

DIARY

Book 430

August 8 and 9, 1941

- C -

Book Page

China  
See War Conditions

- D -

Defense Savings Bonds  
See Financing, Government

- E -

Economic Defense Board  
See War Conditions

- F -

Financing, Government

Defense Savings Bonds:

Film release schedule, April 18 through

August 9..... 430 204

Field Organization News Letter, No. 12 -

8/9/41..... 207

Tennessee Valley Authority: Financial details  
requested in connection with refinancing -

8/8/41..... 123

- K -

Keynes, John Maynard  
See War Conditions: United Kingdom

- L -

Lawrence, David

Resume' of financial position provided by

Comptroller of Currency - 8/8/41..... 144

Louisiana

See Tax Evasion

- T -

Tax Evasion

Louisiana: Final report showing additional taxes  
of \$6 million, etc. - 8/8/41.....

106

Tennessee Valley Authority

See Financing, Government

- U -

United Kingdom

See War Conditions: Military Planning

	Book	Page
War Conditions		
China:		
Currency Stabilization Board: Fox report on set-up - 8/8/41.....	430	175,178
Economic and financial report by Fox - 8/8/41.....		180
Economic Defense Board:		
See also Book <u>421</u>		
First meeting to be held August 13; HMJr and White to attend - 8/8/41.....		101
Exchange market resume' - 8/8-9/41.....		193,248
Lend-Lease:		
Purchases - weekly report - 8/8/41.....		125
Military Planning:		
Reports from London transmitted by Halifax - 8/8-9/41.....		194,249
United Kingdom:		
Keynes, John Maynard: Farewell letter acknowledged - 8/8/41.....		133

TREASURY DEPARTMENT

FOR RELEASE, MORNING NEWSPAPERS,  
Friday, August 8, 1941.

The Secretary of the Treasury, by this public notice, invites tenders for \$100,000,000, or thereabouts, of 91-day Treasury bills, to be issued on a discount basis under competitive bidding. The bills of this series will be dated August 13, 1941, and will mature November 12, 1941, when the face amount will be payable without interest. They will be issued in bearer form only, and in denominations of \$1,000, \$5,000, \$10,000, \$100,000, \$500,000, and \$1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and branches up to the closing hour, two o'clock p.m., Eastern Standard time, Monday, August 11, 1941. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of \$1,000, and the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or branches on application therefor.

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

- 2 -

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Secretary of the Treasury of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Payment of accepted tenders at the prices offered must be made or completed at the Federal Reserve Bank in cash or other immediately available funds on August 13, 1941.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, shall not have any exemption, as such, and loss from the sale or other disposition of Treasury bills shall not have any special treatment, as such, under Federal tax Acts now or hereafter enacted. The bills shall be subject to estate, inheritance, gift, or other excise taxes, whether Federal or State, but shall be exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States shall be considered to be interest.

- 3 -

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

-000-

August 8, 1941  
8:52 a.m.

HMJr: Hello.

Alfred  
Levinger: Good morning.

HMJr: Mr. Levinger.....

L: Yes, Mr. Secretary.

HMJr: Hello. Did you hear me?

L: Yes, I hear you.

HMJr: Please don't buy or sell anything for me  
today.

L: Right.

HMJr: You can reinstate whatever orders you have  
tomorrow.

L: Tomorrow we can reinstate.

HMJr: Yes. Because I'm testifying today, and I  
don't want anything in.

L: On that preferred stock, it sold yesterday  
at an eighth above our limit.

HMJr: Yes.

L: Tomorrow would it be all right if necessary  
to go one eighth or a quarter above that.....

HMJr: Oh, sure. I give you a half a point leeway.

L: All right.

HMJr: Half a point leeway. But don't do anything  
today.

L: Thank you very much.

HMJr: All right.

L: Good-bye.

August 8, 1941

My dear Mr. President:

I am sending you herewith a copy of a statement which I am about to give before the Senate Finance Committee.

I hope that you will like the simplified plan which we have worked out for people with incomes below \$3,000. This carries out your suggestion in your letter to Mr. Doughton. I am very enthusiastic about it, as I think it will save millions of people lots of trouble and worry.

Yours sincerely,

(Signed) Henry

The President,  
The White House.

By Messenger

*Blackwell*  
10:30 am  
8/8/41

Enclosed: Copy of Secy's proposed testimony to be given to-day before Senate Finance Committee.

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7

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10:30 pm  
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August 8, 1941

Dear Eleanor:

I am inclosing herewith copies of my letter to the President and the President's letter to Mr. Doughten.

I am also sending you a copy of my statement before the Senate Finance Committee today.

In all three of these copies, I have underlined in blue pencil what both the President and I have to say about joint tax returns. I thought you would be interested in these in view of what you said in your column yesterday.

Affectionately,

(Signed) Henry

Mrs. Franklin D. Roosevelt,  
Hyde Park, New York.

Enclosures: 7/31/41 letter from President to Doughten. Testimony Secy. is to give before Senate Finance Committee.  
*Letter to Pres. from Secy 7/31/41*

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*Letter from Henry to Eleanor 8/8/41*

August 8, 1941

10

Reading copy of Secretary's testimony before  
the Senate Finance Committee at ten o'clock  
A.M., August 8th, 1941.

My purpose in being here today is to discuss taxation as an essential part of national defense. Our great problem in providing for the defense of the nation is fundamentally the problem of production -- of actually building planes and tanks, ships and guns with labor, management, machinery and raw materials. To solve that problem without impairing our economy or weakening the structure of democracy, our fiscal policy must be adapted to the needs of the times.

On April 24 I discussed with the Ways and Means Committee of the House the need of producing \$3,500,000,000 annually in additional revenue. The Treasury Department presented a suggested program for raising that amount of money. As it passed the House, this bill will produce approximately \$3,200,000,000 annually in additional revenue. In my opinion, it is very important that the revenue yield be raised to at least the original \$3.5 billion level. It is also important that the bill be passed as promptly as possible. Income taxpayers and excess profits taxpayers should know as quickly as possible what their taxes on 1941 income and profits are going to be, since more than seven months of the year have already elapsed.

- 3 -

The excise taxes and the estate tax cannot be imposed retroactively and every day's delay in the passage of this tax bill costs the Treasury several million dollars in revenue from those sources.

The rapid developments of the last few months have made this bill inadequate even before it is passed. Since my statement before the Ways and Means Committee, many things have happened. Two and one half months ago the President proclaimed the existence of an unlimited national emergency.

- 4 -

He called upon "all loyal citizens to place the nation's needs first in mind and in action to the end that we may mobilize and have ready for instant defensive use all of the physical power, all of the moral strength and all of the natural resources of this nation."

Since I appeared before the Ways and Means Committee, the amount of appropriations, authorizations and recommendations over and above the Budget has increased by about \$14,000,000,000, thus completely changing the fiscal picture and greatly increasing the need for revenue.

- 5 -

Since I appeared before the Ways and Means Committee, prices and the cost of living have increased at an accelerated rate, thereby accentuating the need for a strong fiscal program.

In the light of these and other developments resulting from "all out" defense, I should like to point out what, in my opinion, will be necessary in "all out" taxation to support such a program.

- 6 -

First of all, we shall need more revenue -- much more revenue. The defense program is an absolute necessity. It must be paid for. Insofar as possible, it should be paid for now. Borrowing should be kept to a minimum to maintain our fiscal strength. The rise in the Federal debt means merely that the taxpayer's burden is being postponed--that both principal and interest must be paid later out of higher taxes collected at a time when they may be harder to pay and less willingly paid than now.

Along with increased taxation should go the maximum reduction in the ordinary non-defense expenditures of Government. The burden of paying for defense is so heavy that it should be relieved at every possible point.

Increased taxation is needed also to maintain economic stability. Rising purchasing power is exerting increasing pressure on the prices of many kinds of goods, while at the same time production of these goods is being increasingly curtailed by the necessity of diverting our resources to defense uses.

This complication of increased demand and restricted output is causing inflationary price rises which threaten to increase the cost of the defense program, unbalance family budgets and seriously disturb our economic life.

This larger needed revenue should come from all sources where there is ability to pay -- that's what an "all out" tax program means. The people of this country have never been more ready to make sacrifices for the common good. Our tax program has not kept pace with the defense program. We are still thinking too much of helping this group or that to escape its share of the burden.

- 9 -

We have now come to the point where it is a matter not merely of fundamental equity, but of the utmost necessity that all exemptions from taxation be reduced to the absolute minimum.

An "all out" tax program for defense should reach ability to pay at several points not now fully tapped:

1. In my opinion such a tax program might well involve a substantial lowering of personal exemptions and a consequent broadening of the base of the income tax, if simultaneously we take immediate steps to remedy defects in the application of the principle of ability to pay in other parts of the tax structure.

- 10 -

Under the bill before you, the base has been broadened to add about two million new taxpayers, but even so there will remain a relatively large proportion of the population in the lower income groups which will not be directly affected by the income tax. A further lowering of the exemptions would produce some additional revenue and in addition it would give millions of Americans an opportunity -- a welcome opportunity -- to make a direct contribution through taxes to the defense of their country. It would enable them to feel that they were participating personally and directly in the defense program.

- 11 -

As the President wrote to Chairman Doughton on July 31, "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."

But I believe this Committee will agree with me that we ought not to accept such sacrifices, even though willing sacrifices, from millions of people with low incomes on whom the burden of other types of taxes falls most heavily, unless we reach in other places ability to pay which is escaping its fair share of taxes. Among these are the following:

- 12 -

2. The excess profits tax exempts profits of even the most prosperous corporation, except to the extent that such profits are in excess of its average profits for the years 1936-1939. Surely Congress will not wish to impose additional taxes on millions more of our low income group, unless it also imposes the excess profits tax on the exempt excess profits of such corporations.

3. Families pay lower Federal income taxes when both husband and wife receive income than when the same total amount of income is received by only one of them. This is a discrimination of which many wealthy people have taken advantage by large gifts of income-producing property between husband and wife.

- 13 -

Furthermore, in at least eight States of the Union, Federal income taxes are made substantially lower than in the remaining States because the local law permits the splitting of income between husbands and wives. Here are discriminations against the rest of the taxpayers which, I believe your Committee will agree, must be eliminated if we are to extend the income tax downward to include millions of persons with low incomes. The discriminations can be eliminated by requiring husband and wife to file a single joint return with appropriate relief granted only where both husband and wife work outside the home.

4. For years, the concerns engaged in extracting certain of our natural resources, notably oil, have been granted far greater allowances for depletion than can be justified on any reasonable basis of tax equity. If the income tax is to be extended to lower incomes, this privilege of tax escape should simultaneously be removed.

5. A few months ago, the Congress eliminated the tax-exemption privilege from new issues of Federal securities. The purchasers of new State and local securities still enjoy this exemption.

- 15 -

The exemption was inequitable and expensive even in more normal times. It cannot be borne longer in a time like this, and especially if we are to increase the direct tax burdens of persons with small incomes.

6. In its suggestions to the Ways and Means Committee, the Treasury recommended substantial increases in estate and gift taxes, and lower exemptions. In part, this recommendation was followed, but, in my opinion, the estate and gift taxes should reach more estates and provide more revenue if we are going to tax smaller incomes.

Those are some of the things that I mean when I say that an "all out" tax program for defense must go far beyond the present bill.

There is another condition which I would attach to lowering the personal exemptions. I think we ought not to take into the income tax system millions of new taxpayers with small incomes without simplifying the way in which their tax is computed.

