7/8"	7 Ply S2S to 13/16"	24" and under	94.75	103.85
		over 24" to 36"	95.70	104.85
		over 36" to 48"	97.55	106.90
15/16"	7 Ply S2S to 7/8"	24" and under	94.75	103.85
		over 24" to 36"	95.70	104.85
		over 36" to 48"	97.55	106.90
1-1/16"	7 Ply S2S to 1"	24" and under	104.05	113.90
		over 24" to 36"	104.95	114.95
		over 36" to 48"	106.75	116.90
1-3/16"	7 Ply S2S to 1-1/8"	24" and under	117.80	129.05
		over 24" to 36"	118.75	130.00
		over 36" to 48"	120.60	132.10

Price Per M Sq. Ft.  
f.o.b. Mill  
 C/L LC/L

Flypanel (Good 1 Side)

3/16"	3 Ply S2S to 1/8"	24" and under	\$43.05	\$46.85
		over 24" to 36"	46.85	49.95
		over 36" to 48"	49.55	53.95
or 1/4"	3 Ply S2S to 3/16"			
5/16"	3 Ply S2S to 1/4"	24" and under	39.55	43.35
		over 24" to 36"	42.35	46.45
		over 36" to 48"	46.05	57.45
3/8"	3 Ply S2S to 5/16"	24" and under	46.05	50.45
		over 24" to 36"	48.80	53.40
		over 36" to 48"	52.45	57.45
7/16"	3 Ply S2S to 3/8"	24" and under	50.60	55.45
		over 24" to 36"	53.40	58.45
		over 36" to 48"	57.10	62.55
1/2" to	5 Ply S2S to 7/16"	24" and under	66.30	72.60
		over 24" to 36"	69.05	75.65
		over 36" to 48"	72.70	79.65
9/16"	5 Ply S2S to 1/2"	24" and under	66.30	72.60
		over 24" to 36"	69.05	75.65
		over 36" to 48"	72.70	79.65
5/8"	5 Ply S2S to 9/16"	24" and under	77.35	84.65
		over 24" to 36"	80.10	87.70
		over 36" to 48"	83.75	91.75
11/16"	5 Ply S2S to 5/8"	24" and under	77.35	84.65
		over 24" to 36"	80.10	87.70
		over 36" to 48"	83.75	91.75
3/4"	5 Ply S2S to 11/16"	24" and under	86.55	94.75
		over 24" to 36"	89.30	97.75
		over 36" to 48"	92.95	101.80
13/16"	5 Ply S2S to 3/4"	24" and under	86.55	94.75
		over 24" to 36"	89.30	97.75
		over 36" to 48"	92.95	101.80
7/8"	5 Ply S2S to 13/16"	24" and under	95.70	104.85
		over 24" to 36"	98.45	107.95
		over 36" to 48"	102.15	111.95
7/8"	7 Ply S2S to 13/16"	24" and under	102.15	111.95
		over 24" to 36"	104.95	114.95
		over 36" to 48"	108.65	119.00
15/16"	7 Ply S2S to 7/8"	24" and under	102.15	111.95
		over 24" to 36"	104.95	114.95
		over 36" to 48"	108.65	119.00
1-1/16"	7 Ply S2S to 1"	24" and under	111.40	121.95
		over 24" to 36"	114.15	125.05
		over 36" to 48"	117.80	129.05
1-3/16"	7 Ply S2S to 1-1/8"	24" and under	125.20	137.05
		over 24" to 36"	127.95	140.15
		over 36" to 48"	131.60	144.15

Price Per M Sq. Ft.  
f.o.b. Mill  
C/L LC/L

Flypanel (Good 2 Sides)

3/16"	3 Ply S2S to 1/8"	24" and under	\$50.45	\$54.95
		over 24" to 36"	53.20	58.00
		over 36" to 48"	58.75	64.05
or 1/4"	3 Ply S2S to 3/16"			
5/16"	3 Ply S2S to 1/4"	24" and under	46.95	51.45
		over 24" to 36"	49.70	54.50
		over 36" to 48"	55.25	60.55
3/8"	3 Ply S2S to 5/16"	24" and under	53.40	58.45
		over 24" to 36"	56.20	61.50
		over 36" to 48"	61.70	67.60
7/16"	3 Ply S2S to 3/8"	24" and under	58.00	63.55
		over 24" to 36"	60.80	66.55
		over 36" to 48"	66.30	72.60
1/2"	5 Ply S2S to 7/16"	24" and under	73.65	80.65
		over 24" to 36"	76.45	83.70
		over 36" to 48"	81.90	89.75
9/16"	5 Ply S2S to 1/2"	24" and under	73.65	80.65
		over 24" to 36"	76.45	83.70
		over 36" to 48"	81.90	89.75
5/8"	5 Ply S2S to 9/16"	24" and under	84.65	92.75
		over 24" to 36"	87.40	95.75
		over 36" to 48"	92.95	101.80
11/16"	5 Ply S2S to 5/8"	24" and under	84.65	92.75
		over 24" to 36"	87.40	95.75
		over 36" to 48"	92.95	101.80
3/4"	5 Ply S2S to 11/16"	24" and under	93.90	102.85
		over 24" to 36"	96.65	105.85
		over 36" to 48"	102.15	111.95
13/16"	5 Ply S2S to 3/4"	24" and under	93.90	102.85
		over 24" to 36"	96.65	105.85
		over 36" to 48"	102.15	111.95
7/8"	5 Ply S2S to 13/16"	24" and under	103.10	112.95
		over 24" to 36"	105.85	115.95
		over 36" to 48"	111.40	121.95
7/8"	7 Ply S2S to 13/16"	24" and under	109.50	120.00
		over 24" to 36"	112.30	123.00
		over 36" to 48"	117.80	129.05
15/16"	7 Ply S2S to 7/8"	24" and under	109.50	120.00
		over 24" to 36"	112.30	123.00
		over 36" to 48"	117.80	129.05
1-1/8"	7 Ply S2S to 1"	24" and under	118.75	130.00
		over 24" to 36"	121.55	133.05
		over 36" to 48"	127.05	139.20
1-3/16"	7 Ply S2S to 1-1/8"	24" and under	132.55	145.15
		over 24" to 36"	135.25	148.20
		over 36" to 48"	140.80	154.25

(b) The maximum prices of panels, exterior grades<sup>c/</sup> of Douglas fir plywood shall be as follows:

Per M Sq. Ft. in Carload Lots, f.o.b. Mill  
Sound 2 Sides    Industrial Grade    Sound 1 Side

1/8" sanded )			
3/16" unsanded )			
3/16" sanded )	\$ 47.50	\$ 45.50	\$ 43.50
1/4" unsanded )			
1/4" sanded )			
5/16" unsanded )	48.50	46.50	44.50
5/16" sanded )			
3/8" unsanded )	55.00	53.00	51.00
3/8" sanded )			
7/16" unsanded )	61.00	59.00	57.00
7/16" sanded )			
1/2" unsanded )	81.50	79.00	76.50
1/2" sanded )			
9/16" unsanded )	88.00	86.00	84.00
9/16" sanded )			
5/8" unsanded )	95.00	93.50	91.50
5/8" sanded )			
11/16" unsanded )	103.50	101.50	99.50
11/16" sanded )			
3/4" unsanded )	112.00	110.00	107.50
3/4" sanded )			
13/16" unsanded )	121.00	119.00	117.00
13/16" sanded )			
7/8" unsanded )	143.00	140.50	138.50
7/8" sanded )			
15/16" unsanded )	152.00	149.50	147.00
15/16" sanded )			
1" unsanded )	160.50	158.50	156.50
1" sanded )			
1-1/16" unsanded )	170.50	168.00	166.00
1-1/16" sanded )			
1-1/8" unsanded )	180.00	178.00	176.00
1-1/8" sanded )			
1-3/16" unsanded )	190.50	189.00	185.50

<sup>c/</sup> Grades shall be in accord with the standards of the United States Department of Commerce, National Bureau of Standards, as contained in Commercial Standard CS45-40 (Douglas Fir Plywood, Domestic Grades), Fourth Edition, effective August 20, 1940.

(c) Any "addition for special extras", as the term is customarily used in the Douglas fir plywood industry, shall not exceed the price charged therefor by the seller on March 1, 1941.\*

Issued this first day of August, 1941.

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Leon Henderson  
Administrator

CERTIFIED TO BE A TRUE COPY OF THE ORIGINAL

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John E. Hamm, Deputy Administrator

## OFFICE FOR EMERGENCY MANAGEMENT

## Office of Price Administration and Civilian Supply

For Immediate Release  
July 28, 1941

PM 808

To guard against the possibility that supplies of cans required to pack the current food crop may fall below the necessary total, the Civilian Allocation Division, Office of Price Administration and Civilian Supply, today issued an allocation program giving tinsplate and zinc oxide needed for this purpose a preference over other civilian demands.

Announcement of the program followed a meeting between OPACS and principal can manufacturers at which the manufacturers agreed to furnish OPACS with data on the amounts of materials going into the various types of cans and on the different uses made of cans by industry at large. The manufacturers were told that iron and steel shortages may compel OPACS to place restrictions upon the use of cans for non-essential purposes.

There is no present shortage of tinsplate or zinc oxide, but other civilian and defense demands and defense priorities may act to create one while the current food crop is being processed. Should this occur, there is danger that appreciable quantities of perishable food will spoil. Preservation of all food available is essential to industrial efficiency and civilian morale, hence the need to assure an adequate supply of cans.

Any preferences obtained under the new program may not be used to accumulate excessive inventories of tinsplate or zinc oxide and manufacturers are cautioned to exercise the most rigid economy in the use of critical materials.

The Priorities Division of the Office of Production Management will administer the new program.

Text of the program follows:

CIVILIAN ALLOCATION PROGRAM FOR MATERIALS  
AND SUPPLIES USED IN THE MANUFACTURE OF  
CANS FOR FOOD PRESERVATION 1/

PM 808

While it appears that there is not at this time a shortage of materials necessary to manufacture cans in sufficient quantities to pack the current bumper crop, increasing demand from all sources and the priorities granted to defense requirements may make it difficult to obtain materials and supplies needed for that purpose. The preservation of all available food is essential to industrial efficiency and civilian morale. To avoid any possible loss which might occur, it therefore seems advisable to provide a priority status for materials and supplies required to manufacture sufficient cans for the packing of the current crop.

Accordingly, pursuant to and under the authority vested in me by Executive Order No. 8754, particularly Section 2(a) thereof, the following program for the allocation of materials and supplies for the manufacture of cans to pack the current crop is announced.

.1 Allocation of Materials and Supplies for the Manufacture of Cans to be used in Preservation of Food. Sufficient materials and supplies shall be allocated to manufacturers of cans for the production of cans necessary to pack the current food crop, and, if necessary, the highest civilian preference rating shall be extended to orders for materials or supplies placed by such manufacturers, in instances when such manufacturers are unable to secure materials or supplies required for the manufacture of cans for food preservation and when, except for minimum quantities required to assure continuity of production, such manufacturers lack materials or supplies necessary for the production of such cans.

1/ Appears in Federal Register, July 29, 1941, Vol. 6, as Title 32, Chapter XI, Part 1330, Sections 1330.1 to 1330.6 inclusive.

- .2 Avoidance of Excessive Inventories. Preferences granted under this program shall not be used to accumulate excessive inventories.
- .3 Economy in Use of Critical Material. All manufacturers of cans utilizing preference ratings granted by this program shall exercise the most rigid economy in the use of critical materials for the manufacture of cans.
- .4 Exclusion of Other Types of Cans. This program refers only to cans to be used in the preservation of food and for the 1941 crop.
- .5 Effective Date and Expiration. This program shall take effect on the 26th day of July, 1941, and shall, unless sooner terminated by the Administrator, expire the 1st day of October, 1941.
- .6 Enforcement. The foregoing program is to be administered and enforced by the Office of Production Management.

Issued this 26th day of July, 1941.

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Leon Henderson  
Administrator

Certified to be a true copy of the original

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John E. Hamm  
Deputy Administrator

OFFICE FOR EMERGENCY MANAGEMENT  
OFFICE OF PRICE ADMINISTRATION AND CIVILIAN SUPPLY

For Immediate Release  
Thursday, July 31, 1941

PM 836

Allocation of supplies of chlorine adequate to take care of requirements in seven essential public services and industries was ordered yesterday in a Civilian Allocation Program issued by the Civilian Allocation Division of the Office of Price Administration and Civilian Supply.

Included are water purification, sewage treatment, sanitation, refrigerant gases for existing equipment, slime control in industrial plants, preparation of products for medicinal use, and preservation and processing of food products.

Text of the program, which is to be administered and enforced by the Office of Production Management, follows:

TITLE 32 - NATIONAL DEFENSE  
CHAPTER XI - OFFICE OF PRICE ADMINISTRATION  
AND CIVILIAN SUPPLY  
Part 1335 - Chlorine  
Civilian Allocation Program 1/

The total defense and civilian demand for chlorine is in excess of the available supply. To insure the obtaining of priority for deliveries of chlorine under present and future contracts and orders and related sub-contracts and sub-orders related to military defense needs, the Priorities Division, Office of Production Management, has issued General Preference Order No. M-19 to conserve the supply and direct the distribution of chlorine. Such order will further diminish the supply of chlorine for civilian purposes. It is necessary, therefore, after military defense needs are satisfied, to provide for the equitable allocation of the residual supply of chlorine among competing civilian demands.

Accordingly, pursuant to and under the authority vested in me by Executive Order No. 8734, particularly Section 2(n) thereof, the following program is announced:

1335.1 Allocation of Materials. Adequate supplies of chlorine shall be allocated for the following uses:

- Water purification
- Sewage treatment
- Sanitation

- 2 -

Refrigerant gases for existing equipment  
Slime control in industrial plants  
Preparation of products for medicinal use  
Preservation and processing of food products \*

\*1335.1 to 1335.4, inclusive, issued pursuant to the authority contained in Executive Order No. 8734.

1335.2 Avoidance of Excessive Inventories.

Preferences granted under this program shall not be used to accumulate excessive inventories. \*

1335.3 Definitions. The terms used in this program shall be defined as they are defined in General Preference Order No. M-19. \*

1335.4 Enforcement. The foregoing program is to be administered and enforced by the Office of Production Management. \*

Issued this 30th day of July, 1941.

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Leon Henderson  
Administrator

Certified to be a true copy of the original.

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John E. Hamm  
Deputy Administrator

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1/ Appears in Federal Register, Volume 6, July 31, 1941.

## OFFICE FOR EMERGENCY MANAGEMENT

118

## Office of Price Administration and Civilian Supply

For Immediate Release  
July 31, 1941

PM 835

Action to enable the Rural Electrification Administration to continue its construction program, currently about five months behind schedule, was taken today by the Office of Price Administration and Civilian Supply in a limited allocation program announced by the Civilian Allocation Division.

Extension of electric facilities in rural areas is of primary importance to the farm population and the carrying out of present plans of the REA is considered by OPACS to be an essential contribution to the maintenance of public welfare and civilian morale. Civilian and defense demands and defense priorities for strategic metals have made it difficult for REA to obtain the relatively modest quantities necessary to permit it to proceed with its program.

REA has proposed to wire 400,000 farms over the next 18 months at the rate of approximately 22,000 farms a month. The allocation program will furnish sufficient material to enable REA to make up the existing five months' lag and to proceed with plans at the reduced rate of 11,000 farms a month. No additional drain on the nation's electric power generating resources is involved in electrification of farms, since REA is increasing its generating facilities to keep pace with its wiring program.

The allocation program specifies that during each of the six months beginning with August, 1941, the following amounts of material shall be allocated to REA: 4,500 short tons of copper; 3,100 short tons of steel; 140 short tons of zinc and  $3\frac{1}{2}$  short tons of aluminum.

These allocations, however, shall be reduced in any month by (1) the quantities of materials allocated to REA for construction of defense projects; and (2) the quantities of aluminum which the REA is able to save by arranging to charge for power at a flat rate per month, thereby eliminating the need for meters, which use a certain amount of aluminum. REA has undertaken to attempt arrangements for flat rates wherever possible.

A further stipulation is that REA will use the foregoing material to complete work now in progress and will not undertake any new projects unless the allocated materials are sufficient to complete such projects.

The program, which will expire January 31, 1942, unless sooner terminated by OPACS, will be administered by the Office of Production Management.

Text of the program follows:

TITLE 32 - NATIONAL DEFENSE

CHAPTER XI - OFFICE OF PRICE ADMINISTRATION AND CIVILIAN SUPPLY

PART 1332 - Materials To Be Used In The Program Of The Rural Electrification Administration

CIVILIAN ALLOCATION PROGRAM FOR MATERIALS TO BE USED IN THE PROGRAM OF THE RURAL ELECTRIFICATION ADMINISTRATION 1/

Increasing demand from all sources and the priorities granted to defense requirements have made it difficult for the Rural Electrification Administration to obtain materials necessary to the continuance of its construction program. As a consequence the program of the Rural Electrification Administration is currently behind schedule and initiation of a further planned program has been delayed.

Accordingly, pursuant to and under the authority vested in me by Executive Order No. 8734, particularly Section 2 (a) thereof the following program is announced:

1332.1 Allocation of Materials. During each of the six months beginning with the month of August, 1941 the following materials shall be allocated to the Rural Electrification Administration:

Copper	4,500	short tons
Steel	3,100	short tons
Zinc	140	short tons
Aluminum	20	short tons *

\*1332.1 to 1332.5, inclusive, issued pursuant to the authority contained in Executive Order No. 8734.

1332.2 Reduction of Allocation. The allocations specified above shall be reduced in any month by:

- (1) The quantities of any materials allocated to the Rural Electrification Administration for the construction of defense projects.
- (2) The quantities of aluminum which the Rural Electrification Administration is able to save by using flat rates and thereby eliminating meters. The Rural Electrification Administration has undertaken to attempt this saving wherever possible. \*

- 2 -

1332.3 Conditions of Allocation. The allocations authorized by this program are conditioned upon the understanding that the Rural Electrification Administration will use the material allocated to complete all work now in progress. It is further understood that the Rural Electrification Administration will not undertake any new projects unless the materials hereby allocated are sufficient to assure the completion of such projects.\*

1332.4 Effective Date and Expiration. This program shall take effect on the 1st day of August and shall, unless sooner terminated by the Administrator, expire the 31st day of January, 1942.\*

1332.5 Enforcement. The foregoing program is to be administered and enforced by the Office of Production Management.\*

Issued this 29th day of July, 1941.

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Leon Henderson  
Administrator

Certified to be a true copy of the original

(Sgd.) John E. Hamm  
John E. Hamm  
Deputy Administrator

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1/ Appears in Federal Register, Volume 6,  
July 13, 1941.

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE August 5, 1941

TO Secretary Morgenthau

FROM Prepared by: Mr. Murphy, Mr. Foy, and Mr. Barnett

Subject: Current Developments in the High-grade Security Markets; Comparison of the Yields of Short- and Long-term Government Securities during the Past Twenty-two Years

## SUMMARY

- (1) Prices of United States Government securities have varied within narrow limits during the past three weeks (Chart I). Taxable issues have shown greater strength than tax-exempt issues. Also, taxable issues have risen substantially more than prices of comparable partially tax-exempt issues as measured from the first date of "when-issued" trading.
- (2) Corporate bonds showed little change in price during the past three weeks (Chart II). Municipal bonds have currently risen to all-time high prices (Chart III). New bond offerings in the New York market during July were \$205 millions.
- (3) A comparison of the yields of short- and long-term Government securities during the past twenty-two years shows that the yields on short-term securities have been noticeably lower than those on long-term ones. Yields during the Twenties varied little as maturity lengthened, while during the Thirties yields rose considerably as maturity increased (Chart IV).
- (4) Nervousness over the Far Eastern situation has led to wide declines in Japanese dollar bonds since July 22. Italian and German dollar bonds have declined, on average, since the first of the year, while Australian dollar bonds have risen (Chart V).

Secretary Morgenthau - 2

I. United States Government Securities

Treasury bond and note prices have varied within narrow limits during the past three weeks (Chart I). Intermediate bonds and long-term notes have increased slightly in price; long-term bonds have decreased slightly; and short-term notes have remained unchanged. Taxable issues have again demonstrated greater strength in their respective maturity classes than tax-exempt issues. The following table shows price changes by maturity classes and tax-exemption status:

	Average Price Change July 15 - August 4		
	Tax-exempt issues	Taxable issues	All issues

(In thirty-seconds)

Notes

1 to 3 years	0	0	0
3 to 5 years	+ 1	+ 5	+ 3

Bonds

5 to 15 years to call	0	+ 13	+ 3
15 years and over to call	- 2	-	- 2

Each of the three outstanding taxable bonds has, since its first "when-issued" quotation, experienced a greater price increase than that experienced by the most nearly comparable partially tax-exempt issue during the same period. The following table brings out these greater price increases of taxable bonds:

Secretary Morgenthau - 3

	Price Change
	(Decimals are thirty-seconds)
<u>February 25* - August 4</u>	
Taxable: 2 percent, 3/15/48-50	+ 3.13
Tax-exempt: 2-3/4 percent, 3/15/48-51	+ 2.03
<u>March 19* - August 4</u>	
Taxable: 2-1/2 percent, 3/15/52-54	+ 5.07
Tax-exempt: 2-1/4 percent, 12/15/51-53	+ 2.05
<u>May 23* - August 4</u>	
Taxable: 2-1/2 percent, 3/15/56-58	+ 2.13
Tax-exempt: 2-3/4 percent, 9/15/56-59	+ 1.04

\* First date of "when-issued" trading of each taxable bond.

## II. Other High-grade Domestic Securities

Prices in the high-grade corporate and municipal bond market have continued to improve on balance during the past three weeks. Our average yield of five high-grade corporate bonds, moving inversely to prices, has decreased three basis points since July 15 (Chart II).

The weekly average yield of municipal bonds, as represented by the Dow-Jones average of twenty 20-year bonds, has decreased in the past three weeks from 2.05 percent to 2.01 percent (Chart III). This is a record low yield (and high price). Since the average yield of long-term Treasury bonds has decreased but two points from its level three weeks ago, the result is that the spread between the Treasury average and the municipal average is now narrower than ever before -- 0.11 percent.

New offerings to the public in the New York bond market were slightly better than moderate during July, aggregating \$205 millions. This compares with \$161 millions publicly offered during June and \$240 millions during May. August is normally a dull month for public offerings, and the current month is not expected to be unusual in this respect.

Secretary Morgenthau - 4

The major item in the July total was \$135 millions of Commonwealth of Pennsylvania 1-1/2 percent tax-anticipation notes, due in 10 months and in 1 year and 9 months, and priced to yield 0.40 percent and 0.80 percent, respectively.

Saturday's press reported that Peoples Gas Light and Coke Company has completed arrangements for private sale of \$37 millions of bonds to five insurance companies. The issues are for refunding purposes and comprise \$22 millions of 3-1/4 percent 25-year bonds and \$15 millions of 3 percent 15-year bonds. Both issues will be sold at par.

III. Comparison of the Yields of Short- and Long-Term Government Securities during the Past Twenty-two Years

During recent years it has been customary for short-term United States Government (and other high-grade) securities to sell at lower yields than long-term ones. This has not always been the case. During the Twenties, for example, long-term securities, by and large, sold to yield less than short-term ones -- although an exception to this tendency existed even then in the case of very short-term securities due within a year or so.

The heavy black line on Chart IV shows the average relationship between the yields of long- and short-term United States Government securities for the entire 22-year period, 1919 to 1941. In order to secure the greatest possible uniformity of comparison, only yields of partially tax-exempt securities have been used in determining the average.

It will be noted that for the average of the entire 22-year period, yields on short-term securities have been noticeably lower than those on long-term ones. The average yield of one-year securities, for example, has been 2.60 percent; the average yield of five-year securities, 3.29 percent; and the average yield of ten-year securities, 3.52 percent. Beyond ten years there has been very little change in average yield, the curve rising to a high of 3.56 percent for fourteen-year securities, and falling back to 3.52 percent for twenty-year ones.

Secretary Morgenthau - 5

The red and green curves on Chart IV divide the whole period into two halves, the first covering the period 1919 to 1930, and the second the period 1931 to 1941. The relationship between the yields of short- and long-term securities was very different in the two periods.

Each of the two periods is fairly homogeneous. In the first period, maturity seems to have influenced yield but little. During this period the average yield of one-year securities was 4.11 percent. This yield rose to a maximum of 4.41 percent on four-year securities, and then gradually fell back to 4.09 percent on twenty-year securities. During the second period, on the other hand, maturity seems to have been the major factor affecting yield. Average yields during this period rose uninterruptedly with lengthening maturities from 0.95 percent for one-year securities to 2.91 percent for twenty-year securities.

#### IV. Prices of Foreign Government Securities

The increased tension in the Far East has led to nervousness in Japanese dollar bonds. Peculiarly, after the re-shuffling of the Japanese Cabinet July 17, the dollar bonds of Japan, as represented by the Japanese 6-1/2's of 1954 (Chart V), continued unchanged around 74 to 75 for several days, and then rose in price to a peak of 79-1/2 on July 22. Then, with intimations of economic sanctions by the United States against Japan, the market fell abruptly from July 22 until July 26 (the date of the freezing of Japanese assets), when 45 was reached. The bonds then sharply regained about one-half of their loss, rising to 62 on July 28. From then on the bonds fell off somewhat until August 1, when trading in the 6-1/2's was suspended because of doubt regarding interest payments.

During this period of wide fluctuation of Japanese bonds, there was little change in the other foreign dollar bonds shown on Chart V. (Australia 5's of 1957, Italy 7's of 1951, and Germany 5-1/2's of 1965)

Since the beginning of the calendar year 1941, bonds of the Axis (Italy 7's of 1951 and Germany 5-1/2's of 1965) have experienced gradually lower prices, except for a rally during the Jugo-Slav and Greek campaign, April 6 through April 27. The Italy 7's of 1951 declined more than did the Germany 5-1/2's

Secretary Morgenthau - 6

of 1965, falling from 46-1/2 on January 18 to a low of 20 on July 29. The Germany 5-1/2's of 1965 began the year at 9-7/8 declining somewhat until the Greek campaign, when a high of 11-3/4 was reached. On August 2 the bonds were selling at their low for the year of 6-3/4. Little price change has occurred in these bonds for two months.

As contrasted to bonds of the Axis, the Australia 5's of 1957 have gradually risen since the beginning of the year, when they were quoted at 54. A peak of 69 was attained July 19 with minor changes since.

Attachments

Chart I  
 CHANGES IN THE PRICES OF U.S. SECURITIES  
 Points Plotted Represent the Difference from December 28, 1940 Price of Each Maturity Class

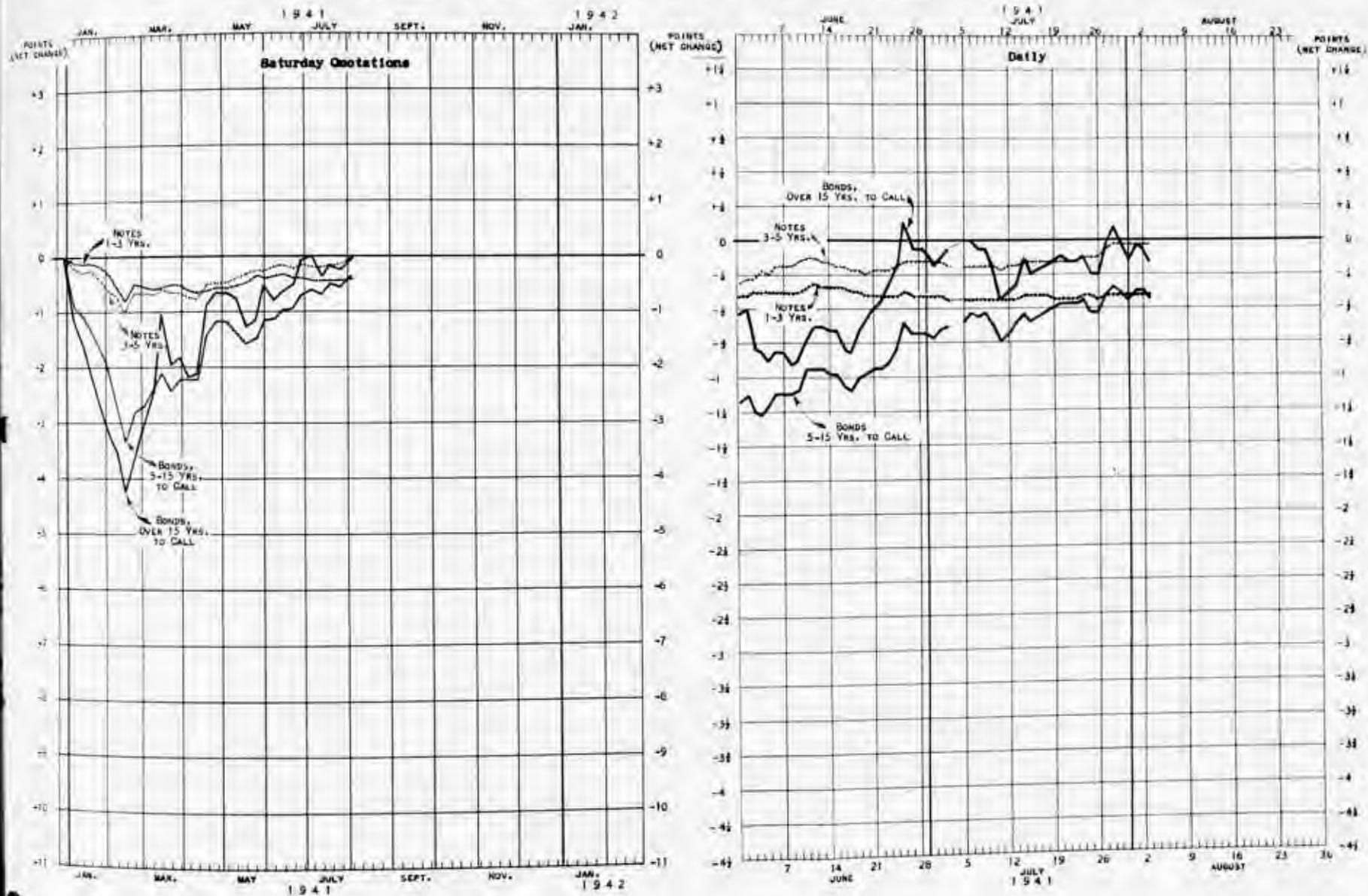
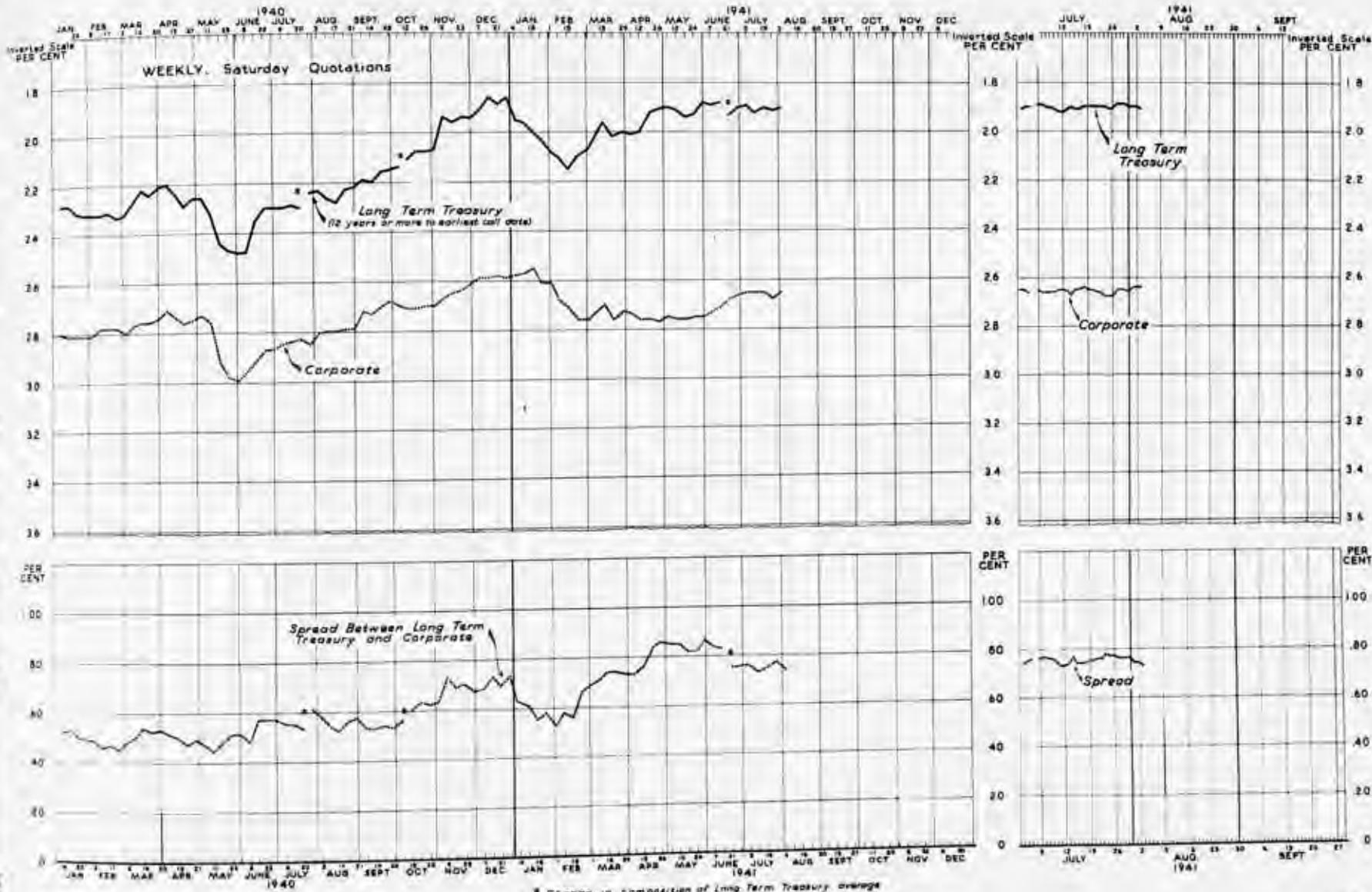