Take, for example, a person with a \$900 salary. Under the present law, he first figures out what deductions he has -- taxes paid, interest paid, contributions and so on.

- 17 -

Then he computes his earned income credit. Then he subtracts his personal exemptions from his income after deductions. On the balance, under rates of the bill before you, he computes a surtax at 5 percent. Then he goes back to the income and deducts his earned income credit. On the balance, he computes a normal tax at 4 percent. He then adds the normal tax and the surtax and takes 10 percent of the total for defense tax. He adds the defense tax to the normal tax and surtax and finally arrives at his income tax.

- 18 -

When he started to fill out his return, he may have been full of patriotic enthusiasm to pay his share toward the defense program, but by the time he has finished his last computation his cheerfulness may well have collapsed under the strain. It is difficult enough for persons with substantial incomes who are used to dealing with financial papers and who can afford high-priced lawyers and accountants to make their computations for them. The person with a small income should not be put to this annoyance and possible expense.

- 19 -

Furthermore, the checking of these tax computations by the administrative authorities takes time. Frequent errors are found which must be rectified, requiring correspondence and further annoyance of the taxpayer as well as expense to the Government. We in the Treasury do not enjoy pestering the taxpayer any more than he enjoys being pestered by us.

For taxpayers with relatively large incomes, refinements in determining income and computing taxes are troublesome but are necessary in the interest of equity. For small taxpayers, however, especially those now taxed for the first time, these refinements are cumbersome and confusing without serving any important purpose.

- 20 -

The income taxes of millions of people can be determined with acceptable accuracy by less involved methods.

As the President suggested to Chairman Doughton, there should be a provision in the case of the small taxpayer "for a straight, simple payment of some small contribution to the national tax income through a simple agency and on a simple form."

For such taxpayers a plain and easily understood table could be provided with the aid of which the small taxpayer could compute his tax bill in a very few moments. He would be spared time, trouble and annoyance and the Government would be spared expense.

To indicate more clearly what I have in mind, I have had prepared a sample table showing how this might be worked out in practice for incomes up to \$3,000. This is only a preliminary table, and improvements and changes will no doubt be desirable, but it will illustrate how the proposal can be applied.

The taxes imposed by the bill before you are very heavy; the taxes of an all-out program would be even heavier. I am convinced that the people are not opposed to heavy taxes, that in fact they favor heavy taxes because they know that the alternatives are much more onerous.

At a time when expanding incomes are operating to force prices upward many kinds of measures must be employed if prices are to be kept under control. Without heavy taxation, the other measures have little chance to succeed.

Rising prices would take much more away from our people now and in the future than higher taxes now will take. Under the tax bill in its present form, a married couple with no dependents, having a net income of \$5,000 a year, will have its Federal income tax increased by \$198, or 4 percent of its income.

Assuming that two-thirds of the family's income is spent on items affected by a changing cost of living, an increase in the cost of living of 6 percent would impose as great an additional burden on this family as would the proposed income tax. The cost of living index has increased  $5\frac{1}{2}$  percent since September, 1940. It is clear from this simple illustration that rising prices tax the family income just as surely as do income taxes. Although, as prices rise, the incomes of some families will increase, many incomes will not increase and most incomes will not increase as fast or as much as prices.

- 24 -

If, in an attempt to protect the incomes of our people, we hold down taxes and as a result the cost of living rises, we shall have taxed them just as surely as if we had levied on them directly -- and we shall still have the inflated costs of defense to pay later from taxes.

An all-out tax program will build public morale in an all-out defense program. By reducing the necessity for borrowing, it will strengthen confidence in the impregnable fiscal position of the Government.

- 25 -

By contributing to the control of prices, it will help prevent the demoralization which would result from inflation. By distributing the defense burden fairly, it will help unite the nation. It will make all the people equal partners in sharing the cost of the defense of our country.

-oOo-

Page 10.

a further lowering of  
exemptions would  
produce \$ 303.

Page 12.

Excess profits tax  
\$ same or  
as much more as committee  
wishes.

Page 12.

Joint return \$ 258.<sup>00</sup>

Page 14

90 Oil depletion \$ 86.<sup>00</sup>

Page 14 tax exempt cities  
and States, \$ 222.<sup>00</sup>  
eventually when all outstanding retired

Page 15. Estate and gift tax  
\$ 195.<sup>00</sup>

Estimated increase in revenue yield <sup>1/</sup>, at estimated income levels used in estimates of revenue effects of H.R. 5417, of Treasury proposals before Senate Finance Committee, August 8, 1941.

I. Excess profits tax

Under the Treasury excess profits tax plan modified by reversing the precedence of deduction of the income and excess profits taxes, the same increase in the excess profits tax as raised by H.R. 5417 could be secured with a decrease in the effective rate of excess profits tax to adjusted excess profits net income of ..... 6.3 percent

II. Lowered exemptions

If the present exemptions of \$2,000 and \$800 are reduced to \$1,500 and \$750 respectively, the estimated net increase in revenue would be ..... \$303.0 millions

III. Mandatory joint returns

If mandatory joint returns are required but preferential treatment of earned income is allowed, the net increase in revenue would be .... \$258.0 millions

IV. Percentage depletion

If the method of computing depletion based on statutory percentages of gross income is abolished, the net increase in revenue would be.. \$ 86.0 millions

V. Taxation of State and local securities

If the interest on all future issues of State and local securities is made subject to all Federal income taxes, there would be a small and indeterminate increase in revenue commencing in the second year after the removal of tax exemption and increasing gradually reaching an estimated average increase in yield when substantially all present issues have been refunded and made taxable, some 50 years hence, amounting to ..... \$222.0 millions

VI. Estate and gift taxes

If the specific exemption under both the estate and gift taxes is reduced from \$40,000 to \$25,000 and the insurance exclusion under the estate tax is reduced from \$40,000 to \$25,000, the estimated increase in revenue would be:  
Under the Treasury rate schedules ..... \$195.3 millions  
Under the schedules in H.R. 5417 ..... \$ 56.4 millions

<sup>1/</sup> As compared to the yield of H.R. 5417 as passed by the House of Representatives August 4, 1941.

TREASURY DEPARTMENT  
INTERNAL REVENUE SERVICE

OPTIONAL INDIVIDUAL INCOME AND DEFENSE TAX RETURN

Applicable to salaries, wages, and other incidental income not in excess of \$3,000

(Auditor's Stamp)

(NOTE.—If you are engaged in a profession or business (including farming), or are a member of a partnership, or had income or losses from the sale of property, use Form 1040.)  
To be filed with the Collector of Internal Revenue for your district on or before March 15, 1942.  
PRINT NAME AND HOME OR RESIDENTIAL ADDRESS PLAINLY BELOW

(Name) (Use given names of both husband and wife, if this is a joint return)  
(Street and number, or rural route)  
(Post office) (County) (State)

Do not write in these spaces  
Social No.  
Amount Paid  
(Cashier's Stamp)  
Cash—Check—M. O.

QUESTIONS

- 1. What is your occupation?
2. Check whether you are a citizen or a resident alien
3. Did you file a return for any prior year?
4. Are items of income or deductions of both husband and wife included in this return?
5. State name of husband or wife if a separate return was made, personal exemption, if any, claimed thereon, and the Collector's office to which it was sent.

Table with 4 rows: 1. Salaries and other compensation for personal services, 2. All other income, 3. Total income, 4. Tax to be paid (from Schedule A on reverse side). Columns for amount and tax.

Explanation of status with respect to personal exemption and credit for dependents

Table with 4 columns: Status, Credit Claimed, Name of Dependent and Relationship, Credit Claimed. Includes rows for 'Single, or married and not living with husband or wife' and 'Head of family (explain below)'. Includes 'Reason for support if over 18 years old'.

AFFIDAVIT.

I, we swear (or affirm) that this return has been examined by me/us, and, to the best of my/our knowledge and belief, is a true, correct, and complete return, made in good faith, for the taxable year stated, pursuant to the Internal Revenue Code and regulations issued under authority thereof; and that I/we had no income from sources other than stated hereon.

Subscribed and sworn to by \_\_\_\_\_ before me this \_\_\_\_\_ day of \_\_\_\_\_, 1941.

(Signature and title of officer administering oath)



(Signature)
(If this is a joint return (not made by agent), it must be signed by both husband and wife. It must be sworn to before a proper officer by the person preparing the return. If neither or both prepare the return, it must be sworn to by both spouses.)

**SCHEDULE A**

If your total income is:		Your tax is:		If your total income is:		Your tax is:		If your total income is:		Your tax is:	
From	To	Single person*	Married person*	From	To	Single person*	Married person*	From	To	Single person*	Married person*
\$1	\$750	-	-	\$1,501	\$1,525	\$62	\$1	\$2,251	\$2,275	\$126	\$57
751	775	\$1	-	1,526	1,550	64	2	2,276	2,300	128	61
776	800	2	-	1,551	1,575	66	3	2,301	2,325	130	63
801	825	3	-	1,576	1,600	68	4	2,326	2,350	132	65
826	850	5	-	1,601	1,625	70	6	2,351	2,375	134	67
851	875	7	-	1,626	1,650	73	7	2,376	2,400	136	70
876	900	9	-	1,651	1,675	75	8	2,401	2,425	139	72
901	925	11	-	1,676	1,700	77	10	2,426	2,450	141	74
926	950	13	-	1,701	1,725	79	12	2,451	2,475	143	76
951	975	15	-	1,726	1,750	81	14	2,476	2,500	145	78
976	1,000	17	-	1,751	1,775	83	16	2,501	2,525	147	80
1,001	1,025	19	-	1,776	1,800	85	19	2,526	2,550	149	82
1,026	1,050	22	-	1,801	1,825	88	21	2,551	2,575	151	85
1,051	1,075	24	-	1,826	1,850	90	23	2,576	2,600	153	87
1,076	1,100	26	-	1,851	1,875	92	25	2,601	2,625	156	89
1,101	1,125	28	-	1,876	1,900	94	27	2,626	2,650	158	91
1,126	1,150	30	-	1,901	1,925	96	29	2,651	2,675	160	93
1,151	1,175	32	-	1,926	1,950	98	31	2,676	2,700	162	95
1,176	1,200	34	-	1,951	1,975	100	33	2,701	2,725	164	97
1,201	1,225	36	-	1,976	2,000	102	36	2,726	2,750	166	99
1,226	1,250	39	-	2,001	2,025	105	38	2,751	2,775	169	102
1,251	1,275	41	-	2,026	2,050	107	40	2,776	2,800	172	104
1,276	1,300	43	-	2,051	2,075	109	42	2,801	2,825	174	106
1,301	1,325	45	-	2,076	2,100	111	44	2,826	2,850	177	108
1,326	1,350	47	-	2,101	2,125	113	46	2,851	2,875	180	110
1,351	1,375	49	-	2,126	2,150	115	48	2,876	2,900	183	112
1,376	1,400	51	-	2,151	2,175	117	50	2,901	2,925	186	114
1,401	1,425	53	-	2,176	2,200	119	53	2,926	2,950	189	116
1,426	1,450	56	-	2,201	2,225	122	55	2,951	2,975	192	119
1,451	1,475	58	-	2,226	2,250	124	57	2,976	3,000	195	121
1,476	1,500	60	-								

\* For each dependent, subtract \$400 from your total income and use the balance to determine your tax.