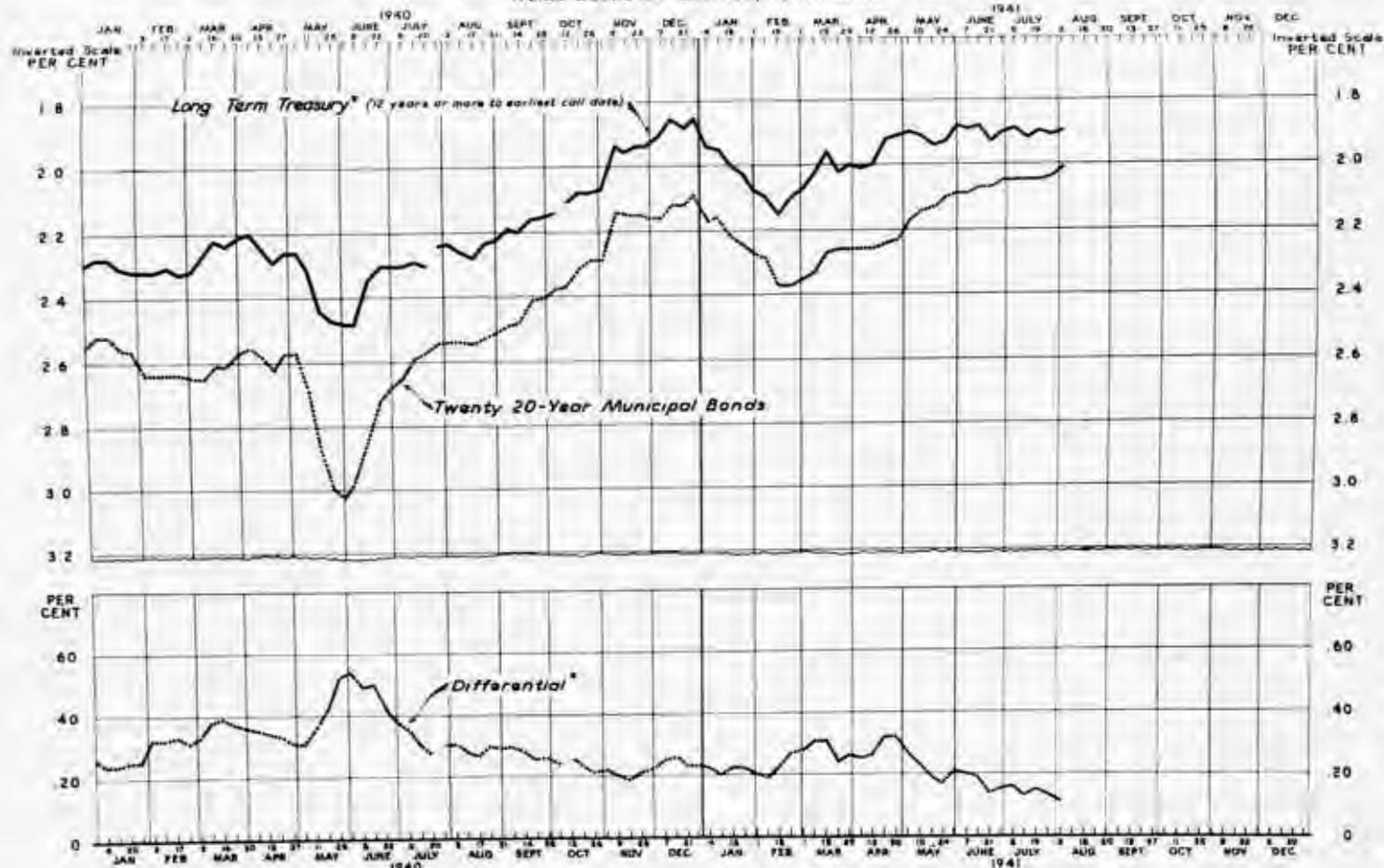
Chart II

COMPARATIVE YIELDS OF AVERAGE OF ALL LONG TERM U S TREASURY AND AVERAGE OF HIGH GRADE CORPORATE BONDS



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

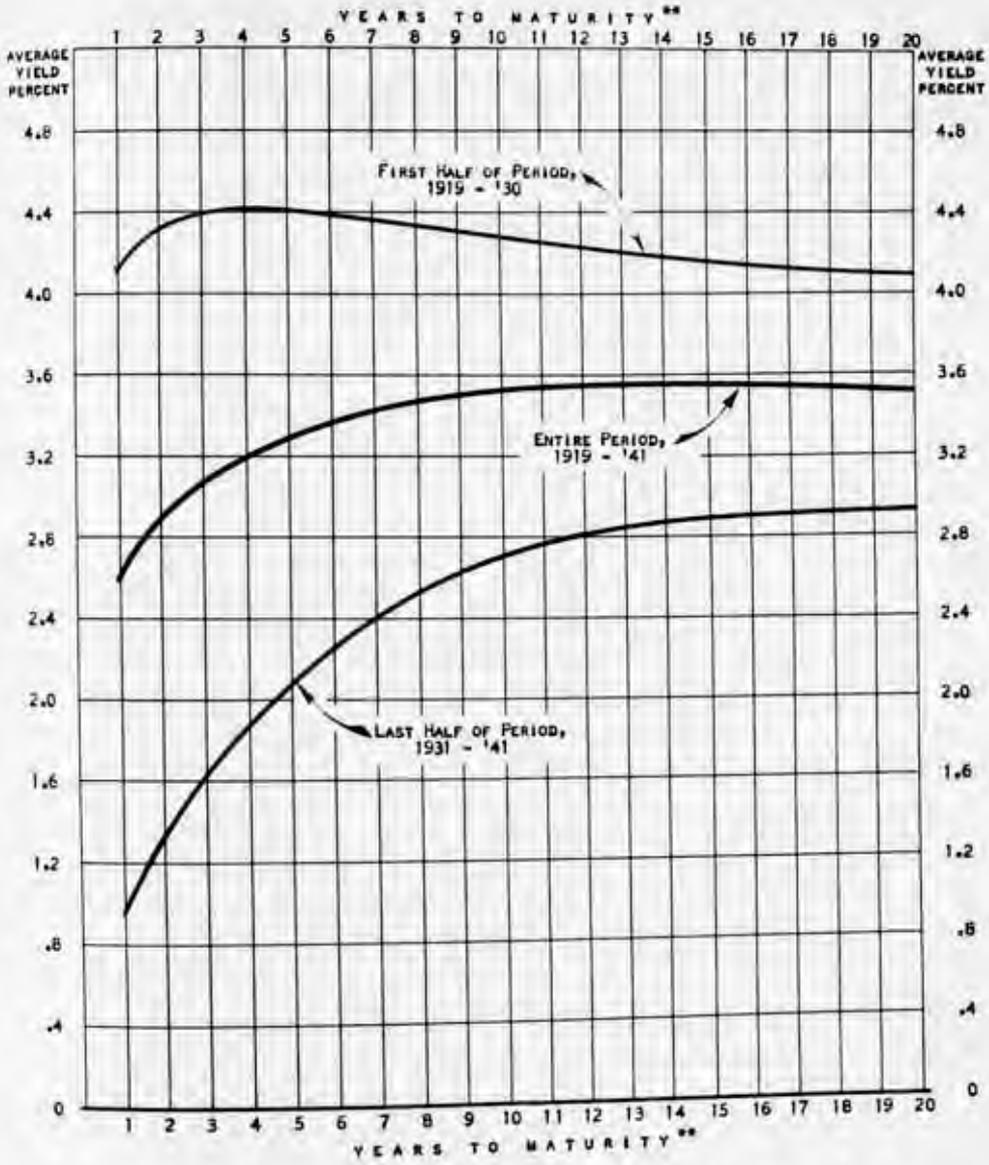
Chap. III  
**COMPARATIVE YIELDS OF AVERAGE OF ALL LONG TERM U.S. TREASURY  
 AND DOW-JONES AVERAGE OF MUNICIPAL BONDS**  
 Yields Based on Saturday Quotations



\*Break in line indicates change in composition of Long Term Treasury average

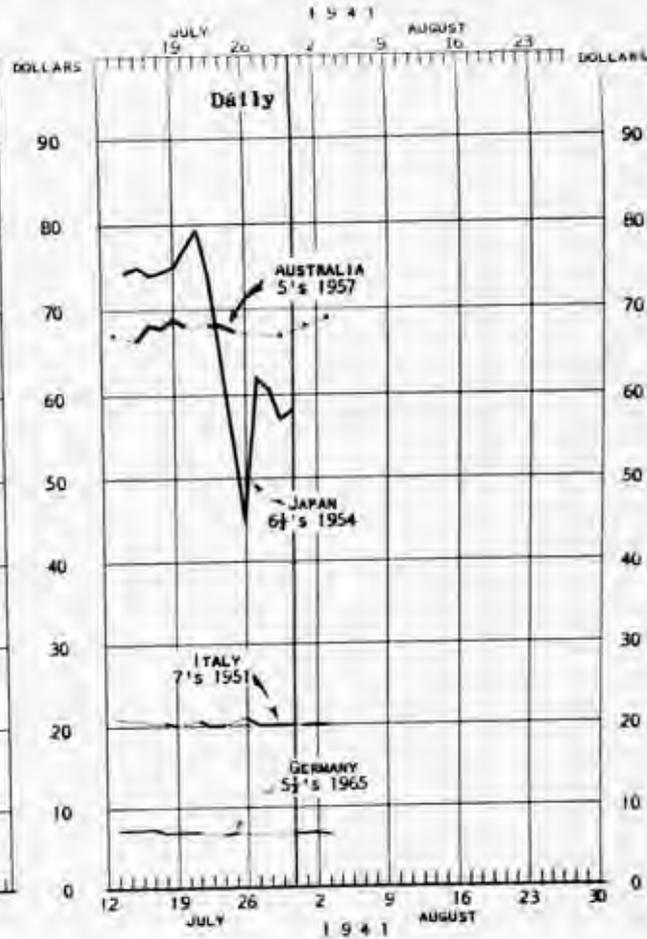
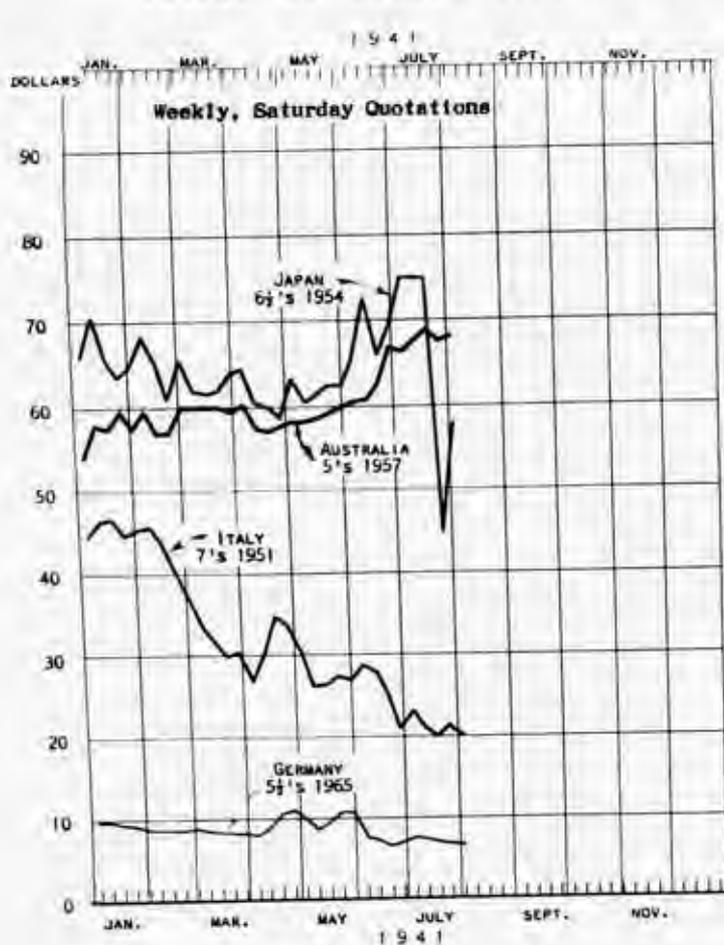
Chart IV

COMPARISON OF YIELDS OF SHORT- AND LONG-TERM TREASURY SECURITIES, 1919 - 1941\*



\* PARTIALLY TAX-EXEMPT SECURITIES ONLY.  
 \*\* OR EARLIEST CALL DATE IN CASE OF CALLABLE SECURITIES SELLING AT A PREMIUM.

PRICES OF DOLLAR BONDS OF SELECTED FOREIGN GOVERNMENTS



L-201

AUG 7 1941

My dear Mr. President:

Difficulties are being experienced in placing Coast Guard contracts for certain national defense projects because of the competitive advertising requirement. It is deemed desirable, therefore, to invoke the authority contained in section 3(a) of the Act of July 11, 1941 (Public Law 166, 77th Congress), which reads:

"The Secretary of the Treasury is hereby authorized, during the national emergency declared by the President on September 8, 1939, to exist, to negotiate contracts on behalf of the Coast Guard for the acquisition, construction, repair, or alteration of complete Coast Guard vessels or aircraft, or any portion thereof, including plans, spare parts, and equipment therefor, that have been or may be authorized, and also for machine tools and other similar equipment on the same basis and subject to the same limitations, and with the same privilege of priority in deliveries as is provided for similar contracts authorized to be negotiated by the Secretary of the Navy by section 2(a) of the Act of June 29, 1940 (Public, Numbered 571, Seventy-sixth Congress, third session)."

One of the limitations provided for in section 2(a) of the Act of June 29, 1940, is indicated by the words:

\*\*\*\* whenever deemed by the President of the United States to be in the best interests of the national defense during the national emergency declared by the President on September 8, 1939, to exist \*\*\*\*."

If you concur, it is requested that you indicate, by your approval hereon, that you deem that invocation of section 3(a) of the Act of July 11, 1941, would be in the best interests of the national defense at this time.

Faithfully yours,

(Signed) E. Mergenthaler, Sr.

Secretary of the Treasury.

By Messenger  
8/5/41  
3:45 pm  
Stargis

The President,  
The White House.

File to Mr. Thompson

7/25/41

Approved: \_\_\_\_\_, 1941.

August 5, 1941.

CONFIDENTIAL

The Honorable

The Secretary of the Navy.

Sir:

I have your confidential letter of August 2, 1941 (SC)EF22-2 Dec. 32962 Serial 050988, in which you state that in the opinion of the Navy Department there should be available at least four of the 5000-ton ice-breaker class of vessel for operation in Greenland waters, in order that two might be maintained on station the year around, and request that the Coast Guard construction program for 5000-ton ice-breakers recently authorized by the Congress be increased so as to provide for a total of four vessels of this class.

In view of this recommendation, I am pleased to advise you I have directed that the necessary steps be immediately initiated by the Commandant of the Coast Guard to obtain the necessary funds for an additional 5000-ton ice-breaker for operation in Greenland waters, and, in anticipation of the provision by Congress of these funds, to make all necessary plans for the construction of four 5000-ton ice-breakers instead of the three which were authorized by Congress in the Second Deficiency Appropriation Act, 1941.

Very truly yours,

(Signed) E. K. Rountree, Jr.

Secretary of the Treasury.

File to Mr. Thompson

By Messenger

8/5/41  
3:45 pm  
Lange

COPY

(SC)EF22-2  
Doc. 32962  
Serial 050938  
CONFIDENTIAL

August 2, 1941

Sir:

In order to properly carry out the approved plans for the defense of Greenland, it will be necessary to maintain at least two vessels in those waters on a year around basis. Ships operating in the waters of Greenland should be of a certain type, especially designed for work in the ice.

For future operations in Greenland, the 5000-ton ice breaker class of which, it is understood, three are to be built by the Coast Guard is considered by the Navy Department to be the most useful type.

In the opinion of the Navy Department, there should be available at least four of these ships, in order that two might be maintained on station the year around. It is quite possible that eventually it may be found necessary to also employ this type of ship in areas far removed from Greenland.

In the interest of National Defense, and in order to assist the Navy in carrying out its mission, the Navy Department strongly recommends an immediate increase in the current 5000-ton ice breaker program to bring the total to four. It is further recommended that the construction by the Coast Guard of this type be undertaken at the earliest practicable date.

Sincerely yours,

(Signed) H. R. Stark.

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

Acting

August 5, 1941.

MEMORANDUM

TO: Secretary Morgenthau

FROM: Mr. Schwarz @

The War and Navy Departments and the Office for Emergency Management have invited the Treasury Department to join them in an effort to coordinate national defense exhibits throughout the country.

OEM has had requests for 435 exhibits. They realize it would be futile to try to accommodate this number but they do hope to provide exhibits for the largest gatherings, numbering perhaps from fifteen to twenty. They will not consider putting up an exhibit unless the civic or other body requesting it will bear all the charges.