TREASURY DEPARTMENT  
INTER-OFFICE COMMUNICATION

DATE August 8, 1941

For Miss Gammeter

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 12:30 this noon, upon the return of the Secretary from the Capitol, I summarized to him my attached memorandum of this date to the effect that clearance had been obtained from the Department of State for the direct exchange of notes between the Secretary of the Treasury and the Soviet Ambassador on the subject of Russian gold. I presented to the Secretary a letter which I had drafted for his signature, making the one slight change indicated in my memorandum. A copy of the letter is attached as a second enclosure. The Secretary signed this, which I explained was in the exact terms, except for the one small alteration, of the draft correspondence which had been submitted to the Secretary by the Department of State with Mr. Welles' letter of July 16. The Secretary asked that I obtain the initials of my colleagues, Messrs. Bell, Foley and White, to the carbon of the letter which he had signed and returned to me. After being received by the Secretary, I took the signed letter and my memorandum to General Counsel Foley, who had Mr. Luxford with him. Mr. Foley also had prepared a letter for this situation. It differed from my draft in that it contained an additional and final paragraph with respect to the termination of the agreement. When I explained to Mr. Foley that my clearance from the State Department was good only insofar as the terms originally drafted in the Department of State were concerned, Mr. Foley telephoned Assistant Secretary of State Acheson and obtained clearance for the final paragraph.

Mr. Luxford then proceeded to rewrite Mr. Foley's letter, with the new paragraph added. It was understood that he would submit it to Mr. White and that Mr. Foley and I would initial it later.

Upon returning from luncheon, I found that Messrs. Foley, White and Luxford had initialed the letter as drafted by me and signed by the Secretary, since Mr. White would not initial the letter as drafted by Mr. Foley, containing the added paragraph. I spoke with Mr. Luxford and asked him to provide me, nevertheless, with Mr. Foley's draft, although not initialed.

When the Secretary called me to his office at 3:05, with the Soviet Ambassador writing in his outer office, I gave him the two drafts, one bearing all of our initials, and the other without any initials. I explained the situation. The Secretary said that he desired to use the letter containing the added paragraph. Upon my leaving the Secretary's office, he received Mr. Oumansky. At 3:15 the Secretary telephoned me that he had signed the letter with the added paragraph, and had inserted the date August 2 in two places, as well as giving his communication this date. His messenger brought the letter to me. I had explained to the Secretary that we had left the blank space at the top and in the first line until we might know the date of the note of the Soviet Ambassador, and then date ours accordingly. While the Ambassador was still with him, the Secretary had his messenger show me

the letter which he had signed, with the three dates written in by pen. I have inserted these dates in the copy of the letter which the Secretary actually signed, and which is attached as a third enclosure.

A handwritten signature in dark ink, appearing to be 'M. J. P.', written in a cursive style.

## TREASURY DEPARTMENT

## INTER-OFFICE COMMUNICATION

DATE August 8, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

## STRICTLY CONFIDENTIAL

Assistant Secretary of State Acheson told me at our Foreign Funds Control meeting yesterday evening that he had not succeeded in bringing up with Under Secretary Welles at his 2:30 conference yesterday afternoon the question of an exchange of notes on Russian gold. He hoped, however, to see Mr. Welles at 5:30 yesterday evening, since the Under Secretary was leaving Washington last night.

At 10:45 this morning Mr. Acheson called me to let us know that he had discussed the question with Under Secretary Welles and subsequently with Secretary Hull, and it was agreed that the State Department should offer no objection to the direct exchange of notes between the Secretary of the Treasury and the Soviet Ambassador which Mr. Morgenthau desired. I told Mr. Acheson that I would get this information directly to Secretary Morgenthau as soon as he returns from the Congressional hearing which he is attending this forenoon. Mr. Acheson would be glad to have Secretary Morgenthau call him if there is any question. Mr. Acheson will be at the Department of State this forenoon, but is coming to the Treasury at 2:45 to attend a meeting in Mr. Foley's office.

Mr. Acheson assumed that the notes would be in the terms submitted to the Treasury Department with Mr. Welles' letter of July 16. There would presumably have to be one alteration in Mr. Morgenthau's reply to Mr. Oumansky, since the reply drafted in the Department of State was written with the idea that it would be signed by the Secretary of State, and consequently refers therein to the Secretary of the Treasury in the third person. Mr. Acheson was not sure whether Mr. Morgenthau would desire that his letter refer to the "Government of the United States" or the "Treasury of the United States".

With the idea in mind that the Secretary's note should commit the "Government", I have drafted a new letter to the Soviet Ambassador for the Secretary's signature, merely changing from the third to first person insofar as the Secretary of the Treasury is concerned.



My dear Mr. Ambassador:

The receipt is acknowledged of your note of August 1941, in which you state that the Government of the Union of Soviet Socialist Republics would appreciate certain assurances from the Government of the United States relating to the purchase of Soviet gold in the United States.

In announcements of January 31 and February 1, 1934, I, as Secretary of the Treasury, stated that, until further notice, the United States would buy gold imported from abroad at the rate of \$35 per fine troy ounce, less the usual mint charges and less one-fourth of one percent, all subject to compliance with the regulations issued under the Gold Reserve Act of 1934. Such gold purchases have been made continuously thereafter and without discrimination.

The foregoing continues to be the policy of the Government of the United States and assurances are given to the Government of the Union of Soviet Socialist Republics that no prohibitive or restrictive measures will be applied to the export or import of Soviet gold or silver which will not be applied to all other countries.

I am, my dear Mr. Oumansky,

Very sincerely yours,

Secretary of the Treasury.

His Excellency

NOT SENT

Constantine A. Oumansky,

Ambassador of Union of Soviet

Socialist Republics.

Initialed: BMC DWB EDW EHFJr AFL

BMC:lap-S/S/41

August 2, 1941

My dear Mr. Ambassador:

The receipt is acknowledged of your note of August 2, 1941, in which you state that the Government of the Union of Soviet Socialist Republics would appreciate certain assurances from the Government of the United States relating to the purchase of Soviet gold in the United States.

In announcements of January 31 and February 1, 1934, I, as Secretary of the Treasury, stated that, until further notice, the United States would buy gold imported from abroad at the rate of \$35 per fine troy ounce, less the usual mint charges and less one-fourth of one percent, all subject to compliance with the regulations issued under the Gold Reserve Act of 1934. Such gold purchases have been made continuously thereafter and without discrimination.

The foregoing continues to be the policy of the Government of the United States and assurances are given to the Government of the Union of Soviet Socialist Republics that no prohibitive or restrictive measures will be applied to the export or import of Soviet gold or silver which will not be applied to all other countries.

The foregoing assurances are understood to be in effect until August 2, 1942.

I am, my dear Mr. Oumansky.

Very sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

His Excellency,  
Constantine A. Oumansky,  
Ambassador of Union of Soviet  
Socialist Republics.

HMC:nrd - 8/8/41.



THE SECRETARY OF THE TREASURY  
WASHINGTON

45

*not used -*  
*Aug. 8, 1944*

My dear Mr. Ambassador:

The receipt is acknowledged of your note of August 1941, in which you state that the Government of the Union of Soviet Socialist Republics would appreciate certain assurances from the Government of the United States relating to the purchase of Soviet gold in the United States.

In announcements of January 31 and February 1, 1934, I, as Secretary of the Treasury, stated that, until further notice, the United States would buy gold imported from abroad at the rate of \$35 per fine troy ounce, less the usual mint charges and less one-fourth of one percent, all subject to compliance with the regulations issued under the Gold Reserve Act of 1934. Such gold purchases have been made continuously thereafter and without discrimination.

The foregoing continues to be the policy of the Government of the United States and assurances are given to the Government of the Union of Soviet Socialist Republics that no prohibitive or restrictive measures will be applied to the export or import of Soviet gold or silver which will not be applied to all other countries.

I am, my dear Mr. Oumansky,

Very sincerely yours,

*W. M. C. Thompson*  
Secretary of the Treasury.

His Excellency

Constantine A. Oumansky,

Ambassador of Union of Soviet

Socialist Republics.

EMBASSY OF THE  
UNION OF SOVIET SOCIALIST REPUBLICS  
WASHINGTON, D. C.

August 2, 1941

My dear Mr. Secretary:

For a number of years purchases by the Union of Soviet Socialist Republics in the United States of America have greatly exceeded exports from the Soviet Union to the United States and it is probable that this condition will continue to exist for some time. In view of this situation the Government of the Union of Soviet Socialist Republics may find it desirable to export gold to the United States of America in an amount sufficient to enable it to meet obligations which it has already made or the making of which is under contemplation. It would, therefore, appreciate assurances from the Government of the United States that the State Bank of the Union of Soviet Socialist Republics will be permitted without hindrance to export gold into the United States

for

The Honorable

The Secretary of the Treasury

for the purpose indicated, that the Treasury of the United States will purchase such gold, and in particular that the Government of the United States of America will not take with respect to the Union of Soviet Socialist Republics any measures prohibiting or curtailing exports or imports of gold or silver which shall not be applied with respect to all other countries.

I am, my dear Mr. Morgenthau,

Very sincerely yours,

*C. Oumansky*

August 8, 1941  
2:00 p.m.

EMERGENCY PRICE CONTROL

Present: Mr. Daggett  
Miss Michener  
Mr. Bell  
Mr. Gaston  
Mr. O'Connell  
Mr. Murray  
Mr. Foley  
Mr. White

W.C.Jr: All right, let's go.

White: Mr. Kuhn ought to be here, because from now on he ought to fix this up.

W.C.Jr: Let's go right ahead. Somebody read it.

White: Want me to read it?

W.C.Jr: Sure.

White: "I am in full agreement with the objectives of the Emergency Price Control Bill, and with the general methods by which the bill seeks to attain these objectives."

W.C.Jr: Ickes wants somebody to go at three o'clock to sit with him on a meeting for a pipeline. Who would that be?

Foley: Kades.

W.C.Jr: All right, send him. Does Ickes know Kades?

Sure, he used to be Assistant General Counsel.

- 2 -

H.W. Jr: That is what I thought.

White: Shall I stop at every paragraph or shall we go through the whole thing?

H.W. Jr: The whole thing.

White: "We have been talking about the problem of preventing inflation for a long time, but until recently the question has been largely academic. Now, however, we are faced with the urgent, practical necessity of grappling with it. We are faced with a situation ripe for the development of inflation.

"In many respects the price situation today closely resembles that of the corresponding period in 1916, when, as we now know, inflation was actually on the way. We have now, as we had then, a moderate rise in the cost of living, a greater rise in the wholesale price index, and a sharp rise in the prices of basic commodities. It is the latter rise which constitutes the danger signal. Basic commodity prices rise first; the wholesale price index always lags greatly behind the index of basic commodities, while the cost of living does not show anything like the full effects of inflation until long after the seeds of inflation have taken root.

"I do not mean to imply that price rises have already gone so far that there is no stopping; that it is too late to prevent inflation. But strong forces are under way which will end in inflation unless we do something about it. Obviously, the time to do something about inflation is before it occurs, not after it has gathered momentum.

"The forces now in operation making for further price rise are both potent and persistent.

- 3 -

"Our defense expenditures are rapidly increasing. During the fiscal year 1942 they will be two and a half times as much as in the fiscal year 1941, and even that increase does not take account of extension of the Defense Program made after June 1, and of additional sums needed for Lend-Lease. It must be remembered that a large part of the defense expenditure is being financed through borrowing which, in effect, increases the total money demand for goods. The net borrowing for the fiscal year 1942 will be at least twice as large as in the previous fiscal year.

"As our defense program grows we must expect further upward pressure on prices. The program provides additional income for large sections of the public without increasing correspondingly the supply of consumption goods upon which that income would ordinarily be spent. It has been estimated that the money going to the pockets of the people of the United States will be increased by more than \$10 billion during this fiscal year. Naturally they will want to spend part of that increase on consumption goods. If the supply of consumption goods available is not increased proportionately, nothing can prevent the prices of such goods from rising unless positive preventive steps are taken. And unfortunately, the defense program is already operating to curtail the supply of some consumption goods.

"The inflationary force of defense expenditures has been supplemented during the past year by a sharp expansion of bank credit. At the same time the shortage of raw materials for civilian goods, absorption of idle capacity in many industries, and cutting off of normal foreign sources of supplies, are also operating to make the price situation worse.

"We are all sufficiently aware of the destructive effects of inflation. Unlike the situation in

- 4 -

1916 we are now aware of what is happening in our price structure. We should profit by this knowledge and take prompt and effective action to avert a repetition of the price movements of 1917 to 1920."

(Mr. Kuhn entered the conference).

"It is admitted by those who have studied the problem that unwarranted price rises cannot be prevented through the machinery which now exists. Experience of the last six months has demonstrated that voluntary cooperation and moral suasion though effective in many instances are not adequate to check unwarranted and unreasonable price rises. This Bill gives authority to the President to fix price ceilings under conditions which are designed to protect both the consumer and the seller.

"I feel strongly that unless we adopt now some such reasonable and moderate system as this, we shall be forced later to take more drastic steps.

"However, I believe the Bill should be changed in two respects. One of the changes I would suggest relates to agricultural commodities and the other to rent. I shall have more to say on these matters later.

"Though I strongly urge the passage of this bill, I should like to emphasize that it constitutes only one of the several measures that are necessary to prevent inflation. If we place exclusive reliance upon measures included in this bill we are bound to be disappointed. Fixing price ceilings without appropriate fiscal measures, and without a readjustment of the fundamental supply and demand relationships, is certain to prove inadequate in this country as it has

- 5 -

proved inadequate in every other country that has tried it. An attempt to legislate prices is bound to be unsuccessful unless it is accompanied by measures to increase the supply and reduce the demand for goods.

"The most effective protection against inflation is to increase the supply of goods that people want to buy. Not only would such action be most in accord with our system of free enterprise and competition, but it also would yield a higher standard of living. We must, therefore, make much greater efforts than we are making to expand the production of those basic products which are needed not only to meet military needs but civilian requirements as well. People must have as many things available to buy with their money as it is possible to produce without impeding our defense program."

Would it be satisfactory to you, Mr. Secretary, if Mr. Kuhn or somebody else continued reading this?

W.W.Jr: Yes.

Kuhn: I would be glad to go on.

"Unfortunately, it may be necessary to curtail production" --

W.W.Jr: Ferdie, do you mind coming up closer?

Kuhn: "Unfortunately, it may be necessary to curtail the production of certain consumption goods for a while because we do not have the plant capacity necessary to satisfy both defense and civilian needs. We need, for example, more iron and steel for defense, but we should leave no stone unturned to increase our capacity for iron and

- 6 -

steel production so that later we shall be able to increase our output of electric refrigerators as well as guns. In the meantime, during this period of necessarily curtailed consumption, every encouragement should be given to the production of those goods which do not compete with defense needs.

"I believe we have failed to push our production of goods to the full capacity of our enormous productive resources. A considerable volume of unemployment still exists, and there are also millions who, though not classified as unemployed, could be added to the working force if the jobs were easily available. In many plants, there is unused available capacity, and the sources of necessary raw materials have not been fully utilized. Greater utilization of these idle resources would go a long way toward protecting us against inflation.

"Wherever there are any artificial restraints, whatever their character, which are operating to prevent full utilization of capacity, steps should be taken to have them removed. There is less excuse for restrictions on supplies of commodities now than ever before. We should make every attempt to bring in more supplies from other countries, particularly those supplies in which shortages are already appearing. Every effort should be made to supplement imports of commodities which are scarce with identical or substitute products in this country.

"Above all, we must make full use of those supplies that are available. We ought not to tolerate the withholding of surpluses from the market when prices of such commodities are rising unduly. In this connection we are fortunate in having large supplies of various agricultural commodities which might be made available to

- 7 -

the market. The supply of wheat is the largest on record and supplies of some other farm products are the largest in many years. For many commodities the price situation which now exists provides the opportunity that we have long awaited for selling Government-held stocks. These stocks of commodities should be released for consumption as rapidly as is necessary to prevent unreasonable price rises. By doing so we will not only contribute to the stabilization of commodity prices in general but also clear the warehouses for future agricultural emergencies.

"The Government now holds 7 million bales of cotton. Cotton prices have risen from 9-1/2 cents per pound on August 1, 1939, to over 16 cents per pound at the present time. Yet the Senate has passed a bill prohibiting all sales of Government-held stocks of cotton, the prohibition to continue until Congress shall otherwise provide.

"If legislation is enacted freezing the Government's supplies of cotton we will have laid the basis for a speculative price boom. The unfavorable crop situation and the restriction on silk imports favor such a boom in prices. In view of the danger of inflation and in view of the importance of cotton in the price structure, it would seem that the time is most inopportune to enact legislation of that character.

"We should give careful thought to stabilizing the prices of those farm products that enter directly into the cost of living, since an upward trend in living costs is a powerful influence toward increasing wage rates, and hence toward general price inflation. The price of food, which makes up one-third of the consumer budget, has already risen faster than during the first two years of World War I.

- 8 -

"There are too many people who are looking at farm prices from a purely short-run viewpoint, with no apparent regard for the calamitous after-effects of inflation. Have they forgotten the experience of 1920, when farm prices dropped more than fifty per cent in a single year? I want to see a healthy development of agricultural prosperity, and with that objective, I helped to initiate, and have continued to support, our agricultural program. But no one with the interest of agriculture sincerely at heart can ignore the danger signals ahead.

"It would, of course, be ideal if we could adjust the inequality between the amount of goods available to be purchased and the amount of purchasing power available to buy them entirely in the manner which I have been discussing - that is, by increasing the supply of goods.

"Unfortunately, this is impossible of immediate accomplishment because of the large proportion of the total output which must go into the defense effort and thus is not available to satisfy civilian demand. Therefore, if the balance between supply and demand for civilian consumption is to be redressed, it must be done in part by cutting down demand.

"In seeking a reduction in total expenditure for civilian purposes, we might well begin with the Federal Budget. Every effort should be made for economy in State and local government expenditures and for a curtailment of borrowing by State and local governments for non-emergency purposes.

"Any curtailment in government expenditures possible is, however, small in comparison to the contraction of total expenditures which is desirable.

- 9 -

"The great bulk of the reduction must come from private, rather than from public, spending. After all, total non-defense expenditures of the Federal Government in this year will amount to less than one-tenth of the amount of total spending by private persons who had not received their incomes from the Government. We obviously must seek most of the necessary reduction in expenditure in the larger group.

"The most powerful instrument which the Federal Government has for the reduction of private expenditures is taxation."

- H.M.Jr: May I interrupt? Somebody make a note, on Monday I would like to know what, if anything, the Secretary of the Treasury said in '14, '15, '16, and '17 on inflation and price rises. I am curious to know what if anything the Secretary of the Treasury said then.
- Bell: I think it is pretty well set out in the annual reports.
- H.M.Jr: Or any of the Assistant Secretaries.
- Kuhn: "The most powerful instrument which the Federal Government has for the reduction of private expenditures is taxation. This instrument may also be used selectively to reduce the demand for scarce commodities and particularly for those for which there is a special need for the defense effort. The tax bill which has just passed the House of Representatives represents a step forward. Serious consideration ought to be given, however, to the more vigorous imposition of selective excises at the present time. And as I indicated to the Finance Committee of the Senate last Friday, it will be necessary in any event that yet heavier general taxation be imposed next year if we are to maintain successfully the balance between supply and demand.

- 10 -

"Government borrowing from current consumer incomes serves the same purpose in controlling inflation as does taxation - that is, it transfers purchasing power from private citizens to the Government without increasing its total amount. This purpose is accomplished to a considerable extent by the sale of ordinary Government obligations provided that these are purchased by others than commercial banks. A large proportion of such obligations sold to non-banking investors is paid for, however, from idle balances which in any event would not have been spent during the current period. When the proceeds of such borrowing are spent by the Government they, therefore, increase the total spending stream and so fail to contribute to the equilibrium which I have been discussing.

"The Treasury Department is particularly anxious to borrow as large a proportion of its total requirements as possible from current consumer incomes. In order to do this, we are looking particularly to the sale of defense savings bonds and stamps. The sale of these securities has been proceeding quite satisfactorily and during the three months of May, June, and July amounted to slightly over a billion dollars. Of course, by no means all of this came from consumer incomes. We are gratified, however, that in each month an increasing proportion of total sales was made to small subscribers. We are directing our major effort more to placing these securities where they do the most good from an anti-inflationary point of view - that is, in the hands of purchasers from current income - than to increasing their total sales. We are also, through the issuance of tax anticipation notes, using the borrowing power as a means of reducing the effective lag between the accrual and payment of the income tax - thus increasing the effectiveness of that tax as an instrument to combat inflation.

- 11 -

"In addition to these strictly fiscal measures, other measures for reducing the amount of civilian purchasing power may have to be used."

H.M. Jr: I am bored. I don't know whether anybody else is. Go ahead. That is just how I feel. It has got no sex appeal.

White: No. Well, I thought that would - this is - Ferdie hasn't started on this. (Laughter)

H.M. Jr: Oh, Ferdie furnishes the sex appeal. From now on - "Sexie Kuhn".

Kuhn: I don't agree with you. This is --

Bell: It reads much better than I thought it would, after going over it yesterday. I didn't think it was so hot, but I think it is pretty good. I think it is too long and has to be cut down a little, but it is much better than I anticipated when we went over it yesterday.

Kuhn: "In addition to these strictly fiscal measures, other measures for reducing the amount of civilian purchasing power may have to be used. Among these are control over consumer credit, over new capital issues by corporations, and selective controls over the extension of bank credit for specified purposes.

"Each of these types of control would strike directly at a source of non-defense spending, and so would relieve the upward pressure on prices both generally and at points where it is particularly acute. I should consider them greatly superior, therefore, to the more general type of credit control, the immediate effect of which is merely to raise money rates.

"Under more normal conditions the effect of the imposition of such general controls is to reduce

- 12 -

borrowing and hence total spending. I cannot emphasize too strongly, however, that the total amount of borrowing which will have to be done by the Federal Government under present conditions is affected only by the needs of the defense effort and not by money market conditions. Under such circumstances, it seems eminently more sensible for the Government to shut off competing demands than to endeavor to bid against them on a price basis for restricted amount of funds.

"The expansion in the supply of consumption goods and the restriction in the expenditure on such goods both serve to prevent inflation in an over-all manner. That is to say, they exert pressure to keep down the general level of prices. But the problem of inflation cannot be solved by these broad methods of control alone. Even with expanded output of consumption goods and restricted expenditure on such goods there will still remain areas in which the public will want to spend more money than the supply of goods available in these areas can absorb without an inflationary rise in prices. This bill is suited particularly to control the areas of partial inflation which cannot be reached by the over-all action of the other methods of control.

"These three methods of preventing inflation - expanded production, restricted expenditure, and price control - supplement each other, each increasing the effectiveness of the others, and all together providing an effective program for dealing with the problem. The three methods are equally necessary.