OEM makes one suggestion which I believe would benefit the Treasury tremendously. It recommends an exhibit train to make a call on each city of 10,000 population or more in this country, numbering 750 in all. Such a train would be on tour for at least one year. This train would consist of ten baggage cars and several Pullmans, and would contain exhibits of the Army, Navy, OEM and Treasury, as well as

- 2 -

booths for the sale of Defense Savings Stamps. It is intended as an improvement over the proposal made several months ago by the Thomas Cook organization. The train would be donated by the American railroads and its maintenance would cost approximately \$50,000, which would be prorated among the participating agencies. It would be manned by about fifty men, all experts, qualified to answer any questions involving his particular Department. An advance crew of about six men would precede this train, ironing out details for its reception. Local field forces would also be kept available, such as groups to demonstrate dive bombing and the landing of parachute troops.

WEM is drafting a mimeographed prospectus on this proposal, a copy of which should be available tomorrow. I think the Treasury should participate in this program.

-oOo-

Copy to Mr. Graves.

August 5, 1941

Dear Mr. Sproull:

I have your letter of August 4, 1941, addressed to Mr. Bell, in which you advise that the Federal Reserve Board and ten of the twelve Federal Reserve Banks have now designated officers of their institutions who will act as liaison officers between the State Savings Bond Commissions of the Treasury and the Federal Reserve Banks of their respective districts. You request to be advised as to what steps have been taken by the Treasury to establish and maintain contact between the Defense Savings Bond organization at Washington and the Federal Reserve System through the Board of Governors and directly between the State Commissions organized by the Treasury and the Federal Reserve Banks.

This is to advise you that I have designated Mr. B. H. Shorlde, Assistant to the Secretary, to act in this capacity. In view of the fact that Under Secretary Bell has been designated as the liaison officer of the Treasury to act on all fiscal matters between the Treasury, the Federal Reserve Board, and the Federal Reserve Banks, he should be kept fully informed of the matters under discussion and the procedures adopted.

Very truly yours,

Secretary of the Treasury

Mr. Allan Sproull,  
Chairman, President's Conference Committee  
on Defense Savings Securities,  
Federal Reserve Bank,  
New York, N. Y.

DVD:ELK

*Handwritten notes:*  
8-5-41  
B. H. Shorlde  
- Mr. Bell

August 5, 1941

My dear Mr. President:

I am sorry that we will be unable to have Rudyard Kipling's poem, "The Islanders," read on our Treasury hour this coming Wednesday. At the last minute, the American publishers of Kipling would not let us give it on the air without the consent of the British copyright owners and, therefore, we have to communicate with the proper office in England in order to secure this permission.

We are all very enthusiastic about the poem, and hope to be able to give it a week from Wednesday.

Yours sincerely,

(Signed) Henry

The President,

The White House.

By Messmore

Kipling  
4:15 pm  
8/5/41

August 5, 1941

Dear Mr. President:

I'm sorry that we'll be unable to have read on our Treasury Hour this coming Wednesday night the poem, "The Islanders", by Rudyard Kipling. <sup>It</sup> The last minute, the American publishers of Kipling would not let us give it in the air, and, therefore, we have to go to England in order to get permission.

We are all very enthusiastic about the poem, and hope to be able to give it a week from Wednesday.

Yours sincerely,

The President,

The White House.

(Note: Please have Ferdinand Kuhn go over this letter and have it ready for me by noon, so it will go out by couch to the President.)



TREASURY DEPARTMENT  
WASHINGTON

August 5, 1941

Memorandum for THE SECRETARY:

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

July 1-August 3	\$25,345.90
August 4	<u>496.30</u>
Total	\$25,842.20

GRAVES

FROM: MR. SCHWARZ'S OFFICE

222

TO: The Secretary

In working up a tax program for tonight with the Columbia Broadcasting System, we asked for a plug for the tax notes and savings bonds, which they have provided in pages 17 and following of the attached. *ca*

COLUMBIA BROADCASTING SYSTEM

REPORT TO THE NATION -- "TAXES"

TUESDAY, AUGUST 5, 1941

9:00 - 9:30 P.M. (EDST)

QUE: (COLUMBIA BROADCASTING SYSTEM)  
(.....30 seconds .....) ✓

MUSIC: (FANFARE)

DIALY: The Columbia Broadcasting System brings you a Report  
to the Nation . . .

MUSIC: (THEME)

DIALY: Attention, citizens. You, the people of the United  
States, have in Washington a government which is your  
agent in the conduct of your interests. It is a government  
of, by and for you . . . and it is your duty as well as  
your privilege to know how this government is operating.  
Each Tuesday evening over these stations, the Columbia  
Broadcasting System brings you a report of the workings of  
your government in relation to a problem which has been  
uppermost in the public interest during this week. This  
report is non-partisan and unbiased. It is informal and  
factual. It aims to bring you the story behind the story  
of the biggest business on earth -- the United States  
Government -- a business in which you are a stockholder.  
Then, ATTENTION CITIZENS! This is a Report to the Nation!

2213 ✓

COLUMBIA BROADCASTING SYSTEM

REPORT TO THE NATION — "TAXES"

TUESDAY, AUGUST 5, 1941

9:00 - 9:30 P.M. (EDST)

QUE: (COLUMBIA BROADCASTING SYSTEM)  
(.....30 seconds .....) )

MUSIC: (PANFARE)

WALY: The Columbia Broadcasting System brings you a Report  
to the Nation . . .

MUSIC: (THEME)

DALY: Attention, citizens. You, the people of the United States, have in Washington a government which is your agent in the conduct of your interests. It is a government of, by and for you . . . and it is your duty as well as your privilege to know how this government is operating. Each Tuesday evening over these stations, the Columbia Broadcasting System brings you a report of the workings of your government in relation to a problem which has been uppermost in the public interest during this week. This report is non-partisan and unbiased. It is informal and factual. It aims to bring you the story behind the story of the biggest business on earth — the United States Government — a business in which you are a stockholder. Then, ATTENTION CITIZENS! This is a Report to the Nation!

Last week, we brought you a report on prices in World War II. We outlined the reasons for price rises in a war economy — and pointed to the necessity for price controls to prevent destructive inflationary spirals. For, as Bernard Baruch, that sage of economic mobilization, said a few months ago:

Total defense must plan to fight — to win — and, above all else, to survive war.

To survive war — to survive the war crisis that we are in — calls for a full program of inflation control. Which means not only price control — but also that we must pay as we go, as much as possible, for the armaments that defend our heritage of liberty.

And paying as we go means taxes — more taxes than we have ever paid before, as John Charles Daly will tell you.

In World War I, we paid for only a third of the cost of the war as we incurred it. Two-thirds were passed on to the future. But, as we pointed out last week, that left too much money still in circulation — too much money for the limited supply of goods available for the civilian population — thereby contributing directly to the tremendous rise in prices that held on for two years after the Armistice. We profit now from that error. And this time, we are going to do just the opposite. We are going to pay roughly two-thirds of the cost as we go. And how are we going to pay for it? Well, Congress is figuring that out, now.

MUSIC: (SOMETHING PATRIOTIC, IN FOR INTRODUCTION, HOLD BEHIND)

READING CLERK: (STENTORIAN) House Resolution 5-4-1-7. A Bill — to provide revenues, and for other purposes. (PAUSE) Be it enacted by the Senate and House of Representatives of the United States of America, in Congress assembled, that this act, divided into titled and sections according to the following Table of Contents, may be cited as the Revenue Act of 1941.

MUSIC: (UP AND DOWN)

DAILY: That bill, providing for <sup>over</sup> approximately three-and-a-half billion dollars in new taxes, is the biggest tax bill in our country's history. And it imposes heavier federal tax burdens upon you, Mr. and Mrs. Taxpayer, than you have ever borne before. Let's see what this means to a couple of average homes.

MUSIC: (UP AND FADE TO)

SOUND: (BABY COOING AND GURGLING)

WIFE: (SOFTLY HUMMING A LULLABY)

SOUND: (RUSTLING OF NEWSPAPER)

HUSBAND: Well, honey, I guess the baby didn't come any too soon.

WIFE: Why do you say that, George?

HUSBAND: Why? Oh, well, I guess you're so busy these days you don't get time to read the newspapers.

*You see, with him being born on July 1, we only get half a year's exemption. 226*

WIFE: You mean the new tax bill? I saw the headlines, but . . .

HUSBAND: (INTERRUPTING) But you didn't read on. Well, even with the ~~\$200~~ <sup>\$200</sup> deduction for the baby, our taxes next March are going to be a lot higher, with that surtax of five per cent.

WIFE: Surtax? What do you mean? I thought just the rich folks paid surtaxes.

HUSBAND: Not any more. Not with all the billions we're spending for defense. You see, in addition to the normal tax of four per cent, the new bill calls for a minimum surtax of five per cent. Let's see — where's that pencil — oh, here it is. (PAUSE) Figuring it roughly — with my salary of ~~three thousand~~ <sup>\$3500</sup> a year — ~~two~~ <sup>two</sup> hundred deduction for the baby — two thousand family exemption — and not figuring in deductions for interest on the mortgage and contributions — four per cent normal tax — five per cent surtax — (LONGER PAUSE) — let's see — that's ~~\$46.00~~ <sup>\$113.30</sup>. And last year we paid, I remember, only ~~\$31.00~~ <sup>\$50.60</sup>. And that was before the baby came.

WIFE: But darling.

HUSBAND: Yes?

WIFE: *Does that mean we are not going to get that new refrigerator we were going to buy? We can get along with the one we have for a while.*

HUSBAND: Yes, I guess that's ~~the point~~ <sup>what the government wants</sup>. They want us to pay as we go, instead of buying things we don't really need.

*We can get along for a while — then the government will say that's not good enough — then they'll say that's not good enough — then they'll say that's not good enough.*

WIFE: And, George.

HUSBAND: Yes, darling.

WIFE: I don't mind the cost, anyway. I'm so thankful — so very thankful — that Junior is just a baby. Maybe by the time he grows up, there'll be no more wars.

MUSIC: (UP AND DOWN)

HUSBAND II: (RATHER CRISPLY) Let me see. On a \$5,000 income — two children — \$700 deductions for interest on the mortgage and donations — that would make us pay \$129.58 — instead of the \$47 we paid last year.

WIFE II: That's quite a lot more — for people in our circumstances, dear.

HUSBAND II: Yes, that's right. But wait a minute. You remember when Secretary of the Treasury Morgenthau offered a tax ~~bill~~ <sup>proposal</sup> last April?

WIFE II: Yes, I remembering you figuring it out then. What about it?

HUSBAND II: Well, evidently, when the House got a hold of the bill, they trimmed down the surtax rates <sup>to 22%</sup> which the Treasury <sup>83</sup> wanted.

WIFE II: What do you mean?

HUSBAND II: Just this. Under the Treasury proposals, as I recollect, we'd have had to pay around <sup>83</sup> \$225 more, instead of \$85 more, ~~as under the present proposal.~~ <sup>the way they've got it under this bill.</sup>

WFS II:

Well, who are we to complain — if we get off easier?  
After all, didn't one of our boys have to give up a job,  
paying him \$37 a week, to go into the Army at \$21 a month?

WFS:

(UP AND DOWN)

WFS:

Yes, it is true that the surtaxes proposed by the Treasury  
last April were higher than the surtaxes in the bill  
introduced into the House by the Ways and Means Committee.  
The Treasury called for a minimum eleven per cent surtax  
instead of five per cent. ~~In doing so, it sought to broaden  
what is known as the tax base — that is, it sought to impose  
a higher direct income tax upon all those within the income  
tax limits — rather than imposing higher excise, or indirect,  
taxes. And it based its proposal upon a survey that showed  
incomes from \$2,000 to \$25,000 ~~would~~ <sup>it</sup> ~~pay~~ <sup>paid</sup> a  
proportionate share of the income taxes in the past.~~

*was doubling the tax  
series as the  
income groups.*

~~But the Ways and Means Committee of the House <sup>is doubling</sup> ~~is~~ <sup>is</sup> doubling  
differently about it. Perhaps that may be because tax bills  
have something of the political — something of special  
pleading — about them, even in times of national defense.  
But whatever the reason, the Treasury surtax rate was revised,  
downward. However, since the Ways and Means Committee  
accepted the Treasury's proposal that an additional three  
and a half billion in new taxes was needed, it had to look  
elsewhere to make up for lowering the surtax rate. So  
here is Mr. Joly again to continue the report on the Revenue  
Act of 1941.~~

MUSIC: (IN FOR INTRODUCTION, HOLD BEHIND)

DALY: Where to find additional revenues? Well, the Ways and Means Committee, for its search, laid down this guide in its report:

READING CLERK: It should be remembered that because an individual is exempt from the individual income tax does not mean that he is free from taxation.

DALY: And so saying, the Committee looked around and found . . .

MUSIC: (UP AND DOWN)

SHARECROPPER: I ain't complainin' none 'bout these new taxes, hon. The gov'mint has done a heap for us poor sharecroppers. 'B we ain't never paid much taxes -- not even a poll tax so's we could vote.

HIS WIFE: What yo' gittin' at, Jim?

SHARECROPPER: Wal, I seed by the papers that we got to pay a five dollar a year tax to run our car. Thin't much -- but that car's 'bout the only freedom we got.

HIS WIFE: Yeh, but I reckon we'll find that five dollars some how. Ef we cain't run our car -- we're jest stuck here always.

MUSIC: (UP AND DOWN)

DALY: That tax of five dollars per automobile, applies, of course, to high and low income groups alike. But, as the report of the Ways and Means Committee specifically points out:

The proposed use tax on automobiles will result in collecting at least five dollars from many individuals who are not subject to the income tax. Statistics indicate that over fifty per cent of the passenger automobiles are owned by individuals with incomes of \$2,000 or less — and over 10 per cent are owned by individuals with incomes of 1,000 or less.

(UP AND OUT)

*— yes, more so*  
 The automobile has become a standard fixture ~~in our way of~~ *than in any other country in the world.*  
~~life — none so than in any country in the world.~~ *And the*  
~~The tax will affect many people below the income tax~~  
~~five dollar tax undoubtedly will work a hardship on some of~~  
~~limit, putting another tax item on top of state~~  
~~those below the income tax limit. But, after all, ever, are~~  
~~outs licenses, and gasoline taxes.~~  
~~has to pay something extra to meet the needs of the national~~

*defense crisis.* But the Ways and Means Committee

*was obliged to turn to a host of other commodities*

*However, the automobile tax, by itself, was not enough.*

*And to find other additional income, the Ways and Means*

*Committee turned to the excise tax, or indirect tax, on*

*condemns, washing machines, rides in trains, airplanes or*

*consumer goods and luxuries.*

*There will even be a tax*

*on soft drinks. Taxes are boosted on automobiles, radios, phon-*

*ographs, refrigerators, air conditioners, matches and telephone*

*calls, among many other things.*

Typical of every tax hearing in Congressional committees,

is the special pleading of representatives of this industry,

and that. They all have a special reason why their product

should not be subjected to excise taxes. Here's a few such

instances, picked at random from the hearings on the Revenue

Act of 1941.

(UP AND OUT)

VOICE I:

Please understand that the Motion Picture Industry is quite willing to carry its full share of taxes and is eager to do more than its share on national defense. However, the industry is struggling with a serious problem caused by the unavoidable loss of a large part of its revenue from sales in the foreign market.

VOICE II:

To place a special tax on candy is to tax products containing food values which the worker craves and needs.

VOICE III:

It would be desirable if we could refrain from taxing certain sports equipment. I'm speaking a word for the sandlot kid who saves up his nickels and pennies and dimes to buy a baseball . . . These are the fellows on whom we are imposing the tax.

VOICE IV:

An excise tax on musical instruments would constitute a mistake in revenue-raising policy . . . It would operate as a deterrent to the dissemination of musical education and culture.

DALY:

And so you see, it goes something like this . . .

ALL VOICES:

Taxes are good for somebody. But somebody else — not us.

MUSIC:

(UP AND DOWN)

DALY:

But the Ways and Means Committee, as a general rule, not only ignored the pleas such as those we have just heard. They went much further than the Treasury schedule of excise taxes. Here's a sample of these increases.

MUSIC: (IN FOR BACKGROUND)

VOICE I: Distilled spirits -- an increase of \$1 a gallon.

VOICE II: Refrigerators and air conditioners -- an increase from five and a half to ten per cent.

VOICE III: Musical instruments -- a tax amounting to ten per cent of the manufacturer's sales price.

VOICE IV: Jewelry -- a tax amounting to ten per cent of the retailer's sales price.

DALY: *Out* And so it went with many other items -- playing cards and furs, toilet preparations and matches, radios and rubber goods.

MUSIC: (UP AND OUT)

WARNER: But even with the automobiles use tax -- and the higher excise taxes, the Ways and Means Committee still needed roughly another \$325,000,000 to make up for lowering the Treasury surtax rates on incomes. Had it followed the Treasury proposals, it could have gotten a considerable portion of this by increasing the excise taxes on cigarettes and beer and gasoline -- with which the Treasury had dealt *more heavily.* ~~with a much heavier hand than it did with consumer goods.~~ But the committee passed these items by. And since it shied away from a general sales tax -- and since it made

WARNER:  
(Cont'd)

little over-all change in the Treasury's schedule of  
revenue from corporation taxes — *turned to a new proposal.*  
~~there was just about one~~  
~~other place to go.~~

And so, for the first time ~~in any Federal revenue act,~~  
*as it came from the House Committee,*  
the new tax bill ~~provided~~ for a compulsory joint return where both  
the husband and wife have an income. *And on this point came*  
*the one big fight on the House Floor.*

MUSIC:

(IN FOR INTRODUCTION)

DALY:

As a revenue getter, the <sup>compulsory</sup> joint income tax return <sup>would have</sup>  
*most heavily* ~~heaviest~~ upon those husbands and wives in the higher income  
brackets — where the surtaxes are higher. By filing  
individual returns, the husband and wife <sup>could</sup> ~~can~~ escape a higher  
surtax and keep down their total tax bill. Here are a few  
examples picked from a chart prepared by the Ways and Means  
Committee, comparing the tax rates under individual returns  
and on joint returns, without deductions for dependents or  
interest on mortgages, et cetera.

VOICE I:

Where a husband and wife had a combined income of \$4,000,  
their total tax would be \$130.40 under a joint return — and  
the same under separate returns.

VOICE II:

Where a husband and wife have a combined income of \$6,000,  
their total tax would be \$435 under the joint return — and  
\$369 under separate returns — a difference of \$66.

VOICE III:

But from there on up the difference becomes greater.  
~~On a combined income of \$30,000 — with the husband and~~

VOICE III:  
(Cont'd)

wife having an equal percentage of the income — the total tax under the joint return would be \$8,935 — and \$5,728 if they filed separate returns.

VOICE IV:

*But from there on up the difference becomes greater.*  
And on a combined income of \$100,000 — it would be the difference between a total tax of \$53,000 and \$41,000.

MUSIC:

(UP AND DOWN)

DAILY:

*The fight over a*  
~~Comparatively speaking,~~ the joint return affects only a small portion of the taxpaying public. A study of the 1938 returns, made by the Ways and Means Committee, showed that of 3,041,000 married couples filing returns in that year, only 175,500 couples used separate returns — which is less than six per cent.

MUSIC:

(SOMETHING DISCORDANT, IN FOR SETTING)

DAILY:

But though the proportion of those that would be financially affected by the compulsory return <sup>is</sup> small — the protests against the proposal swelled loudly and vigorously. Of course, some of the protests were on the lighter side, along this line.

MUSIC:

(SOMETHING LIGHT, UP AND FADE TO)

BAND:

(CLINKING OF GLASSES, NIGHT CLUB BACKGROUND, MAYBE A PIANO TEAM, OR SOME SWINGY MUSIC)

CHARLOTTE GIRL:

(OCCASIONALLY CHANTING HER WARBS IN BACKGROUND)

Well, boys, there won't be many more nights out like this one -- not after that joint income tax return business goes into effect.

Whatta you mean? What's cooking?

(A COUPLE OF OTHERS AD LIB SI MULARY)

Well, my wife's always made out her own return -- had her brother, who's a lawyer, do it for her. But now that we have to file a joint one -- well, she's going to find out I held out on her on that last raise I got. And, man, will I catch it. She'll pick me clean.

(LAUGHTER ALL AROUND)

Oh, well, forget it tonight. (CALLING) Hey, cutie, some cigarettes.

Others start up "Mademoiselle from Armentieres". All join in as

(TAKES IT OUT, SP AND S.A.)

(PARANALIZING) Oh, Miss, darling, I had such a frightful session at the lawyer's this morning -- really frightful. Washington is getting things into such an awful mess again. And Georgie-Porgie is such a sweet boy.

(DIZZY)(IN SCRAPING) Wit, what on earth are you flustering about? What has George to do with Washington?

THE WOMAN:

Well, boys, there won't be many more nights out like this one — not after that joint income tax return business goes into effect.

BOB AND

Whatta you mena? What's cooking?

LOU:

(A COUPLE OF OTHERS AS LINDA EARLY)

THE WOMAN:

well, my wife's always made out her own return — had her brother, who's a lawyer, do it for her. But now that we have to file a joint one — well, she's going to find out I held out on her on that last raise I got. And, man, will I catch it. She'll pick me clean.

LOU:

(LAUGHTER ALL AROUND)

BOB AND

Oh, well, forget it tonight. (CALLING) Hey, cutie, some cigarettes.

LOU:

Others start up "Mademoiselle from Armentieres". All join in as

MUSIC:

(TAKES IT OUT, UP AND GOES)

THE WOMAN:

(PARANOIDLY) Oh, Mira, darling, I had such a frightful session at the lawyer's this morning — really frightful. Washington is getting things into such an awful mess again. And Georgie-Porgie is such a sweet boy.

BOB AND

(DIZZY)(E. SCRAPING) Kit, what on earth are you flatterring about? What has George to do with Washington?

MR. WILSON:

Oh, it's that awful income tax thing. Something about having to file a joint return or something.

MR. WILSON:

Don't fret over such things, darling. Let old Pursestrings worry about it.

MR. WILSON:

That's just it, ina— he is worried about it. He's such a dear. Always worrying about me. But it seems that if we file a joint return — then Georgeie Porgie will know how much money I really do have. And then he never will want to work — or do anything except play polo.

MR. WILSON:

Well, darling, not every heiress has a ten-goalie for a husband.

MR. WILSON:

(UP AND DOWN)

MR. WILSON:

And on the serious side, the protests represented several viewpoints. There were those who felt that the mandatory joint return was an infringement on the rights of women. And among these were all of the women in the House of Representatives. An official expression of this position came from Mrs. Anna Ketter Wiley, Chairman of the National Woman's Party.

MR. WILSON:

(HIGH AND CRISP) Do believe that a mandatory joint income tax return accentuated the common law concept of the wife as the husband's chattel. From that point of view, and from the grave injustice which spring from it, the women of the United States have sought redress for almost 100 years.

ALY:

Chambers of Commerce and business groups generally joined in the protest. and from leaders of the Church came expressions of fear that the joint return would place a premium on divorces. One such view was that of Bishop William T. Manning, of the Protestant Episcopal Diocese of New York.

READING:

This provision, if enacted, will say to married couples that their tax burdens will be lighter if they break up their homes, than if they live together. Let us call upon all our people to do their part and to bear their full share of the burden which Hitler and his partners in crime are forcing upon us. But let us not enact a law which will compel a man and a woman who are married — and who stay married — to pay a heavier tax than they would have to pay if they were unmarried or if they were divorced.

MUSIC:

(UP AND DOWN)

ALY:

But the Ways and Means Committee had replies for these points. On the question of woman as a chattel, the Committee said:

READING CLERK:

It does not invade the rights of a married woman. It treats her exactly in the same manner as her husband for federal tax purposes. It merely regards the marital community as the taxable unit — instead of the individuals who make it up.

ALY:

And as to the fears of religious leaders ...

READING CLERK:

It is not believed that the joint return will result in any increase in the divorce rate in the United States — or adversely affects the morals of American families. A compulsory joint

READING CLERK:  
(Cont'd.)

return in Great Britain has been required since 1914, and their divorce rate is not as high as in the United States.

MUSIC:

(UP AND OUT)

INTERVIEW:

~~Yes, the influences at work against the mandatory joint return are strong — so strong, in fact, that the Ways and Means Committee was forced to bring the legislation onto the floor of the House of Representatives under a special ruling that allowed a separate vote on this one provision.~~

~~(NOTE TO BREWSTER MORGAN — Al Warner and I agree that a hole should be left here. This is the end of the tax material which was arranged to lead up to this point in anticipation of the vote that may come up Monday on the mandatory joint return. The result of this vote, if it comes, may also determine the contents of a short paragraph by Al on his observations of the tax bill as a whole, the necessity to avoid special pleading, et cetera, at this time. — RWH)~~

MUSIC:

IN FOR BREAK.

*Sheet # 1*

When the issue came to a show-down on the floor of the House yesterday, there was a full-fledged revolt against the leadership of the Ways and Means Committee and the compulsory joint return. President Roosevelt had given momentum to the revolt by articulating the Committee's proposal. Speaker Rayburn of the House and Democratic floor leader McCormack and Republican leader, Joseph Martin, all turned against the compulsory joint return. A vote of 242 to 160 gave the final blow and killed this section of the bill.

Of course ~~there~~ the killing was due not only to those who wished to save women from their so-called return to the dark ages. It was also due to solid blocks of congressmen from community property states where husbands are legally entitled and required to split their income 50-50 with their wives, at least for tax return purposes.

But the killing of this section of the bill left a hole of three hundred million dollars which it is now the responsibility of the Senate to fill. ~~From~~ ~~intended~~ Last Saturday the President proposed that heavier excess profits be levied on <sup>certain</sup> corporations which have made high profits during the last several years. He proposed also that personal exemptions be lowered from two thousand dollars for married people to fifteen hundred dollars and from eight hundred dollars for a single person to seven hundred and fifty dollars.

Here is what the president had to say:

ROOSEVELT: "Further I am convinced that the overwhelming majority of our citizens want to contribute something directly to our defense and that most of them would rather do it with their eyes open than do it through a general sales tax or through a multiplication of what we have known as 'nuisance taxes.' In other words, most Americans who are in the lowest income brackets are willing and proud to chip in directly even if their individual contributions are very small in terms of dollars. After all, the majority of all Americans are in these lowest brackets."

After Roosevelt quote.

WARNER:

But perhaps the most interesting thing about the tax fight on the floor of the house was the general agreement at the end. It has been said that some congressmen have a safe political rule — vote for all appropriations and against all taxes. But here was the largest tax bill in the nation's history affecting intimately millions of persons, but helping to pay for a part of the cost of defense. This was the closing scene in the action of the House.

CONGRESSIONAL  
VOICES:

I demand the yeas and nays:

SPEAKER OF  
HOUSE:

All those in favor of taking this vote by yeas and nays will rise (PAUSE) evidently there is a sufficient number. The question is on the passage of the bill. The Clerk will call the roll.

CLERK:

Allen of Illinois.	ALLEN:	(OFF MIKE)	Aye
Allen of Louisiana	ALLEN:	"	"
Andersen of Minnesota	ANDERSEN:	"	"
Anderson of California	ANDERSON:	"	"
Anderson of New Mexico	"	"	"
Andresen of Minnesota	ANDRESEN:	"	"
Andrews	ANDREWS:	"	"
Angell	ANGELL:	"	"
Arends:	ARENDS:	"	"
Arnold	ARNOLD:	"	"
BALDWIN:	BALDWIN:	"	"
Bardens of North Carolina:	BARDEN:	"	"

WATNER:

As is so often the case with tax bills, the present bill probably won't be enacted into law until September — which makes it tougher to pay as we go — because, by that time, nine months of the taxable year will have passed by. But, thinking ahead, the Treasury Department, on August 1st, announced a plan to help us pay as we go. They've taken the good old American custom of installment buying and applied it to the payment of income taxes. It's quite simple. You figure out roughly what your tax is apt to be. Then you buy the notes — they're called tax anticipation notes — and hold them until income tax payment time comes around next March 15th. There are two series of these notes:

VOICE I:

Series A Tax Notes are available in denominations of \$25 - \$50 - and \$100. Any one taxpayer may present a maximum of \$1,200 of these notes in any one tax year for the payment of income tax. They pay a small interest — of four cents a month per \$25, a return of almost two per cent .

VOICE II:

Series B Tax Notes — for payment of the bigger levies — are available in denominations of \$100 - \$500 - \$1,000 - \$10,000 and \$100,000. And they may be used, in any amount, for payment of corporation or individual income taxes. They bear a smaller rate of interest — one half of one cent a year.

-13-

ANSWER:

And for your other questions about these notes — well, here is John Charles only again to give you the answers against the background of a familiar sight in the Washington of the summer of 1941.

SOUND AND MUSIC:

(TRAFFIC BACKGROUND FARTHEST OFF. MILITARY BAND PLAYING IN CLOSER. OCCASIONAL CHUGGING OF "JEEP" MOTOR, IN AND OUT AS IT DRIVES ABOUT THE LOT. ALL COMING IN BEHIND.)

DAILY:

Right in the middle of downtown Washington — in the plaza at Fourteenth to Fifteenth Streets on Pennsylvania Avenue — between the Willard Hotel and the Department of Commerce building — there stands what is probably the smallest building that has risen in the defense program. It's Treasury House — a frame-and-glass kiosk, all decked out in Red, White and Blue. And all around the plaza, circling Treasury House, are the implements of war that you are paying for — Mr. and Mrs. Stockholder in this democracy of ours.

There's the squat, funny-looking little reconnaissance car, known as the "Jeep" — which \$400 in Defense Savings Bonds will pay for. A Curtiss P-40 fighting plane, that represents \$60,000 in savings bonds. And anti-tank guns — and a real tank that the kids can crawl inside of — and trench mortars and anti-aircraft guns. There, you see

-19-

MILY:  
(Cont'd.)

what you're paying for. Hundreds, sometimes thousands, mosey around the plaza day and night -- residents and visitors from all the states. From the pretty attendants at Treasury House, they buy savings stamps -- and ask questions -- all kinds of questions.

MUSIC:

(MILITARY MUSIC, UP FULL AND DOWN, HOLDING BEHIND)

OLD LADY:

My, but you look real pretty in that uniform.

ATTENDANT I:

Can I help you, ma'am?

OLD LADY:

Why yes -- you see -- seeing all these guns and tanks here makes you realize how much it's going to cost. And I guess I'd like to buy some of those defense savings bonds.

ATTENDANT I:

Well, we don't sell the bonds. But we can sell you stamps and when you get your booklet full you can turn them in on a bond. And, what's more --

OLD LADY:

(INTERLUPTING) And tell me, those tax news I been hearing about. I'd like to buy some of those, too. So's it would be easier to pay my taxes. Don't miss it so much.

ATTENDANT I:

Yes?

OLD LADY:

You see, I'm from Kansas. Just visiting here. And I wondered. If I bought them here — would they be good out in Kansas.

ATTENDANT I:

Why you, of course. (TO ANOTHER) Can I help you sir?

LIZ:

(OLD LADY NUSTS TO HERSELF ABOUT GUYS, ET CETERA)

MAN I:

What's the easiest way to handle these tax notes?

MAN II:

(BUTTLING IN) (NOT TOO POLITE) Say, lady, can I buy those tax notes at my bank?

ATTENDANT II:

I'll take care of them, Kay. You look after the elderly woman. (TO FIRST MAN) You wanted to know about the best way to handle the tax notes?

MAN I:

That's right.

ATTENDANT II:

Well, you can have your bank order them for you. The bank will put them aside and you can get them when tax payment time is here.

MAN I:

Thank you, very much.

MAN II:

That answers my question, too, lady. Thanks.

ATTENDANT I:

You see, if you decide to buy a bond now, you can get one right over there at the Treasury. And we'll give you a ride over in the Jeep.

OLD LADY:

The Jeep? My, what's that?

ATTENDANT II: (LAUGHINGLY) It's that little open car over there.

OLD LADY: Well, I do declare. I can ride in one of them. Well, I guess I will.

ATTENDANT I: (CALLING) Oh, Sergeant?

SERGEANT: (COMING IN)

ATTENDANT I: Here's another customer for you. And handle it easy now. Goodbye, ma'm, and come back and see us again when you're near here.

OLD LADY: I do declare. I certainly will. Thank you all, so much.

SERGEANT: Right with me, ma'm. (CALLING) Start up the buggy.

SOUND: (JEEP NOOK UP, L. CLOSE)

SERGEANT: Now, watch your step. Come on, I'll help you. Right into the front seat, here.

OLD LADY: (LAUGHING) I do declare. Just think what Pa and the folks back home would say — seeing me ride right up to the Treasury in one of these here Jeep buggies.

SOUND: (JEEP STARTING UP)

OLD LADY: (CALLING) Say, girl, I forgot to ask you where to get those tax notes. But I'll be back, soon's I'm through over at the Treasury. (LAUGHING EXIT)

AL: (ATTENDANTS AND LIE GOODBYES FROM OFF MIKE)

WALD: (JEEP PULLING A AY.

WALD: (UP FULL, HOLD, TELL OUT)

A MEN: And just as Defense Savings Bonds help to take money out of circulation — and thereby act with price controls to prevent inflation — so do the tax anticipation notes help out to this end. Not only do they make it easier for you to meet the heavier tax burden — by paying on the installment plan — but they provide an outlet for money that might otherwise seek to buy goods in competition with the defense program. Thus we see the government working on a broad front — as we have shown you in this and recent "REPORTS TO THE NATION". Government borrowing, by sale of Savings Bonds, to help absorb the expanding income of the country and to provide a real demand for goods when rearmament production ceases. Price ceilings to prevent inflationary spirals. Higher taxes to keep from passing too great a burden on to future generations. And tax anticipation notes to make it easier to pay as you go

until next week, then, at this same time,

I am,

Very truly yours,

Albert Warner

## TREASURY DEPARTMENT

## INTER-OFFICE COMMUNICATION

DATE August 5, 1941.

TO Secretary Morgenthau  
FROM Mr. Cochran

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£ 5,000
Purchased from commercial concerns	£63,000

The Federal Reserve Bank of New York sold £25,000 in registered sterling to the American Express Company.

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

The quotation for the Canadian dollar improved from a discount of 11-5/16% yesterday to a discount of 11% today on a small tourist demand for that currency.