"I should like to point out that the effectiveness of such a program is enhanced when the three

- 13 -

methods of preventing inflation are not used at cross purposes. Price control must not limit the flow of materials available for expanded production. Furthermore, by its very nature, price control must be flexible to be successful. For these reasons I believe it would be preferable to omit from the bill the minimum ceiling for agricultural commodities and the provisions limiting rent control in defense areas to low-cost housing. The rigidity in prices imposed by a prescribed ceiling may make it difficult to prevent inflation and impossible to prevent post-war maladjustment of prices and post-war depression.

"With these modifications, I am whole-heartedly in favor of the Emergency Price Control Bill."

H.W.Jr:

Bell?

Bell:

Well, as I said, I think it is a little long, but it is much better than - reads much better than I thought it would. We went over it yesterday afternoon.

H.W.Jr:

Ed Foley is practically asleep.

White:

I don't blame him. (Laughter) It is that kind of a document. I presume partly because it is dealing so much with economics --

H.W.Jr:

Put your feet up on the davenport, Ed. (Laughter)

Well, of course it is unfair to show me anything today, because for four days I have been through the mill on this other thing, so anything that you showed me --

White:

Except that I think it is important --

H.W.Jr:

Let me give you --

- 14 -

White: To get your reaction on policy.

H.M.Jr: You will get the reaction. In the first place, there are no examples. Where is my St. Louis house, which I asked for?

Daggett: We have the figures worked up on that.

H.M.Jr: I don't know anything that touched labor - it touches materials, it is touching profits, it touches everything.

White: We have each of those. At least we have got this to say on wages.

H.M.Jr: But the St. Louis house thing touches everything. Are you familiar with it?

White: No.

H.M.Jr: The St. Louis house gives you the six-room house breakdown - it is the best job that I know of. Have you got it?

Daggett: Yes, sir, we have.

H.M.Jr: Well, take something like that, which shows the contractor's profit, increase in wages, increase in materials, increase in rent, the whole business. How much is it up now?

Daggett: I don't recall the exact percentage increase, but it is going up rather sharply in the last two months.

H.M.Jr: Yes. Now, what I would like to do is - it is like an illustration to a story. I would like to give that as an illustration.

White: Prices rising?

H.M.Jr: Yes.

- 15 -

White: Of rise in prices.

H.M.Jr: I would like to - I would love to have something on cotton. You see, the thing which the President has been talking about is this. As I understand the law, the farmer is to receive at the farm the average price that he receives at the farm - it is to be parity. Now, what the President says is, if that average price at the farm is parity, then he isn't to get any benefit payments. I don't even know how it is now, so maybe I had better not get into that. You might look it up anyway. They have never told the President quite the story. He has most likely got it right. But if the parity price is sixteen and a half cents, average price that the farmer receives at the farm, the President takes the position that he is not entitled to any soil conservation benefits or any other benefits.

Daggett: That is correct.

H.M.Jr: But I don't know whether that is the law. Look it up.

Daggett: I will do that, sir.

H.M.Jr: There is a lot of mystery about it. Can't you do something - I mean, am I wrong that during '14 to '16 they used to have exhibitions in windows showing the price of shirts and the price of this and the price of that, and all that kind of business? You don't know?

Daggett: I don't.

White: I think it would be a little topheavy if you said more about cotton. I think, as it is, you have made a statement that is stronger than anybody else would dare make.

- 16 -

- H.M.Jr: If you take that statement of mine about the house, it pretty near covers everything, doesn't it?
- Daggett: Yes. It gives the breakdown between different kinds of materials, different kinds of labor, and the general overhead expense, contractor's profits and so forth.
- H.M.Jr: Well, that is one thing. Now, Lubin promised me faithfully --
- White: He just sent me five minutes ago --
- H.M.Jr: .... Faithfully that he would have the story to show Congress.
- White: Five minutes ago he called up and said he was sending it, and I don't know what is in here, other than what he told me. He said he was sending two things. One was to show that when the cost of living rises ten per cent and if the Government wants to let its workers share only half of that increase, and the Government will take the other half by increasing wages of its employees, it will cost the Government a hundred and twenty-five million dollars a year.
- H.M.Jr: That isn't what he --
- White: That is one thing. The second thing, he is supposed to give the increased price cost that would be on goods which the Government is buying for defense projects.
- H.M.Jr: Well, let me put it my way and if he hasn't done it we can do it. It must be a matter of record that - there have been all kinds of studies made - that during the period '14 to '20, whatever it was - I know the Navy officers

- 17 -

said they had it for '22 and then adjusted their salaries accordingly in the Navy. They went through the thing and then studied how much was the increased cost and then they raised everybody's salary.

Bell: The same thing, but it was really a bonus in '17, '18, and '19.

H.M.Jr: That is what he said he was going to do for me.

White: He has got it here. Higher living costs means higher Federal salaries and he discusses what happened in 1918. He has got two pages that seem to read pretty well.

H.M.Jr: That was the thing that impressed me. I said, "Now, Mr. Congressman, let me tell you what happened in 1918, to you people with fixed salaries, you and me. This is what happened, and your dollar instead of buying a hundred cents' was only buying eighty cents' worth," and so forth and so on, "and therefore you only got eighty per cent or whatever it is of your purchasing power, and then by the time you did pay your taxes, your dollar was reduced to fifty cents."

O'Connell: Mr. Secretary, Mr. Henderson mentioned it in about one sentence relating to the District of Columbia, because he quoted some statistics to show that the standard of living, measured by real wages of the Federal employees in the District of Columbia went down about twenty per cent during the world war period.

H.M.Jr: Well, it won't do any harm to repeat it. Did the Congressman get an adjustment? Did he get an adjustment in his salary, does anybody know?

Bell: Over there, you mean?

- 18 -

H.M.Jr: In 1918.

Hell: Congress in the first period gave a hundred and twenty dollars to every employee up to a certain salary, I think. Of course in those days salaries weren't high. Later they gave two hundred forty dollars. That lasted until about '21.

H.M.Jr: That is the kind of thing.

White: May I ask this question, Mr. Secretary? Those illustrations are directed toward showing the evils of inflation, and there are a great many - you can make a very dramatic picture on the evils because those are only two. There are numerous other aspects of inflation that are bad.

H.M.Jr: That is what I am trying to get over to you. I would like to start out not too long, but I would like to talk about what the evils of inflation are.

White: That is it.

H.M.Jr: I don't want - I want to tell some stories, about the house. We have got a four-room house and my salary - if it was six thousand dollars, I am supposed to pay a third of my salary for rent or whatever the rule of thumb is. In those days I could have got a house for two thousand dollars and that same house now costs me three thousand, or half of my salary would have to go. "Gentlemen, I will distribute this chart showing you just what has happened." It is in about a year, isn't it?

Daggett: Yes.

H.M.Jr: The contractor's profit went up the exact amount

- 19 -

in percentage that the increase in the cost of labor did. In other words, it may have been an accident, but he kept raising it just as the thing went up. What happened to you and me and the million other Government employees? I mean, now we are - we at least were fortunate enough that the Government came along and adjusted it but how about the other millions of people that can't be adjusted? There is nothing more cruel. I want to talk about the cruelty of inflation. This isn't something we should bandy around. Just because one small group wants to be selfish and hold seven million bales of cotton, there is nothing more selfish or cruel, and I want to talk about if instead of bringing - freezing three hundred million bushels of wheat, we ought to be far-sighted enough to say, "Well maybe we will bring three hundred million bushels of wheat down from Canada. The price of bread has already gone up. The staff of life. You get the feeds, chicken feed - my God, there are an awful lot of poultry men. It runs into a hundred million or more dollars. All through New England the cost of chicken feed has gone up fifty per cent. It may not be chicken feed, but it represents a couple of hundred million dollars. Get those figures. It is up at least fifty per cent. I want to give - I don't want to give too many, but I want to give some illustrations about the cruelty of this thing.

It is a boa constrictor. It wraps itself around and finally it just chokes the person to death. What between taxes and inflation, the nation is just squeezed, the life is squeezed out of it, the vitality. It is a thing which we just can't - you can't fight it with a pen. You have got to fight it with a sword. I mean, it is that kind of stuff that I want to put in there. I feel this thing very deeply. I want some good

- 20 -

illustrations. I can only give you - I mean, a couple, but there must be a lot of them around. The bread figures and Dr. - the woman nutritionist over there in Agriculture, Stanley, she is the best person in the country and she is the least used, Dr. Stanley. She is swell. And Miss Elliott. Between Miss Elliott and Dr. Stanley, between those two women, you can ask them each to give you six cases of what is happening to the consumer, the woman, in this country, on inflation. They can each give you a half dozen illustrations. They are two splendid women, and nobody is using them. Those two people. The one on nutrition, and Dr. Elliott could do it on clothing. I think the thing to do is to - if I do nothing else but confine myself and address myself to the housewife of America, you see. If I didn't even attempt to cover anything else but just address myself to the housewife, the mother. "You have got to take what is left out of the weekly payroll of your husband and pay for these things, and now look what is happening to your payroll, what is going to happen to your children?"

Herbert Hoover made his reputation and had his picture in every kitchen by addressing himself to the housewives. That is the way he made his success.

- Kuhn: You want to make this personalized?
- H.M.Jr: I want to make it personalized. I want to talk to the housewife, I want to talk to the mother, and between Dr. Stanley and Miss Elliott you can get the stuff by Monday. I want to make it so that the people can understand it. Am I talking sense, Herbert?
- Gaston: Oh, yes, indeed. This economic doctrine can be gone over pretty - in an exact way. It can be condensed a great deal.

- 21 -

White: Oh, yes.

Gaston: And the methods to - it can be summarized very concisely and then the methods by which you are going to attack the problem also in the bill can be cut down.

H.M.Jr: But you see, the trouble is - please forget my sarcastic remarks, my remarks at the beginning, but this is a wonderful thing, to get up to address the American Society of Economists, wherever they meet, if they meet, but the fellow on the street, the woman, the person who buys the lamb chops and buys the stockings and the underwear and pays the rent and insurance - it is the woman that does that. Let me talk to her.

White: Well, all your remarks, which I think are - can be turned out into something that would attract their attention - we skip all the effects of inflation under the assumption that it was known to be bad, and merely directed ourselves against the - what are you going to do about it? However, it certainly doesn't have the popular appeal, and maybe the reverse ought to be true. Maybe by talking about the effects of inflation, the bad effects of inflation, the assumption will be that this bill will correct them.

H.M.Jr: Harry, I think the thing is this. I don't think yet the average person understands. Just the way I look around the room here, there is only one person here that knew about what happened to Government employees, and the extra bonuses. I just don't think, with the exception of people - when sugar went to five cents they all rushed out and bought sugar. Now they are all buying stockings. It is disgusting. I think you have just got to paint this thing to the people and say, "If you want to stop this boa constrictor from choking you to death, you

- 22 -

people have got to get mad and say, 'We want seven million bales of cotton released. We want the wheat released. We don't want our shirts and our cotton dresses to go up and our bread, when there is that much goods in this country and in Canada, lying up there rotting in the warehouse. We are not going to stand for it. We are just not going to stand for it, because of a crook like Cotton Ed Smith and his friend Harris in New York, the cotton broker, to make all this money.'

White: What the Secretary is addressing himself to is quite different. He wants to dramatize the effects of inflation. That can be effectively done, the consequences of inflation dramatized. Maybe that is the way it would be most effective, because if you dramatize the consequences of inflation, you are not directing - you are assuming that this bill is what is necessary in order to correct it.

Murray: Do you assume that?

White: No, I mean the public may.