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

Argentine peso (free)	.2384
Brazilian milreis (free)	.0505
Colombian peso	.5800
Mexican peso	.2070
Uruguayan peso (free)	.4380
Cuban peso	1% discount

In Shanghai, the yuan was quoted at 5-5/32¢, off 1/16¢ and sterling was also lower at 4.02, off 3/4¢.

We sold \$10,000,000 in gold to the Central Bank of the Republic of Argentina, which was added to its earmarked account.

We purchased the following amounts of gold from the earmarked accounts of the banks indicated:

\$1,125,000 from the Bank of Mexico
350,000 from the Central Bank of Chile
<u>\$1,475,000 Total</u>

No new gold engagements were reported to us today.

In London, both spot and forward silver were fixed at 23-1/2d, up 1/16d. The U.S. equivalent of this price is 42.67¢.

- 3 -

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 34-5/4¢.

We made one purchase of new production silver amounting to 50,000 ounces, for forward delivery, under the Silver Purchase Act.

The report of July 30 received from the Federal Reserve Bank of New York giving the foreign exchange positions of banks and bankers in its district shows that the total position of all countries was short the equivalent of \$5,294,000, an increase of \$226,000 in the short position since July 23. Net changes were as follows:

Country	Short Position July 23	Short Position July 30	Change in Short Position*
England**	\$ 447,000	\$ 377,000	- \$ 70,000
Europe	2,982,000	2,885,000	- 97,000
Canada	469,000 (Long)	351,000 (Long)	+ 118,000
Latin America	237,000	262,000	+ 25,000
Japan	57,000	50,000	- 7,000
Other Asia	1,914,000	2,083,000	+ 169,000
All others	100,000 (Long)	12,000 (Long)	+ 88,000
Total	\$5,068,000	\$5,294,000	+ \$226,000

\*Plus sign (+) indicates increase in short position, or decrease in long position.  
Minus sign (-) indicates decrease in short position, or increase in long position.

\*\*Combined position in registered and open market sterling.

## TREASURY DEPARTMENT

## INTER-OFFICE COMMUNICATION

DATE August 5, 1941

TO Secretary Morgenthau  
FROM Mr. Cochran

Mr. Collado of the Department of State attended the conference on Mexico held in Mr. Bell's office this noon. As he was leaving, Mr. Collado asked Mr. Bell and me if arrangements could be made for the Secretary of the Treasury to receive during this present week the Ministers of Finance of Haiti and Ecuador, respectively. The Minister from Haiti is here concerning fiscal changes in Haiti, and will presumably ask nothing of the Treasury.

Mr. Collado inquired whether Secretary Morgenthau would be prepared to discuss with the Ecuadorian Minister of Finance the request of his country for monetary assistance from the Treasury. Mr. Bell suggested that the first call which the Minister may make on Secretary Morgenthau should only be a courtesy visit. If Secretary Morgenthau, after meeting the Minister and after studying the data on Ecuador, a summary of which was provided the Secretary on Monday morning by Mr. White, then desires that the members of his staff do the usual preliminary work of conferring with the Ecuadorian Minister of Finance, this could be arranged.

Will the Secretary indicate hours which I can transmit to Mr. Collado for separate appointments for the two Ministers?



August 5, 1941

My dear Mr. Coe:

I have received all of your letters which were forwarded through the kindness of Mr. Harriman.

In regard to your letter of July 28th, please continue to send the clippings because they are very interesting and useful.

I have sent the clippings relative to what the English women are doing to Mrs. Morgenthau, and I know she will be very much interested. Please send me anything that you can pick up on what women are doing in England as I will give it to Mrs. Morgenthau, and she, in turn, I know will show it to Mrs. Roosevelt.

Yours sincerely,

(Signed) E. Morgenthau, Jr.

Mr. Frank Coe,  
The American Embassy,  
London, England.

c.c. to Mr. White.

*f 8/5/41*

By Messenger

*Raymond*  
*4/15*

*8/5/41*

*Send Via Diplomatic pouch*

PM

GRAY

Chungking via NR

Dated August 5, 1941.

Rec'd 7 a.m., 8th.

Secretary of State,  
Washington.

333, August 5.

CONFIDENTIAL.

FOX FOR SECRETARY OF THE TREASURY.

Please forward by Hewlett or earlier air mail number of sets of Executive Orders, Treasury Regulations and copies of all licenses in addition to numbers 54 to 69 which apply to China/<sup>and</sup> Japanese freezing operations. Address me care of Campbell, Hong Kong so that they can be more promptly made available to Taylor and Frese. By cable I should like to receive immediately suggestions as to licenses which experience shows most applicable and any other suggestions which might be helpful. Sending separate cable relating to information now available to us regarding previous general licenses.

Confusion and uncertainty in Shanghai and Hong Kong apparently great. Am despatching Frese to Hong Kong with new information and instructions for Taylor  
and

-2- #333, August 5, 1941, from Chungking via NR.

and after few days together in Hong Kong asking Taylor to proceed to Shanghai. To lift fog I am having questions in these two important centers canalized through Taylor and Frese with instructions to them to answer such questions as they safely can and to crystalize others in form of questions to Washington for answer having cables repeated to Chungking for my information. Besides they are to report daily to me questions which they themselves handled and other detailed observations. These together with information which I am receiving from other sources should enable me to keep you more fully advised on effects of freezing its operations and suggestions.

Difficulties of operation from Chungking indescribable. No telephone as yet. Understand it is costing 30,000 chinese dollars to have one installed. Telegraphic service slow. Last telegraphic inquiry to Central Bank from Shanghai, sent August 1, reached here August 4.

Would help greatly until situation settles down to have assigned to me two men experienced in handling frozen foreign funds problems for stationing in Hong Kong and Shanghai. I would arrange to meet them  
in

-3- #333, August 5, 1941, from Chungking via NR.

in Hong Kong and spend few days with them.

Until notified to the contrary all messages to me including reply to telegram No. 332, August 5, 3 p.m., bearing on freezing and licensing should be repeated in Shanghai for Taylor and in Hong Kong for Fresno.

GAUSS.

EMB

DES

PLAIN

CHUNGKING VIA N.R.

Dated August 5, 1941

Rec'd 5:28 p.m. 7th.

Secretary of State,  
Washington.

332, August 5, 3 p.m.

FOR SECRETARY OF TREASURY FROM FOX.

From material available here following general licenses, other than numbers fifty-four to sixty-nine, appear to apply to China and Japan as well as to other blocked countries. There is indicated in each case date of latest revision we have available: number one, as amended, June 14, 1941, numbers two, four, five, nine, eleven, and twelve as published by Treasury October 1, 1940 together with amendment three to cover by general license number thirty-four, October 10, 1940; numbers twenty-five, twenty-six, twenty-seven, twenty-eight, thirty, and thirty-one as published by Treasury October 1, 1940; numbers twenty-five, twenty-six, twenty-seven, twenty-eight, thirty, and thirty-one as published by Treasury October 1, 1940; number thirty-seven, March 1941. Cable at once texts of any of these for which there are more recent revisions and texts of any other which have general application to China and Japan. Also cable texts of any general rulings in addition to those contained

-2- 332, August 5, 1941 from Chungking via N.R.

contained in Treasury publications of October 1st, 1940. We have assumed no revisions in Executive Order number 8389 and Treasury regulations between June 14, 1941 and July 26, 1941.

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DEPARTMENT OF STATE  
WASHINGTON

August 5, 1941

In reply refer to  
EA 840.51 Frozen Credits/2756

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses five copies of a paraphrase of telegram No. 320, dated July 30, 1941, 11 a.m., from the American Embassy at Chungking, China, in regard to the present location of Fox and conferences which have been held with respect to the freezing of Chinese funds.

Enclosure:

From Embassy, Chungking,  
No. 320, July 30, 1941.  
(Five copies.)

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PARAPHRASE OF TELEGRAM RECEIVED

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

DATE: July 30, 1941, 11 a.m.

NO.: 320

It is requested that you refer to telegram No. 165, dated July 25, 1941, 7 p.m., from the Department.

Long and intensive air raids are practically immobilizing all communications and all activity at Chungking. Fox was handed the message under reference on Sunday, p.m. His present location is in the second range of hills beyond the river's south bank.

Late Tuesday afternoon I saw Generalissimo. Fox accompanied me. Also present was the Minister for Foreign Affairs.

When Generalissimo was informed of the action taken to freeze Chinese and Japanese credits, he made the comment that our action is beneficial to China.

It was formerly reported by Fox that the Minister of Finance was somewhat concerned in regard to the freezing of Chinese Government funds. However, in my conversation with the Minister for Foreign Affairs during the journey to and from the residence of the Generalissimo, he made no such comment. He expressed himself as understanding fully our action in this respect.

In our conversation with Generalissimo, Fox took occasion to make the point clear that Chinese Government and Government Bank funds had, following the initial freezing, been immediately unfrozen by license.

EA:PAK

GAUSS

COPY:MEW 8/6/41

No. 347No. 668, Department.AMERICAN CONSULATE GENERAL  
Shanghai, China

August 5, 1941.

CONFIDENTIALSubject: Political Report for July, 1941.

The Honorable

C. E. Gauss,

American Ambassador,

Peiping.

Sir:

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I have the honor to enclose a review of events  
in the Shanghai Consular District during the month of July, 1941.

Respectfully yours,

Frank P. Lockhart  
American Consul General

Enclosure:

Political Report for July, 1941.

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Copies sent to:

The Department, in quintuplicate, without  
covering despatch.  
The Embassy, Chungking.  
The Embassy, Tokyo.  
The Embassy, Hanking.  
The Commander-in-Chief, U.S. Asiatic Fleet.  
The U.S. High Commissioner, Manila.

INDEXShanghai Political ReportJuly, 1941

	<u>Page</u>
I. SUMMARY .....	1
II. <u>FOREIGN RELATIONS</u>	
A. <u>Relations with the United States:</u>	
1. Freezing of Japanese credits .....	4
2. Japanese restrictions on American rights and interests .....	6
3. Attempted taxation by Nanking of American firms.....	7
4. Visit of Mr. A. M. Fox to Shanghai .....	7
5. Celebration of the Fourth of July .....	8
6. Evacuation of American citizens .....	8
B. <u>Relations with Other Countries:</u>	
1. <u>Great Britain:</u>	
a. Freezing of Japanese credits by Great Britain.....	8
b. Japanese detention of two British coastal vessels .....	9
2. <u>France:</u>	
a. Oath of allegiance to Vichy Government required of French officials .....	10
b. Appointment of new Vichy Consular Judge .....	10
3. <u>Germany:</u>	
a. Recognition by Germany of Wang regime .....	10
b. Arrival of German evacuees from Netherlands East Indies .....	11
c. German propaganda activities .....	11
4. <u>Italy:</u>	
Recognition by Italy of Wang regime .....	12
5. <u>Japan:</u>	
a. Local reaction to Japanese moves in the Far East .....	12
b. Japanese military operations .....	14
c. Japanese pressure on Chinese Maritime Customs .....	14
d. General S. Itagaki succeeded by Lieutenant-General J. Ushiroku .....	15

	<u>Page</u>
<u>e. Activities of the Wang Ching-wei Regime:</u>	
(1) Axis recognition .....	15
(2) Establishment of Pacification Army .....	17
(3) Taxation .....	17
(4) Forcible seizure of premises of Chinese Ratepayers' Association .....	18
(5) Efforts to increase circulation of Central Reserve Bank notes .....	19
<u>C. Relations of a General International Character:</u>	
Foreign troops in Shanghai .....	19
<u>III. INTERNAL POLITICAL ACTIVITIES</u>	
A. <u>National:</u>	(Nothing to report)
B. <u>Provincial:</u>	(Nothing to report)
C. <u>Municipal:</u>	
1. Western District: financial and adminis- trative matters .....	20
2. Western District: gambling .....	20
3. Terrorism .....	21
4. Labor troubles .....	22
<u>IV. JUDICIAL AND LEGAL</u>	
Chinese Courts in the International Settlement .....	22
<u>V. NARCOTICS</u>	
(Nothing to report)	
<u>VI. COMMERCIAL, ECONOMIC AND FINANCIAL</u>	
A. Foreign trade .....	23
B. Exchange and currency .....	24
C. Industrial and other economic developments .....	26
<u>VII. CHANGES IN PERSONNEL OF THE WANG CHING-WEI REGIME</u>	
(Nothing to report)	
<u>VIII. MISCELLANEOUS</u>	
(Nothing to report)	

I. SUMMARY

Shanghai has grown accustomed to an existence marked by tension, but this tension was heightened by the series of historical events which occurred during the month. These were the occupation by Japan of southern Indo-China, and the freezing by the United States and Great Britain of Japanese and Chinese credits.

The first event was preceded locally by the circulation of an infinite number of circumstantial rumors and reports regarding Japanese military, economic and financial activities, which were variously interpreted as portending Japanese action in Siberia or the South Seas. Actually, there were some withdrawals of Japanese troops from the Lower Yangtze area, the imposition of restrictions on radio, telegraph and telephone communications and travel between Shanghai and Japan, and the sale of approximately U.S. \$12,000,000 by Japanese banks on the local money market.

The action of the United States Government in freezing Japanese and Chinese credits immediately following the announcement that Japan would occupy southern Indo-China was welcomed by American and other

- 2 -

foreign business men of pro-Allied sympathies, and was also supported by those Chinese sympathetic to Chungking. However, they anticipated immediate retaliatory action by the Japanese, and foresaw that Shanghai's future would be marked by great political and economic hardship.

These presentiments were well founded. The Japanese retaliated swiftly, first by the enforcement of restrictions upon all Japanese transacting any type of business with Americans and the nationals of other countries who had frozen Japanese credits; second, by the imposition of certain export control measures through the medium of the Shanghai Customs, which made impossible the exportation from Shanghai to any country other than Japan or the occupied areas of many important items of export trade without the express approval of a senior Japanese officer of the Shanghai Customs. These Japanese measures were supported by the Wang regime, which promulgated similar restrictions on business transactions between Chinese and specified foreign nationals.

The freezing of Japanese and Chinese credits and the retaliatory action taken by the Japanese created much uncertainty and confusion in local banking.

- 3 -

business, financial and shipping circles. The value of the Chinese dollar declined sharply, but strengthened a few days later. The local stock market was similarly affected. The application of Japanese export restrictions was expected seriously to affect the local export market; while British, American and Dutch steamship companies anticipated various complications and difficulties, and perhaps the complete closure of Shanghai to their vessels. Although it was not entirely clear as the month closed to what extent foreign and Chinese interests and trade in this city would be affected, it was the consensus of opinion that American and non-Axis interests would suffer, and might ultimately be sacrificed to the necessity of resisting further Japanese acts of aggression in the Pacific.

These developments overshadowed the new customary Japanese restrictions on American rights and interests; the continuation of Japanese efforts to force the Inspectorate General of Customs to accede to the appointment of a Japanese Commissioner of Customs at Shanghai; the efforts made by the Nanking regime to assume control of the Chinese Courts in the International Settlement; the recognition of the Nanking

- 4 -

regime by the Axis powers and their unwilling satellites; the campaign launched by the Japanese against the remnants of the New Fourth Route Army which had settled in northern Kiangsu; the acts of terrorism which continued with monotonous frequency; the continued labor unrest and the distress and misery occasioned by soaring commodity prices and general uncertainty and anxiety regarding the future.

## II. FOREIGN RELATIONS

### A. RELATIONS WITH THE UNITED STATES.

1. Freezing of Japanese credits. The freezing by the United States Government on July 26 of Japanese credits was a development of historic importance and far-reaching significance. It was welcomed locally by Americans and others of pro-Allied sympathies as a definite and clear indication that the United States intends to resist any further aggressive move which may be made by Japan.\* It was realized, however, that the Japanese would take retaliatory action

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\* Shanghai's telegram No. 954, July 28th.

- 5 -

and that American commercial and other interests in the Shanghai area would inevitably suffer.

Two days after the United States took action to freeze Japanese credits, the Japanese Consul General issued a notice to all Japanese within his jurisdiction prohibiting all business transactions with American firms and individuals without the express approval of the Japanese authorities.\* Inasmuch as all Chinese produce entering Shanghai for ultimate export abroad is under direct or indirect Japanese control, it was apparent that the rigid enforcement of the Japanese prohibition against the transaction of business with Americans would seriously affect the business of American firms engaged in the export of Chinese products. Not content with the prohibition mentioned, the Japanese authorities also banned the export, without their express permission, of fifteen commodities from Shanghai to all countries with the exception of Japan and the occupied areas.

Although these retaliatory measures had been in effect for only a few days, a number of complaints were received from local American firms whose business had been adversely affected. It was foreseen

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\* Shanghai's telegram No. 963, July 29th.

- 6 -

that the restrictive measures imposed upon American business interests in the Shanghai area would be progressively tightened.\*

2. Japanese restrictions on American rights and interests. In general, Japanese restrictions upon American rights and interests which have been in effect since the outbreak of Sino-Japanese hostilities remain unchanged. However, on July 14, the procedure regarding the shipment from Shanghai to Yangtze river ports of supplies and equipment belonging to American and other Occidental companies and nationals was changed. Permits must be obtained from the Japanese military authorities as heretofore, but actual shipments will be handled by a Japanese transportation company which will charge a fee varying from Yen 20 to Yen 24 per cubic ton. In this connection the Japanese Consul General sought to emphasize that this change of procedure did not mean that the Japanese company concerned would operate a commercial transportation service. However, the appointment of a Japanese transportation company to handle shipments, and the charging of handling fees, would seem to

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\* Shanghai's telegram No. 987, July 31, 1 p.m.

- 7 -

place the shipment of goods up river on a more obviously commercial basis.

No satisfactory settlements were effected of pending cases involving Japanese interference with American business, and there appeared to be less disposition on the part of the local Japanese authorities to effect a settlement of these cases.

3. Attempted taxation by Nanking of American firms. During the month, the Japanese-sponsored Nanking regime sought to collect from American firms located in the International Settlement and French Concession a variety of taxes such as an income tax, an amusement tax, a stamp tax, and a tax on paper. However, the request for payment of these taxes was not vigorously pressed, and thus far the Nanking regime has not sought to make a definite issue of this matter.

4. Visit of Mr. A. M. Fox to Shanghai. Mr. A. M. Fox, American member of the Stabilization Fund Committee, spent a week in Shanghai. He interviewed a large number of American and Chinese business men and bankers, and is said to have acquired a thorough grasp of the complicated financial situation in Shanghai. His visit aroused much interest, and lo-

-3-

cal financial circles speculated as to the probable nature of his recommendations regarding Shanghai.

5. Celebration of the Fourth of July. The Fourth of July was celebrated by the American community in the customary manner but with more than usual enthusiasm. The day was marked by a parade of the Fourth Marines, an official reception held at the Columbia Country Club, a reception at the American Club given by the members of the Club, a baseball game, a special program broadcast over the local American broadcasting station, and a dinner dance at the Country Club.

6. Evacuation of American citizens. Eighty-three Americans sailed from Shanghai during the month of July. Of this number, approximately fifty per cent were residents of this consular district. Approximately 2,200 Americans, including 400 Filipinos, remain in Shanghai.

B. RELATIONS WITH OTHER COUNTRIES.

1. GREAT BRITAIN.

a. Freezing of Japanese credits by Great Britain.

Parallel action taken by Great Britain and the British

Dominions in freezing Japanese credits was fully endorsed by the local British community, which welcomed this sign of Anglo-American solidarity.

The retaliatory measures taken by the local Japanese authorities against Americans were also made applicable to British subjects. In consequence, local British commercial interests were equally affected.

b. Japanese detention of two British coastal vessels. Early in the month the Japanese military authorities forced two British coastal vessels, the S.S. KWANGTUNG and the S.S. HILDA MOLLER, to unload part of their cargo. In the case of the S.S. KWANGTUNG, the cargo affected consisted of textile machinery sold by the Bank of China to the Netherlands East Indies Government, which, after considerable negotiation with the Japanese authorities, finally obtained release of the machinery. In the case of the S.S. HILDA MOLLER, the Japanese declared that a considerable quantity of miscellaneous cargo aboard this vessel was destined for Chungking and therefore insisted that all such cargo be unloaded.\* Both vessels were allowed to proceed after the cargo in ques-

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\* Shanghai's telegram No. 917. July 23. 4 p.m.

tion, which had been passed by the Shanghai Customs, had been unloaded at Shanghai.\*

2. FRANCE.

a. Oath of allegiance to Vichy Government required of French officials. On July 2 the French Ambassador to China issued orders that all French employees of French Consulates, Councils, police forces, and administrative organizations in China must take an oath of allegiance to the Vichy Government and must submit a written pledge to obey without question all orders issued by that Government and by Marshal Petain. Eight days were allowed within which to comply with this order. The Ambassador warned that all Frenchmen failing to comply would be suspended from duty.

b. Appointment of new Vichy Consular Judge. Mr. Jean Coppin, Advocate General of the Court of Appeals in Saigon, arrived in Shanghai and assumed office on July 21 as French Consular Judge.

3. GERMANY.

a. Recognition by Germany of Wang regime. On July 1st the German Government announced that it had

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\* Shanghai's telegram No. 949, July 26, 5 p.m.

-11-

recognized the Wang Ching-wei regime. Dr. M. Fischer, German Consul General at Shanghai and at one time Charge d'Affaires to the National Government, was named Charge d'Affaires to the Nanking regime. Dr. Fischer proceeded to Nanking and is understood to have called upon various officials in that city. However, he is not believed to have formally presented his credentials thus far.\*

Mr. C. Zinsser, former Charge d'Affaires to Honduras, assumed charge of the German Consulate General at Shanghai. It was reported that either the German Consul General at New York or San Francisco would be assigned to Shanghai.

b. Arrival of German evacuees from Netherlands East Indies. On July 10 the ASAMA MARU arrived at Shanghai carrying 675 German women and children who, by arrangement with the Netherlands East Indies Government, had been evacuated from the Netherlands East Indies. About 120 disembarked at Shanghai and are to be cared for by the local German community. The others proceeded to Japan.

c. German propaganda activities. There has been a steady influx of Germans into Shanghai during the

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\* Shanghai's telegram No. 795, July 3, 2 p.m.

past few months, the majority of whom are agents attached to political or propaganda organizations of the German Government. German propagandists are extremely active, and there has also been a noticeable increase in the quantity of German propaganda being disseminated in this city. The local German broadcasting station is understood to have purchased equipment to increase the strength of the station to seven kilowatts.\*

4. ITALY.

Recognition by Italy of Wang regime. The Italian Government also extended recognition to the Nanking regime early in July. The Italian Ambassador to China visited Nanking and called on various officials, but had not formally presented his credentials at the end of the month.

5. JAPAN.

a. Local reaction to Japanese moves in the Far East. The rumors current locally of an imminent Japanese move in the Far East were momentarily dissipated by the resignation on July 16 of the Japanese Cabinet

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\* Shanghai's telegram No. 849, July 14, 1 p.m.

and the formation of a new Government. However, circumstantial reports of Japanese preparations to occupy Indo-China and to materially strengthen the army in Manchuria commenced to circulate again shortly after the inauguration of the new Cabinet. That there was some substance to these rumors was evidenced by certain significant measures taken both in Japan and in the occupied areas of China. It was reliably reported that a considerable number of Japanese troops had been withdrawn from the Lower Yangtze Valley area. Other significant measures were the imposition of restrictions on radio, telephone and telegraph communications, and on travel between Shanghai and Japan, and the sale by local Japanese banks of approximately \$12,000,000 United States Currency on the Shanghai money market.\* It was believed by local observers that these measures portended a definite Japanese move.

On July 24th it was announced at Vichy that the French Government had agreed to Japanese occupation of certain strategic air and naval bases in southern Indo-China. This development set in motion a series of measures and counter-measures which, as mentioned elsewhere in this summary, reacted profoundly upon Shanghai.

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\* Shanghai's telegram No. 915, July 23, 1 p.m.

b. Japanese military operations. The Japanese military spokesman at Shanghai announced that Japanese forces in the Lower Yangtze Valley had commenced operations against the remnants of the New Fourth Army, which, it will be recalled, had settled down in northern Kiangsu after fleeing from Anhwei where it had been attacked earlier in the year by Central Government troops. The Japanese announced that Yencheng, headquarters of the New Fourth Army in northern Kiangsu, was captured on July 21; that Fowning, another Red stronghold in northern Kiangsu, was occupied on July 29; that the Chinese forces had suffered heavy losses in killed and wounded; and that they expected shortly to liquidate completely the New Fourth Army in that area. These operations were said to have been carried out with very slight losses to the Japanese.

c. Japanese pressure on Chinese Maritime Customs. Japanese pressure on the Inspector General of Customs continued. It was clearly intimated to the Inspector General that the Japanese would be satisfied with nothing less than the appointment of a Japanese as Commissioner of Customs at Shanghai and a substantial increase in the number of Japanese Customs employees.\*

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\* Shanghai's telegram No. 843, July 12, 11 a.m.

- 15 -

In an effort to force acceptance of these demands, the Japanese continued to withhold funds from the Inspectorate General.

d. General S. Itagaki succeeded by Lieutenant-General J. Uahiroku. Lieutenant General J. Uahiroku, Commander of Japanese forces in South China, was appointed Chief of Staff to the Commander-in-Chief of Japanese forces in China, in succession to General S. Itagaki who was appointed Commander of the Korean Army and also a member of the Supreme War Council.

e. Activities of the Wang Ching-wei regime.

(1) Axis recognition. During the first week in July, Germany, Italy, Bulgaria, Hungary, Rumania, Slovakia, Croatia and Spain extended recognition to the Nanking regime. However, the Rumanian Ambassador to Japan, who has also been accredited to the Nanking regime, appeared to be the only diplomatic representative who formally presented his credentials during the month. The diplomatic representatives of other Governments, notably Germany and Italy, seemed to be somewhat reluctant to take this final step. In Nanking, the hope was expressed that the Vichy Government would also shortly extend recognition. In view of re-

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- 16 -

cent developments in Indo-China, such a step is not improbable.

Nanking and Japanese-controlled newspapers were jubilant. These publications declared that the Nanking regime had won international recognition; that its power and prestige had been greatly enhanced; and that the "border regime" at Chungking had been dealt a mortal blow. Numerous statements were made regarding this event by various officials at Nanking who no doubt derived some satisfaction from this sudden spate of recognitions, even though some of the Governments concerned, such as the Government of Croatia, were very recent creations of the Axis.\*

There was considerable speculation as to just what concrete benefits would accrue to the Nanking regime as a result of this development. It was thought by some observers that Ambassador Honda's efforts to induce the Japanese Government to give greater economic and political authority to Wang Ching-wei would receive impetus from Axis recognition of the Nanking regime. However, the recent Japanese Cabinet changes may result in modification of the decision said to have been reached by the preceding Cabinet to

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\* Shanghai's telegram No. 797, July 3rd.

- 17 -

give Nanking greater authority. Furthermore, the depressing outlook facing Japan as a result of the partial imposition of sanctions by the United States, Great Britain and the Netherlands East Indies may force her to hold and exploit to the utmost all raw materials and markets in occupied China, and may make her reluctant to permit any substantial economic control to pass from her hands into those of Wang Chingwei.

(2) Establishment of Pacification Army. Considerable publicity was given by the Nanking-controlled press to the establishment of a Pacification Army, which it was declared would gradually pacify the territories under the nominal jurisdiction of Nanking and bring about an ultimate withdrawal of Japanese troops from Central China. It was reported that plans had been drawn up for the formation of a Pacification Army numbering 500,000 men, to be partly officered by Japanese. It was further reported that the loan of Yen 300,000,000 received from Japan was to be utilized largely for the purpose of raising and equipping this army.

(3) Taxation. Tax representatives of the Nanking regime were unusually active during July. Heretofore,

-15-

American and other Occidental firms located in the International Settlement and the French Concession have not been directly approached by Nanking's tax agents, although for some time Occidental firms have been paying certain taxes to the Nanking Consolidated Tax Bureau, which has offices in the International Settlement. However, during July, American and other foreign firms were requested by Nanking tax organizations to pay a variety of taxes, as mentioned elsewhere in this report. Possibly these requests were made to Occidental firms in error; but it is more likely that Nanking feels its position has been so strengthened by Axis recognition and promised increased support from Japan as to warrant an attempt to force collection of taxes from American and other foreign nationals.

(4) Forcible seizure of premises of Chinese Ratepayers' Association. On July 18th Nanking agents assisted by Japanese in plain clothes forcibly entered and took over the premises of the Chinese Ratepayers' Association which is located in the International Settlement. The premises were empty and had not been used for some time. Several similar attempts had been made previously, but had not been successful due to

the intervention of the Shanghai Municipal Police. However, in this instance it is understood that police intervention was very half-hearted.

(5) Efforts to increase circulation of Central Reserve Bank notes. Strenuous efforts to increase the circulation of Central Reserve Bank notes were continued. The two Chinese members of the Shanghai Provisional Council who are affiliated with the Nan-king regime endeavored to induce the Council to accept these notes in payment of municipal taxes and also to interpose no obstacle to their free circulation in the International Settlement.\* These efforts met with no success, but no doubt renewed pressure will be exerted in due course to force acceptance of these notes in the International Settlement.\*\*

C. RELATIONS OF A GENERAL INTERNATIONAL CHARACTER.

Foreign troops in Shanghai. On July 1 the following foreign troops, exclusive of Japanese, were reported to be in Shanghai:\*\*\*

American:	52 officers	857 enlisted men
Italian:	6 officers	215 enlisted men
French:	25 officers	1,045 enlisted men

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\* Shanghai's telegram No. 825, July 10, 10 a.m.  
 \*\* Shanghai's telegram No. 880, July 17, 5 p.m.  
 \*\*\* Shanghai's telegram No. 837, July 11, 2 p.m.

- 20 -

III. INTERNAL POLITICAL ACTIVITIES

- A. NATIONAL: (Nothing to report)
- B. PROVINCIAL: (Nothing to report)
- C. MUNICIPAL:

1. Western District: financial and administrative matters. Negotiations continued throughout the month between representatives of the Shanghai Provisional Council and the Special Municipality of Shanghai regarding financial and administrative matters in the western district. The vexatious question regarding the collection of municipal taxes in the western extra-Settlement roads area and the establishment of a Revenue Office for the collection of such taxes was the subject of protracted negotiations. Some progress is understood to have been made, particularly with regard to the question of the licensing of automobiles using the roads in the western district and also those in the International Settlement and the French Concession.

2. Western District: gambling. Efforts were made by the Commissioner of the recently-created Special Western District Police Force to suppress the

- 21 -

numerous gambling establishments which have flourished in that district. His efforts met with some success. The majority of these gambling establishments were raided and closed during the month, and a large number of arrests were effected. It is uncertain, however, whether the Commissioner will be able to keep these establishments closed, in view of the large revenue derived from this source by certain powerful interests.

3. Terrorism. Acts of terrorism continued with monotonous frequency:

On July 1 a Chinese employee of the Japanese Gendarmerie was seriously wounded by gunmen.

On July 6 a member of the Japanese Landing Party was shot by Chinese terrorists.

On July 8 a former member of Nanking's Special Service Corps was shot dead in his home.

On July 16 a Russian police officer of the Shanghai Municipal Police was murdered by an unknown assailant.

On July 21 an officer of Nanking's Peace Preservation Army was assassinated.

On July 26 a Japanese bluejacket was mortally wounded by an unidentified assassin.

-23-

On July 27 a Japanese soldier was shot and fatally wounded by an unknown gunman.\*

Some of these acts of terrorism, particularly those in which Japanese were killed or wounded, resulted in the searching and detention of both foreigners and Chinese in the affected areas, the closure of bridges across Soochow Creek, and the adoption of other rigorous measures.

4. Labor troubles. There was a slight improvement in the labor situation during the month. A settlement was effected of the Commercial Press strike involving several thousand employees. However, several hundred Chinese employed by one of the large foreign apartment houses went on strike. Their demands were regarded by the management as so unreasonable that it announced its intention to close the apartment house and so advised tenants, many of whom moved out.

#### IV. JUDICIAL AND LEGAL

##### Chinese Courts in the International Settlement.

Although no overt moves were made by the Japanese or the Wang regime to seize the Chinese Courts in the International Settlement, reliable private advices indicated that the Nanking regime was determined to

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\* Shanghai's telegram No. 969, July 29, 5 p.m.

take over the Courts.\* Mayor Chen of the Special Municipality of Shanghai, who is acting on behalf of Nanking in this matter, was strongly urged, informally and unofficially, to make no attempt to seize the Courts. It was further pointed out to him that any such arbitrary action might seriously disturb peace and order in Shanghai.\*\*

V. NARCOTICS

(Nothing to report)

VI. COMMERCIAL, ECONOMIC AND FINANCIAL

A. Foreign Trade.

According to Customs returns, imports into Shanghai for the month of June were valued at gold units 22,700,000, a decrease of 13 per cent as compared with the month of May. Exports amounted to N.C.\$215,400,000, an increase of 9 per cent as compared with May.

Imports from non-Yen-bloc countries amounted to U.S. \$14,075,000, a decrease of 12 per cent. The British Empire supplied 32 per cent of these imports; the United States and the Philippines Commonwealth, 32 per cent; the Netherlands East Indies, 15 per cent;

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\* Shanghai's telegram No. 524, July 9, 4 p.m.  
\*\* Shanghai's telegram No. 944, July 26, 1 p.m.

-24-

French Indo-China, 12 per cent; and Germany, 4 per cent.

Shanghai's exports to non-Yen-bloc countries amounted to U.S. \$10,339,000, an increase of 7.5 per cent, of which the British Empire took 48 per cent; the United States and the Philippines Commonwealth, 35 per cent; and the Netherlands East Indies, 7 per cent.

Imports from Yen-bloc countries amounted to Japanese Yen 6,996,000, which was slightly lower than recorded figures for May. Exports to Yen-bloc countries amounted to local Yen 25,321,000, an increase of 29 per cent. However, because of the outbreak of hostilities between Germany and Soviet Russia, Shanghai shipments to the Kwantung Leased Territory in July are expected to register a sharp decline.