Kuhn: No, first of all, Leon Henderson has been up there dramatizing the consequences of inflation, and probably Eccles will be doing the same, and when the Secretary of the Treasury comes up, I believe that people want this kind of reason, grave, and clear, a statement from him. He can make it personal with little illustrations.

White: Yes, there can be two or three illustrations.

Kuhn: But I wouldn't give up the substance of this.

Bell: I think it is pretty good.

White: We will cut it down about a third.

- 23 -

Bell: I was agreeably surprised when you read it over.

Gaston: I think all you say here can be said in half the space.

Bell: Well, that may be.

White: It is a much more intelligent statement than any that has been made publicly. I don't mean any that has been made --

Kuhn: It is better than Henderson could have made because it is in a different key.

White: But it certainly doesn't have the dramatic effect or the appeal that the other approach would. I think it may be possible to combine it. I think two or three pages --

Gaston: Two pages of this --

White: Of that house, of the Government employees, and the housewife. You need a paragraph on the housewife, and one on the Government employees, and a couple on this house and I think you can make it very dramatic.

Gaston: And then tighten this up a little bit and sharpen the language of it.

White: That is right.

Kuhn: And right at the beginning, unless --

White: Of course he stopped listening after the third page.

Bell: I don't think he listened from the beginning.

White: Well, I think we know what he wants.

- 24 -

- DeWitt: It would also have to be turned into what can be done about it as he suggested about cotton and wheat.
- White: Well, I don't think he can spend much more time with the cotton. He is coming now -- now, you can say something about this. You can't use that phrase, how about the housewife who has to buy cotton shirts and cotton duncarees for the family?
- DeWitt: In the Walter Winchell style.
- White: Yes. You can mix a little of that in there, but I don't think you can confine it to that and I don't think he will want to, but if some of that is in there he will take the rest of it.
- Kahn: Is it necessary to specify what kinds of civilian production can be increased without detriment to the defense industries?
- White: You try it. I can't think of anything.
- Kahn: Neither can I. That is why I am asking you.
- White: Well, there is nothing in there that you will find --
- Easton: I think you will have to shorten all that about that stimulation of production that doesn't compete, because you take so much time to it. You arouse curiosity as to what you are getting at.
- Bell: He would get a lot of questions.
- White: You can cut that sentence out but I think we would all agree that there ought to be an increase in plant capacity. That is what we need.

- 25 -

- Kuhn: That requires steel and --
- White: Well, there has to be curtailment of civilian consumption, then until that is done, because unless you do it you are going to be worse and worse.
- Kuhn: That is one hole I think people would nick in this right away. They would say, "Well, tell us what -- "
- O'Connell: You mean, "Tell us what --"
- Kuhn: "What to use up that is not needed for defense, or labor that is not needed for defense."
- White: Now, wait a minute, labor, that is a different story. There is plenty of labor, plenty of it.
- Kuhn: All right, materials.
- Gaston: Bricks. They don't use bricks for defense.
- White: The answer to that is that you have got to lay the groundwork for increased plants. Otherwise, you will be in a worse situation next year, and in the year following a still worse situation, so the thing to do is to pull in your belt a whole lot the next six months, so at least you can let it out in the years afterward. If you spend a hundred million dollars on a plant that is only going to produce a hundred million dollars of goods over four years, your supplies --
- Gaston: During the period of construction, Harry. It is certainly inflationary.
- White: Well, I said naturally if you are going to spend a hundred million dollars --
- Murray: My point is that one of the main ways of combating

- 26 -

inflation which is advocated is during the period that you are constructing it is self inflationary.

White: Now, look, in every situation of this character you have got a lot of conflicting objectives which must be harmonized, and one of those conflicting objectives is that you want more consumers goods because you want to keep more people employed and yet you find that in order to do that you may- you will have to curtail consumption. Now, whether that will have a net inflationary or deflationary effect, you couldn't say, because it depends on how much you curtail civilian consumption in order to build the plants to produce more later.

Murray: You could say that during the period of construction if you build plants to produce consumer goods, it is inflationary, because the people get wages just as much as they would for producing the goods, but the goods can be sold and so absorb purchasing power, and the plant can't. So during the period in which this is happening it is inflation.

White: Yes, but how much? You know the old story that - or rather figure of speech that I like to use, that when a fat woman goes in bathing in Coney Island it raises the tide in London, but the question is if you were a ship captain you wouldn't condition your ship's comings and goings by a telegram as to whether there were a fat woman on Coney Island. Now, I think you will find an inflationary effect of increasing the plant capacity while at the same time curtailing plant consumption is negligible.

Murray: A ten million dollar increase in plant capacity is a mighty fat woman.

- 27 -

- S.M.Jr: What I was thinking was this, just to make something dramatic. Should we let cotton, wheat, corn - is corn in storage?
- Holl: Yes, lots of it.
- H.M.Jr: Sugar. Anyway --
- White: There is plenty of sugar in Cuba and there is a tariff on sugar.
- S.M.Jr: Let these things rot in the storehouses in the United States or in Canada or in Cuba while people either go hungry on the one hand, they still do, or on the other hand they pay a fifty per cent increase for their food.
- Holl: Or have their diet reduced as a result of increased prices.
- S.M.Jr: Right. You talk about morale. The first thing to do is to feed the people the right thing. I sat over here with Wickard yesterday, and he is talking about giving them the right formula to eat with this Australian after the war is over. Now, that is the thing - that is the thing I would like to take. You have got to arouse somebody over here. Now, if you want to do this thing, the way to make a start is to get this bill through. Another thing, and I got the tip out of this - how can you expect me, as Secretary of the Treasury, to go ahead day after day and ask people to invest in Defense Savings Bonds when they know and I have got to tell them that the thing is inflationary. They are not going to continue to buy Defense Savings Bonds and I will not continue to be able to reduce bank deposits if they know day after day there will be inflation. They are going to hoard, but they won't buy my bonds. It is a vicious circle. Instead of making a pretty speech, how much I am - I have been lucky. I have sold a

- 22 -

billion dollars in three months, but how do I know that people are going to continue? They will either put the money in their sock or they will buy commodities or something else, but they won't buy more bonds.

Walt: Of course if prices go up they will have much less money with which to buy bonds. That is the strong point.

W. J. Jr: But the point is they are not going to buy a fixed thing if they think there is going to be inflation, and I might as well say so and get a hedge on them in case this thing goes sour on me.

Wito: To get letters of that character.

W. J. Jr: And I will say, "I have said so on August 12, that I couldn't sell these bonds if Congress isn't going to do something about it. Why should people buy my bonds?" That is the angle I would like to take.

Wito: O.K.

W. J. Jr: Ferdie?

Wito: I was saying to Harry before, that I think the personal touch can be put in here without destroying these arguments.

W. J. Jr: Look, I just tried it for a minute or two on Mrs. Morgenthau and she says, "You are right." Now, Leon has done a beautiful job. I want to get up and if I don't talk about anything else, talk to the housewives of America.

Wito: Didn't he do that also, Mr. Secretary?

W. J. Jr: Well, you (O'Connell) sat there, I didn't.

- 29 -

O'Connell: He was pretty statistical.

White: I am sure we can dramatize effectively --

H.M.Jr: He didn't do it.

White: I don't know.

H.M.Jr: I read the newspaper account. There was nothing in it. There was nothing there.

O'Connell: You wouldn't have had you been there. It was a good statement, though.

H.M.Jr: I say it was a good statement, but you have got to get somebody aroused. Who is aroused today about this thing? Nobody. We will get the women aroused. "We are not going to stand for this. Mr. Morgenthau says there is all this cotton and wheat and corn here. Look at our porkchops. Look what we pay for porkchops." Find out how much butter there is in storage.

Daggett: It is one of the biggest supplies they have had in many years.

H.M.Jr: About fifty per cent. It is up fifty per cent. Butter is up fifty per cent. "Why should I pay fifty per cent more? This stuff that is going to England - it is a damn lie. Somebody is speculating in this thing. He is right. He tells me there is so much butter. There is all this sugar in Cuba. There is four hundred fifty millions of bushels of wheat and a new wheat crop coming on in Canada. Why should my bread go up? I am not going to stand for it." You will get somebody mad. I forget, is it twenty million pounds of butter in storage? Pork, tell them, one bushel of corn, ten bushels of corn, one pound of pork, that is the ratio. And all this corn in storage. How about it, Dakota?

Caston: I think that is good. I think you have got to dramatize this.

H.W.Jr: Sure you do.

Caston: I think two or three pages of that and then condense the other.

H.W.Jr: More than that.

Caston: But I wouldn't stick to food alone.

H.W.Jr: Well, cotton. Herbert, if I - well, let me try it. If I can just get over - if I can arouse the housewives of America to what it means to them, then Leon's bill will go through.

The way it is now, he hasn't got too good a chance. Let me just take that angle and the impact on - I can't sell my bones and the other things he said. And don't forget the house. Don't forget the house. Now, you two guys (White and Kuhn) are working on this thing?

White: Well, Ferdie hasn't yet, but he says he has free time from now on.

Kuhn: I am going to get to it.

H.W.Jr: Well, Ferdie, if you two men could stay behind now, I would like to arrange how I can get you up to the country so it will be most convenient. And then I will devote all Monday to this. Are you physically able to work on this tomorrow?

Kuhn: Oh, yes.

H.W.Jr: How about you, Harry?

White: Oh, yes.

- 31 -

- H.M.Jr: And you can all go to bed Tuesday night or get drunk, I don't care which, or do both.
- White: It is a joint product, and I think it could probably be improved. We have all had a hand in it.
- H.M.Jr: Do you want somebody from Haas' office?
- White: I should think so.
- H.M.Jr: Who, Miss Michener? One person.
- White: Can't we work down here and then bring the product up to you?
- H.M.Jr: Yes, but I don't want more than three people coming to the country.
- White: I think the more important thing is those who work on it.
- H.M.Jr: Well, those people here. But how about coming to the country?
- White: Let's continue to work on it and whenever you are ready to --
- H.M.Jr: But who from Mr. Haas' shop must come up?
- Michener: Well, do you mean, Mr. White, for somebody --
- White: I don't think it matters who goes up to the country and gets the ideas, but I do think it would be helpful if those who have been working on it could continue to work on it.
- H.M.Jr: Everybody should.
- Bell: You and Ferdie can go up to the country. That is all you need, I think, is just everybody work on it while it is here, and when it goes

- 32 -

to the country just White and Ferdie can work on it.

H.M.Jr: Can everybody do it?

Kuhn: We have got this afternoon.

White: And by tomorrow noon we can have another draft, I think, that is close along the lines that you wanted. Now, if you want to spend time on it Sunday, that would give us a little more time.

H.M.Jr: Well, that was my thought, you see. I can work on it Sunday night.

White: And then - now, Henderson is still on the Hill, so that I think that - I am sure you won't be called Monday, so we will have all day Monday.

H.M.Jr: I won't go up Monday.

O'Connell: No, Tuesday is the day, and you may not even be reached Tuesday.

H.M.Jr: Wonderful.

White: Supposing we have another draft that incorporates the ideas that you have had and you will go over that Sunday. You will suggest some more changes. We will work over that again Monday and sometime Monday afternoon it will be in shape.

H.M.Jr: That is all right. But I want everybody that is here to help, please. I am very, very serious about this. It can just completely ruin our whole Defense Savings Bonds program.

Gaston: I suppose there isn't much danger at this stage of stirring more inflation, more consumer

- 33 -

demand by talk. It will have some effect, but it won't have a great deal of effect because there has been so much inflationary talk already. Of course everybody gets up before a Congressional Committee and talks about the danger of inflation, that sets a few more people off and does start an increased demand and reduced supplies.

White: Well, let's go at it.

H.M.Jr: Ferdie and Harry stay behind a minute. You are absolutely right, Herbert.

Preliminary Draft

Statement of the Secretary of the Treasury  
Before the House Committee on Banking and Currency

I am in full agreement with the objectives of the Emergency Price Control Bill, and with the general methods by which the bill seeks to attain these objectives.

We have been talking about the problem of preventing inflation for a long time, but until recently the question has been largely academic. Now, however, we are faced with the urgent, practical necessity of grappling with it. We are faced with a situation ripe for the development of inflation.

In many respects the price situation today closely resembles that of the corresponding period in 1916, when, as we now know, inflation was actually on the way. We have now, as we had then, a moderate rise in the cost of living, a greater rise in the wholesale price index, and a sharp rise in the prices of basic commodities. It is the latter rise which constitutes the danger signal. Basic commodity prices rise first; the wholesale price index always lags greatly behind the index of basic commodities, while the cost of living does not show anything like the full effects of inflation until long after the seeds of inflation have taken root.

I do not mean to imply that price rises have already gone so far that there is no stopping; that it is too late to prevent inflation. But strong forces are under way which will end in

inflation unless we do something about it. Obviously, the time to do something about inflation is before it occurs, not after it has gathered momentum.

The forces now in operation making for further price rise are both potent and persistent.

- 2 -

Our defense expenditures are rapidly increasing. During the fiscal year 1942 they will be two and a half times as much as in the fiscal year 1941, and even that increase does not take account of extension of the Defense Program made after June 1, and of additional sums needed for Lend-Lease. It must be remembered that a large part of the defense expenditure is being financed through borrowing which, in effect, increases the total money demand for goods. The net borrowing for the fiscal year 1942 will be at least twice as large as in the previous fiscal year.

As our defense program grows we must expect further upward pressure on prices. The program provides additional income for large sections of the public without increasing correspondingly the supply of consumption goods upon which that income would ordinarily be spent. It has been estimated that the money going to the pockets of the people of the United States will be increased by more than \$10 billion during

this fiscal year. Naturally they will want to spend part of that increase on consumption goods. If the supply of consumption goods available is not increased proportionately, nothing can prevent the prices of such goods from rising unless positive preventive steps are taken. And, unfortunately, the defense program is already operating to curtail the supply of some consumption goods.

The inflationary force of defense expenditures has been supplemented during the past year by a sharp expansion of bank credit. At the same time the shortage of raw materials for civilian goods, absorption of idle capacity in many industries, and cutting off of normal foreign sources of supplies, are also operating to make the price situation worse.

We are all sufficiently aware of the destructive effects of inflation. Unlike the situation in 1916 we are now

- 3 -

aware of what is happening in our price structure. We should profit by this knowledge and take prompt and effective action to avert a repetition of the price movements of 1917 to 1920.

It is admitted by those who have studied the problem that unwarranted price rises cannot be prevented through the machinery which now exists. Experience of the last six

months has demonstrated that voluntary cooperation and moral suasion though effective in many instances are not adequate to check unwarranted and unreasonable price rises. This Bill gives authority to the President to fix price ceilings under conditions which are designed to protect both the consumer and the seller.

I feel strongly that unless we adopt now some such reasonable and moderate system as this, we shall be forced later to take more drastic steps.

However, I believe the Bill should be changed in two respects. One of the changes I would suggest relates to agricultural commodities and the other to rent. I shall have more to say on these matters later.

Though I strongly urge the passage of this bill, I should like to emphasize that it constitutes only one of the several measures that are necessary to prevent inflation. If we place exclusive reliance upon measures included in this bill we are bound to be disappointed. Fixing price ceilings without appropriate fiscal measures, and without a readjustment of the fundamental supply and demand relationships, is certain to prove inadequate in this country as it has proved inadequate in every other country that has tried it. An attempt to legislate prices is bound to be unsuccessful unless it is accompanied by measures to increase

the supply and reduce the demand for goods.

- 4 -

The most effective protection against inflation is to increase the supply of goods that people want to buy. Not only would such action be most in accord with our system of free enterprise and competition, but it also would yield a higher standard of living. We must, therefore, make much greater efforts than we are making to expand the production of those basic products which are needed not only to meet military needs but civilian requirements as well. People must have as many things available to buy with their money as it is possible to produce without impeding our defense program. /

Unfortunately it may be necessary to curtail the production of certain consumption goods for a while because we do not have the plant capacity necessary to satisfy both defense and civilian needs. We need, for example, more iron and steel for defense, but we should leave no stone unturned to increase our capacity for iron and steel production so that later we shall be able to increase our output of electric refrigerators as well as guns. In the meantime, during this period of necessarily curtailed consumption, every encourage-

ment should be given to the production of those goods which do not compete with defense needs.

I believe we have failed to push our production of goods to the full capacity of our enormous productive resources. A considerable volume of unemployment still exists, and there are also millions who, though not classified as unemployed, could be added to the working force if the jobs were easily available. In many plants, there is unused available capacity, and the sources of necessary raw materials have not been fully utilized. Greater utilization of these idle resources would go a long way toward protecting us against inflation.

Wherever there are any artificial restraints, whatever their character, which are operating to prevent full utilization of

- 5 -

capacity, steps should be taken to have them removed. There is less excuse for restrictions on supplies of commodities now than ever before. We should make every attempt to bring in more supplies from other countries, particularly those supplies in which shortages are already appearing. Every effort should be made to supplement imports of commodities which

are scarce with identical or substitute products in this country.

Above all, we must make full use of those supplies that are available. We ought not to tolerate the withholding of surpluses from the market when prices of such commodities are rising unduly. In this connection we are fortunate in having large supplies of various agricultural commodities which might be made available to the market. The supply of wheat is the largest on record and supplies of some other farm products are the largest in many years. For many commodities the price situation which now exists provides the opportunity that we have long awaited for selling Government-held stocks. These stocks of commodities should be released for consumption as rapidly as is necessary to prevent unreasonable price rises. By doing so we will not only contribute to the stabilization of commodity prices in general but also clear the warehouses for future agricultural emergencies.

The Government now holds 7 million bales of cotton. Cotton prices have risen from 9-1/2 cents per pound on August 1, 1939, to over 16 cents per pound at the present time. Yet the Senate has passed a bill prohibiting all sales of Government-held stocks of cotton, the prohibition to continue

until Congress shall otherwise provide.

If legislation is enacted freezing the Government's supplies of cotton we will have laid the basis for a speculative price

- 6 -

boom. The unfavorable crop situation and the restriction on silk imports favor such a boom in prices. In view of the danger of inflation and in view of the importance of cotton in the price structure, it would seem that the time is most inopportune to enact legislation of that character.

We should give careful thought to stabilizing the prices of those farm products that enter directly into the cost of living, since an upward trend in living costs is a powerful influence toward increasing wage rates, and hence toward general price inflation. The price of food, which makes up one-third of the consumer budget, has already risen faster than during the first two years of World War I.

There are too many people who are looking at farm prices from a purely short-run viewpoint, with no apparent regard for the calamitous after-effects of inflation. Have they forgotten the experience of 1920, when farm prices dropped more than fifty percent in a single year? I want to see a healthy development of agricultural prosperity, and

with that objective I helped to initiate, and have continued to support, our agricultural program. But no one with the interest of agriculture sincerely at heart can ignore the danger signals ahead.

It would, of course, be ideal if we could adjust the inequality between the amount of goods available to be purchased and the amount of purchasing power available to buy them entirely in the manner which I have been discussing -- that is, by increasing the supply of goods.

Unfortunately, this is impossible of immediate accomplishment because of the large proportion of the total output which must go into the defense effort and thus is not available to satisfy civilian

- 7 -

demand. Therefore, if the balance between supply and demand for civilian consumption is to be redressed, it must be done in part by cutting down demand.

In seeking a reduction in total expenditure for civilian purposes, we might well begin with the Federal Budget. Every effort should be made for economy in State and local government expenditures and for a curtailment of borrowing by State and local governments for non-emergency purposes.

Any curtailment in government expenditures possible is, however, small in comparison to the contraction of total expenditures which is desirable.

The great bulk of the reduction must come from private, rather than from public, spending. After all, total non-defense expenditures of the Federal Government in this year will amount to less than one-tenth of the amount of total spending by private persons who had not received their incomes from the Government. We obviously must seek most of the necessary reduction in expenditure in the larger group.

The most powerful instrument which the Federal Government has for the reduction of private expenditures is taxation. This instrument may also be used selectively to reduce the demand for scarce commodities and particularly for those for which there is a special need for the defense effort. The tax bill which has just passed the House of Representatives represents a step forward. Serious consideration ought to be given, however, to the more vigorous imposition of selective excises at the present time. And as I indicated to the Finance Committee of the Senate last Friday, it will be necessary in any event that yet heavier general taxation be imposed next year if we are to maintain successfully the balance between supply and demand.

- 8 -

Government borrowing from current consumer incomes serves the same purpose in controlling inflation as does taxation -- that is, it transfers purchasing power from private citizens to the Government without increasing its total amount. This purpose is accomplished to a considerable extent by the sale of ordinary Government obligations provided that these are purchased by others than commercial banks. A large proportion of such obligations sold to non-banking investors is paid for, however, from idle balances which in any event would not have been spent during the current period. When the proceeds of such borrowing are spent by the Government they, therefore, increase the total spending stream and so fail to contribute to the equilibrium which I have been discussing.

The Treasury Department is particularly anxious to borrow as large a proportion of its total requirements as possible from current consumer incomes. In order to do this, we are looking particularly to the sale of defense savings bonds and stamps. The sale of these securities has been proceeding quite satisfactorily and during the three months of May, June, and July amounted to slightly over a billion dollars. Of course, by no means all of this came from consumer

incomes. We are gratified, however, that in each month an increasing proportion of total sales was made to small subscribers. We are directing our major effort more to placing these securities where they do the most good from an anti-inflationary point of view -- that is, in the hands of purchasers from current income -- than to increasing their total sales. We are also, through the issuance of tax anticipation notes, using the borrowing power as a means of reducing the effective lag between the accrual and payment of the income tax -- thus increasing the effectiveness of that tax as an instrument to combat inflation.

- 3 -

In addition to these strictly fiscal measures, other measures for reducing the amount of civilian purchasing power may have to be used. Among these are control over consumer credit, over new capital issues by corporations, and selective controls over the extension of bank credit for specified purposes.

Each of these types of control would strike directly at a source of non-defense spending, and so would relieve the upward pressure on prices both generally and at points where it is particularly acute. I should consider them greatly superior, therefore, to the more general type of credit control,

the immediate effect of which is merely to raise money rates.

Under more normal conditions the effect of the imposition of such general controls is to reduce borrowing and hence total spending. I cannot emphasize too strongly, however, that the total amount of borrowing which will have to be done by the Federal Government under present conditions is affected only by the needs of the defense effort and not by money market conditions. Under such circumstances, it seems eminently more sensible for the Government to shut off competing demands than to endeavor to bid against them on a price basis for restricted amount of funds.

The expansion in the supply of consumption goods and the restriction in the expenditure on such goods both serve to prevent inflation in an over-all manner. That is to say, they exert pressure to keep down the general level of prices. But the problem of inflation cannot be solved by these broad methods of control alone. Even with expanded output of consumption goods and restricted expenditure on such goods there will still

- 10 -

remain areas in which the public will want to spend more money than the supply of goods available in these areas

can absorb without an inflationary rise in prices. This bill is suited particularly to control the areas of partial inflation which cannot be reached by the over-all action of the other methods of control.