B. Exchange and Currency.

The Shanghai open market foreign exchange rates fluctuated considerably during the month. The opening rate on July 3rd was 5-13/32 cents United States Currency, and after advancing to 5-7/16 on July 17th, dropped to a low of 5 on July 28th and closed on July 31st at 5-3/16.

-25-

Japanese banks in Shanghai sold approximately U.S. \$12,000,000 during the first three weeks of July, apparently in anticipation of American freezing measures. The freezing of Japanese and Chinese credits in the United States on July 26 threw the local market into great confusion. Rates declined rapidly due to frantic covering by speculative shorts. However, when the British freezing order was announced in Shanghai on July 29th, the local market had become somewhat calmer. Merchants were given full exchange cover by the fourteen licensing banks either in United States dollars or sterling. The local free sterling parity rose to approximately U.S. \$4 toward the end of the month, as compared with U.S. \$3.91 at the beginning of July. Speculative transactions in exchange, aside from the "set-off" of outstanding contracts, have been completely suspended as a result of the freezing order.

Shanghai general stocks and rubber shares slumped following the freezing orders, some shares losing as much as 25 per cent. However, the majority of these shares recovered toward the end of the month.

-26-

Japanese military scrip was quoted at around N.C. \$2.35 during the month. The Central Reserve Bank of the Nanking regime announced its note issue on July 19 as C.R.B. \$73,000,000, compared with C.R.B. \$48,000,000 at the beginning of June.

C. Industrial and other economic developments.

The cost of living index for Chinese industrial workers in July rose to 800.32, an increase of 5.6 per cent over June.

Shanghai commodity prices advanced steadily during the first three weeks of July, but rose very sharply after the freezing order issued by the United States on July 26. A renewed trend towards commodity hoarding was noticeable at the end of the month. Importers did not cancel orders, but on the contrary in some instances increased them, in anticipation of export restrictions abroad and an acute shipping shortage.

The export ban enforced by the Japanese through the medium of the Shanghai Customs on fifteen commodities is likely seriously to affect various industrial enterprises in Shanghai. Manufactures of metals,

-27-

chemicals, dyes and paints, and rubber goods represent a considerable portion of Shanghai's exports and are likely all to be affected by the export ban. Fortunately, cotton yarn and piece goods, which represent nearly half of Shanghai's exports, were removed from the list. It should be noted that the ban does not include the principal items of Shanghai's exports to the United States, such as bristles, tung oil, and raw silk. The only item affected is cotton waste. However, there are a number of American firms engaged in the manufacture or distribution of metals and machinery, chemicals, dyes and paints, and these firms immediately experienced difficulties in effecting the export abroad of such commodities.

VII. CHANGES IN PERSONNEL OF THE  
WANG CHING-WEI REGIME.

(Nothing to report)

VIII. MISCELLANEOUS  
(Nothing to report)

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YDEPARTMENT OF STATE  
WASHINGTON

August 5, 1941

In reply refer to  
EA 340,51 Frozen Credits/2842

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits herewith copies of the paraphrase of a telegram from the American Consulate General, Harbin, China, dated August 2, 1941, concerning the bearing of the Manchukuo freezing order on transactions in that country.

## Enclosure:

Paraphrase of telegram from Harbin,  
August 2, 1941.

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consulate General, Harbin, China.

DATE: August 2, 1941, 11 a.m.

American missionaries rescued their funds deposited in banks before the Manchukuo freezing order became effective. Apparently, American companies had sufficient funds to meet their payrolls for July, and permission was granted to a subsidiary of the British American Tobacco Company to withdraw for its payrolls upon furnishing evidence. The International Harvester Corporation regarded its deposits in the country (amounting to more than a million local dollars) as virtually blocked. Jewish-American firms mostly had overdrafts. The authorities are not pressing interference with American business men, but Japan and the United States are being watched.

This telegram is being sent to Peiping and Tokyo and to the Department, and repeated to Shanghai and Chungking, and by mail to Dairen and Mukden.

GOURLEY

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YDEPARTMENT OF STATE  
WashingtonIn reply refer to  
SA 840.51 Frozen Credits/2831

August 5, 1941

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits herewith copies of the paraphrase of telegram no. 59, dated August 1, 1941, from the American Consulate General at Hankow concerning freezing regulations which have been issued there by the Japanese Consulate General and the puppet mayor of Hankow.

## ENCLOSURE:

Paraphrase of no. 59 from Hankow,  
August 1, 1941.

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## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consulate General, Hankow, China.

DATE: August 1, 1941, 2 p.m.

NO. : 59.

Various freezing regulations were issued on the 30th of July by the puppet mayor of Hankow and the Consul General of Japan, respectively. All warehouses and firms, including Japanese ones, were at the same time picketed by plainclothes police and the movement of all goods thus prevented except those for which local Japanese or Chinese authorities are to grant permits. Because of the absence of foreign trade this picketing has not up to this time been very effective, except in the cases of Chinese who are hastily removing from British warehouse cargo and personal belongings which have been stored there for some time.

British, American, Japanese and other companies have suffered only minor inconveniences. The funds of British concerns which are deposited in Japanese banks are blocked. The British are endeavoring to relieve the situation caused by their own freezing orders which prohibit the withdrawal of funds from accounts in their banks.

Telegram being sent to the Department and repeated to Shanghai, Feiping and Chungking.

SPIKER

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YDEPARTMENT OF STATE  
WASHINGTON

August 5, 1941

In reply refer to  
EA 840.51 Frozen Credits/2836

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits herewith copies of the paraphrase of a portion of a telegram received from the American Consulate General at Canton, dated August 3, 1941, concerning countermeasures which are being taken by the Japanese and Hanking regime against the United States and British blocking of funds.

## Enclosure:

Paraphrase of no. 43 from Canton,  
August 3, 1941.

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## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consulate General, Canton, China.

DATE: August 3, 1941, noon.

NO.: 43.

It has been announced here that countermeasures are being taken by the Japanese and Nanking regime against the United States and British blocking of funds. It is necessary to obtain a permit from the military authorities of Japan in order to move any cargo to or from the concession of Great Britain. It does not appear that any action has been taken against foreign banks operating in the concession, although it is understood that the Chinese are subjected to a thorough searching in order to prevent the movement to or from the British concession of substantial amounts of money.

MYERS

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PLAIN

Hong Kong via NR

Dated August 5, 1941

Rec'd 4:25 a.m., 6th

Secretary of State,

Washington.

257, Fifth.

By amending order No. 475 of April 24, 1940, to include radio parts, Hongkong Government prohibited effective July 31 their importation except by license. To conserve British financial resources, licenses under this order have been in practice issued only to imports from sterling bloc countries.

Sent to Department, repeated to Shanghai.

BRUINS.

XLP

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PLAIN

HONG KONG VIA N.E.

Dated August 5, 1941

Rec'd 3:30 p.m. 8th

Secretary of State,  
Washington.

290, Fifth.

Government order No. 897 of July 31, 1941, places Hong Kong in the sterling area and extends financial restriction, formerly applicable only to British subjects to all nationalities. These regulations restrict the export, sale, transfer or hypothecation of securities and empower the Governor to require pay resident of Hong Kong to sell his foreign currency or assign his foreign bank balances to the government at government established prices and to report his securities. Governor may restrict banks operations in connection with colony's entry into sterling bloc. Foregoing became effective here August 2 inclusive. Government GAZETTE containing above orders forwarded by air mail. Order No. 918 of August 1 authorizes seizure and forfeiture to crown of currency being transmitter for benefit of enemies from foreign countries to other countries outside the colony. Sent to the Department. Repeated to Chungking, Peiping, Shanghai.

REQUINS

DJD  
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BS

PLAIN

Singapore

Dated Aug. 5, 1941

Rec'd. 8:45 a.m.

Secretary of State,  
Washington.

190, Fifth.

Irving Trust Company, New York has cabled Overseas Chinese Banking Corporation Singapore that recent regulations have frozen latter bank's accounts in New York. Controller of Foreign Exchange assures me that this bank is considered British, has its head office in Singapore where it is incorporated, and that it, as is the case with even local branches of firms in China, is subject to Malayan freezing regulations only as regards its accounts with firms or individuals resident in China. Reliably informed that over 96 percent of stock owned by Malayan residents. Freezing and exchange control regulations effectively preclude possibility of utilization of Malayan assets by owners in China. Subject bank would appreciate Department's assistance in securing unblocking of its assets in New York which are used primarily to finance rubber shipments from Malaya to United States.

PATTON

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Budapest, Hungary.

DATE: August 5, 1941, 2 p.m.

No.: 479

The following is strictly confidential for the Secretary.

A high member of the Government has informed me that German interests are attempting to purchase the American rights in the oil producing subsidiary of the Standard Oil Company of New Jersey. The price involved is \$30,000,000 which would be paid through Forban in New York. The Standard Oil Company is said to be seriously contemplating the sale of the property. During a recent visit Glodius requested from the Hungarian Government permission to transfer title to German ownership. This must be approved for political reasons. Reliable sources indicate that the daily output now amounts to 10,000 barrels. This output might perhaps be increased three or four fold for approximately two years.

Until you receive the report which I am forwarding by the next courier, I suggest that if possible the United States Government refuse to permit the transfer and keep the matter as confidential as possible.

1871 WTB 2 b7c 15 25

864.6363/47

EA:GL:NGE

PARAPHRASE OF TELEGRAM SENT

298

TO: American Consul, Barcelona, Spain.

DATE: August 5, 1941., 9 p.m.

NO.: 65.

The State Department has a keen interest in the reported sale of the Santa Helena to the Spanish Government Oil Monopoly and information concerning this transaction is urgently requested. The Santa Helena until recently of Panamanian registry, is a 7,175 deadweight ton tanker, and since May 21 of this year it has been lying at Port Arthur, Texas. This boat was registered in the name of Compania Primera de Navegación, Ltd., whose president and principal owner is a Mr. Jossifoglu, a Greek. According to reliable reports Mr. Jossifoglu is in jail in Barcelona.

The CAMPSA line (Compania Arrendataria del Monopolio de Petroleo, S. A.) had chartered this boat for three trips. The present trip was the last one. There were several reasons for its not leaving Port Arthur, among them unpaid bills, two masters and crew trouble.

Papers to clear this vessel were not requested for some time, since the master aboard the boat, representing Mr. Jossifoglu, the owner, declined to relinquish the ship to the new master, representing the CAMPSA Line, pending the receipt of approval of the new arrangement from Mr. Jossifoglu. It would appear that all the efforts made toward this end availed nothing. It was

It was reported that the Government of Spain was to have the assistance of the Texas Oil Company in this purchase, although the information which we now have would indicate that this company is no longer in the picture, but, however, that Captain Torkild Rieber, who was formerly with the Texas Company, still has an interest in the case and is perhaps directly concerned with financing the purchase of this boat.

The Department has been informed by the American Ambassador in Panama that the Panamanian Consul General in New Orleans is in receipt of a cable from the Panamanian Consul in Madrid, dated the 30th of July, 1941, in which it is stated that a contract for the sale of this ship to the Spanish Petroleum Monopoly was signed in his presence according to the previous authorization of the Ministry of Finance of Panama, and, further, requesting that he communicate with the Spanish Consul at New Orleans in order to effect the transfer of the registry of the vessel. It is stated by the Government of Panama that permission for the sale of this ship and for the transfer of registry from Panama to Spain was originally given on the 14th of May 1941, and since the sale had been effected, there remained no other course to follow but to concur.

The Department is informed by the Coast Guard that the name of the boat has been changed to the Gampachano, and that

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that it has been transferred to the flag of Spain. Clearance papers were requested under its new name, indicating that several difficulties which had previously delayed the ship's departure, had been overcome. It may be said, for your information, that the Department does not wish to see this vessel leave until after the clearance of all details in connection with the sale and transfer of this ship to the Spanish Oil Monopoly.

This telegram has also been sent to the American Embassy at Madrid with the request that an investigation be made of the details of the transaction as it may be possible to obtain them at Madrid. You are requested to make every effort to learn the whereabouts of Mr. Jossifoglu and, if possible, to obtain from him all information pertaining to the sale of the Santa Helena.

HULL  
(PCB)

RAJCC:IM

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RAIVCL (MCK)

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Madrid, Spain.

DATE: August 5, 1941, 9 p.m.

NO.: 414.

The State Department has a keen interest in the reported sale of the Santa Helena to the Spanish Government Oil Monopoly and information concerning this transaction is urgently requested. The Santa Helena until recently of Panamanian registry, is a 7,175 deadweight ton tanker, and since May 21 of this year it has been lying at Port Arthur, Texas. This boat was registered in the name of Compania Primera de Navegación, Ltd., whose president and principal owner is a Mr. Jossifoglu, a Greek. According to reliable reports Mr. Jossifoglu is in jail in Barcelona.

The CAMPSA line (Compania Arrendataria del Monopolio de Petroleo, S. A.) had chartered this boat for three trips. The present trip was the last one. There were several reasons for its not leaving Port Arthur, among them unpaid bills, two masters and crew trouble.

Papers to clear this vessel were not requested for some time, since the master aboard the boat, representing Mr. Jossifoglu, the owner, declined to relinquish the ship to the new master, representing the CAMPSA Line, pending the receipt of approval of the new arrangement from Mr. Jossifoglu. It would appear that all the efforts made toward this end availed nothing.

It was

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It was reported that the Government of Spain was to have the assistance of the Texas Oil Company in this purchase, although the information which we now have would indicate that this company is no longer in the picture, but, however, that Captain Torkild Rieber, who was formerly with the Texas Company, still has an interest in the case and is perhaps directly concerned with financing the purchase of this boat.

The Department has been informed by the American Ambassador in Panama that the Panamanian Consul General in New Orleans is in receipt of a cable from the Panamanian Consul in Madrid, dated the 30th of July 1941, in which it is stated that a contract for the sale of this ship to the Spanish Petroleum Monopoly was signed in his presence according to the previous authorization of the Ministry of Finance of Panama, and, further, requesting that he communicate with the Spanish Consul at New Orleans in order to effect the transfer of the registry of the vessel. It is stated by the Government of Panama that permission for the sale of this ship and for the transfer of registry from Panama to Spain was originally given on the 14th of May 1941, and since the sale had been effected, there remained no other course to follow but to concur.

The Department is informed by the Coast Guard that the name of the boat has been changed to the Campachano, and that

that it has been transferred to the flag of Spain. Clearance papers were requested under its new name, indicating that several difficulties which had previously delayed the ship's departure, have been overcome. It may be said, for your information, that the Department does not wish to see this vessel leave until after the clearance of all details in connection with the sale and transfer of this ship to the Spanish Oil Monopoly.

It is desired by the Department that you telegraph all obtainable information in connection with the sale of this ship. This telegram is also to be sent to the American Consul General at Barcelona with the request that he endeavor to ascertain the whereabouts of Mr. Jossifoglu and, if possible, to obtain from him all information pertaining to the sale of this vessel.

HULL  
(PCD)

RA:JCC:LM

819.852/40

EA:VCL (MCE)

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Panamá, Panama.

DATE: August 5, 1941, 10 p.m.

NO.: 171.

Refer to Embassy's No. 212, August 3, 9 a.m.

In order to keep you informed, the Santa Helena's registration has been revoked. (Refer to telegram No. 145 from the Department under date of the 19th of July at 9:00 p.m.) The ship's name has been changed to the Campachano, and it has been transferred to Spanish registry. Request has been made for the clearance papers although this has not yet been given.

The Department will continue to withhold these clearance papers until it has learned all pertinent details. When such information has been received, this Government's course will be determined. To this end it is requested by the Department that the local Panamanian representative of Mr. Jossifoglu, the "former" owner, be contacted in an endeavor to ascertain the exact nature and validity of his action of the 14th of May, requesting the transfer of the ship from Panamanian registry to Spanish registry. Precisely, endeavor to learn the content of his instruction from Mr. Jossifoglu, and telegraph the Department.

HULL  
(PCD)

RAJCC:LM

819.852/40

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(moe)

RESTRICTED

G-2/2657-320; No. 459

M.I.D., W.D. 12100M., August 5, 1941

SITUATION REPORTI. Eastern Theater.

Ground: German troops advancing northward into Estonia have captured Tapa a railroad junction 50 miles southeast of Tallin. The Leningrad front along the Luga river is quiet. Heavy fighting is occurring in the Cholm area south of Lake Ilmen.

The German High Command reports the completion of a new encirclement in an area 60 miles southeast of Smolensk.

In the upper Ukraine the Russian report heavy fighting northwest and southwest of Kiev "in the areas of Korosten and Belaja Zerkow".

In the lower Ukraine German armored units captured Novo-Mirgorod and Glodoel, to the northwest and west of Kirovo respectively. German Infantry divisions are closing in on Perwomajsk from the north and west. The German High Command states privately that about 1 1/2 divisions of Russian troops have been encircled near Uman.

Air: No concrete information available.

II. Western Theater:

Air: No important activity by either side.

III. Mediterranean Theater.

Ground: Offensive action by the Tobruk garrison on a scale surpassing any recent raids. Exact size and results of the attack are unknown.

Air: British raids on Sardinia and on Reggio and Calabria, Italy. The British conducted normal harrassing raids over Libya. German Planes raided Suez.

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