These three methods of preventing inflation -- expanded production, restricted expenditure, and price control -- supplement each other, each increasing the effectiveness of the others, and all together providing an effective program for dealing with the problem. The three methods are equally necessary.

I should like to point out that the effectiveness of such a program is enhanced when the three methods of preventing inflation are not used at cross purposes. Price control must not limit the flow of materials available for expanded production. Furthermore, by its very nature, price control must be flexible to be successful. For these reasons I believe it would be preferable to omit from the bill the minimum ceiling for agricultural commodities and the provisions limiting rent control in defense areas to low-cost housing. The rigidity in prices imposed by a prescribed ceiling may make it difficult to prevent inflation and impossible to prevent post-war maladjustment of prices and post-war depression.

With these modifications, I am whole-heartedly in favor of the Emergency Price Control Bill.

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE August 8, 1941

TO Secretary Morgenthau  
FROM Miss Michener *AMM*  
Subject: Changes in parity price basis

This is in response to your request for information on the changes that have been made during the past 5 years in the basis for calculating parity prices of farm products.

Few changes have been made in the basis for calculating parity prices in recent years. Those changes that have been made are listed below.

(1) In the Agricultural Adjustment Act, approved May 12, 1933, the base period for all agricultural commodities except tobacco was declared to be the period August 1909 to July 1914. The base period for tobacco was declared to be the period August 1919 to July 1929.

(2) In an Act approved August 1935, taxes on farm real estate and interest on farm indebtedness were added in calculating the index of prices of goods bought by farmers, which is used as a factor in determining parity prices. The effect of this change was to raise parity prices for all products using the pre-war (1909-14) base.

(3) In an Act approved August 1935, potatoes were changed to a post-war base.

(4) In an Act approved February 1938, freight rates were added in the calculation of parity prices for all products using a pre-war base.

(5) In an Act approved November 1940, the base period for certain types of tobacco (burley and flue-cured) was changed from August 1919 - July 1929 to August 1934 - July 1939.

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE August 8, 1941

TO Ferdinand Kuhn, Jr.  
FROM Herbert Merillat

PRESS OPINION ON TAXES:  
FIGHTING INFLATION

House action on the tax bill and the consideration of price-control legislation have focussed attention on the economic aspects of the defense program. In all sections of the press there has been a growing awareness of the danger of inflation, with increased attention to means of checking the inflationary spiral.

Price Control

Most of the press has come reluctantly to the conclusion that a price-control law with teeth in it is necessary. The President's message describing the prospect of inflation was regarded as clear and convincing. No one, however, is satisfied with the control system provided by the bill introduced in Congress. The criticism most often made is that the failure to provide for control of wages and the allowance of large increases in farm prices makes effective price control under the proposed act impossible.

Papers in farming regions tend to slide over the treatment of food prices and emphasize the danger of failing to control wages. The metropolitan press, however, excoriates the "farm bloc" for attempting not only to ensure farm prices amounting to 110% of parity but for scheming to fix minimum prices for farm products.

The financial journals see in the measure a plan to control industrial profits, not to control effectively prices in general. They assert that increasing labor costs and other costs of production, together with maximum prices for finished products, will result in diminished profits but will do nothing to check inflation.

#### Taxes and Inflation

It is generally recognized that price control in itself is not an adequate safeguard against inflation. Taxes which would reduce mass purchasing power are regarded as an important and more basic safeguard.

With the increased attention given to inflation has come a shift in the argument for a broader income tax base. Previously reduced exemptions have been urged mainly on the grounds that the mass of the electorate should be made tax-conscious and have a sense of sharing directly in the defense program. Now the emphasis is on the usefulness of the income tax in siphoning into the Treasury dollars which otherwise would compete for consumer goods.

The President's recommendation of lower personal exemptions and Chairman Doughton's statement that a broader base or general consumption tax is likely in a future tax bill have revived editorial hopes that the Senate will reduce exemptions in the current bill. The prophets think the Senate will likely take this action to fill the \$300 million gap left by the removal of compulsory joint returns from the House bill. The Doughton forecast of lower exemptions in the near future has given rise to the question, Why not broaden the tax base now, rather than after the inflationary spiral has wound higher?

#### The House Tax Bill

Editorial appraisals of the tax bill as it passed the House are in general agreement on several points:

1. Personal income tax. The failure to broaden the base is criticized, as already noted.
2. Corporation taxes. There is little criticism of the corporate taxes. The House is praised for rejecting the excess profits plan urged by the President and the Treasury. The meager mention of corporation taxes in the press indicates satisfaction with that part of the bill and a wish to let sleeping dogs lie.
3. Mandatory joint returns. The press outcry against this proposal was maintained at a high pitch until the House voted on the bill. Rejection of the proposal was greeted with satisfaction.
4. Excise taxes. This part of the bill is regarded as a hodge-podge resulting from political trading. Heavy excises on articles competing for materials with defense industries are urged.

Tax Anticipation Notes

The tax anticipation notes received little editorial notice as they went on sale. Such comment as appeared, however, continued to be favorable. The chief criticism of the notes -- that tax revenues will be spent before collected -- has been discounted by such leading conservative papers as the New York Times and the Wall Street Journal. While granting that the criticism would be valid in normal times, these papers hold that in the present emergency the sale of the notes constitutes a desirable and necessary form of borrowing.

August 8, 1941  
2:08 p.m.

Harold  
Ickes:

We have the plan now submitted by these oil companies to build the pipe line, and one of the important clauses - there's one on amortization.

HMJr:

Yes.

I:

Jesse Jones is coming in with his lawyer to discuss the plan generally at three o'clock, and I was wondering whether you could send someone over from the Treasury.

HMJr:

Sure. Three o'clock at your office?

I:

Yes.

HMJr:

I'll have someone there.

I:

All right.

HMJr:

Thank you.

8/11/41

101

Secretary Morgenthau will attend this conference himself and will take Harry White with him. White so informed. Wallace's office also informed.

OFFICE OF THE VICE PRESIDENT  
WASHINGTON

August 8, 1941

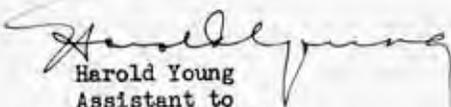
The Honorable

The Secretary of the Treasury

Dear Mr. Secretary:

The Vice President has asked me to inform you that he has called the first meeting of the Economic Defense Board for Wednesday, August 13 at 9:30 a.m. at this office, which is room 261 Senate Office Building. *V.P. Harrow Office*

Sincerely yours,



Harold Young  
Assistant to  
The Vice President

August 8, 1941

Dear Bill:

The New York Times, in its September 11, 1940, issue, prints the following in connection with a statement made by you in Buffalo:

"He predicted that airplane production, including military and large commercial planes in the United States, would be 3,000 a month by July, 1941."

I have just received a report from OPM on July airplane production. These figures show that the following planes were produced during July:

Fighting planes.....	626
Training planes.....	829
Large commercial planes.....	18
Total.....	1,473

These figures fall so far short of the estimate which you made last September that I am really worried. When are we really going to begin to produce planes so that we will have a surplus to divide with England, China and Russia rather than a deficit?

Yours sincerely,

(Signed) Henry

Mr. William S. Knudsen,  
Director General of OPM,  
Social Security Building,  
Washington, D.C.

Copies to: Secretary of State  
Secretary of War  
Secretary of Navy  
Sidney Hillman

By Memorandum

*Surgeon*  
2.75 pm

8/14/41 -

104

Unju saw Helsering and Lohn  
today -

message telephoned to  
Commissioner Hehring  
8/12/41 - memo came down  
from house 8/12/41



OFFICE OF  
COMMISSIONER OF INTERNAL REVENUE

ADDRESS ONLY TO  
COMMISSIONER OF INTERNAL REVENUE  
AND REFER TO

TREASURY DEPARTMENT  
WASHINGTON

106

August 8, 1941.

TO: Secretary Morgenthau  
FROM: Mr. Helvering

There is submitted to you herewith a memorandum which has been handed to me by Mr. Irey, giving a final report of the accomplishments in the investigation of the so-called Louisiana series of cases.

It is interesting to note that in these cases there have been one hundred and forty-nine persons convicted; in addition, recommendations for additional taxes have been made, or will be made in the near future, aggregating more than \$6,000,000.

*G.H.*

Enc.

*Helvering's servant  
to see Mr. Lohm. Please  
advise me as to what  
you think we can  
do for him. Wm L*



## TREASURY DEPARTMENT

WASHINGTON

August 7, 1941.

OFFICE OF  
CHIEF INTELLIGENCE UNIT  
BUREAU OF INTERNAL REVENUE

TO: Mr. Halvering  
FROM: Elmer Irey

I am in receipt of a final general report from Acting Special Agent in Charge Lohn, covering the investigation of the last series of so-called Louisiana cases, and I am sure that the information below, which is shown in the report of Mr. Lohn, will be of interest to you and the Secretary.

These cases grew out of the investigation of the income tax liability of Dr. James Monroe Smith, who at the time the investigation was commenced was president of the Louisiana State University and Agricultural and Mechanical College. Before the agents had gone very far into the case, it was disclosed that Dr. Smith was using funds and securities of the university for his own use or as collateral in the purchase of grain futures to the extent of more than a half million dollars. When it became apparent to Dr. Smith that his breach of trust would come to light because of the investigation, he attempted to secure the endorsement of his grain speculations by the university's board of supervisors. He approached the then Governor Richard W. Leche with the proposal that the board ratify his grain speculations as having been carried on by him on behalf of the university. Accordingly, a meeting was held in the Governor's Mansion on Sunday, June 25, 1939, attended by Governor Leche, Lieutenant-Governor Earl K. Long, Dr. Smith, and David Ellison, Attorney General of the State. Dr. Smith later claimed that at that meeting he was advised by the others present to leave the state until the matter of his embezzlement blew over. Accordingly, he fled to Canada the same night and Governor Leche resigned the following day, in the obvious hope of stopping any general investigation. Meanwhile, the investigation by the special agents brought to light certain situations which caused the press to launch a political reform campaign, and public

- 2 -

opinion was so aroused in the state that all hopes that former Governor Leche and his followers had of avoiding an investigation faded. During the ensuing weeks, the federal grand jury in New Orleans, the Intelligence Unit, and Post Office inspectors, as well as other government agencies, inquired into the activities of the state's most prominent personages. These investigations resulted in a total of fifty-two indictments, involving one hundred forty-nine individuals and forty-two organizations. All of these indictments except thirteen related either to income tax evasions or use of the mails to defraud. In these latter cases, the Intelligence Unit obtained a great part of the evidence upon which the mail fraud indictments were based. Some of the evidence used in the other thirteen indictments (Connally Act and Sherman Anti-Trust cases) was also obtained by the Intelligence Unit in the course of their investigations of alleged income tax evasions.

To this date, thirty of the indictments have been closed, resulting in a total of fifty-three years imprisonment being imposed and fines totaling more than \$60,000 being assessed. Nine of the cases, involving some of the most prominent political figures in Louisiana, were tried before juries and convictions obtained. Fifteen of the indictments were terminated by pleas of guilty, while pleas of nolo contendere were entered in five cases. In one single case, the defendants were acquitted by a directed verdict. Some of the defendants were named in more than one indictment, and the total of one hundred forty-nine persons convicted refers to individuals regardless of the number of times they were indicted.

In these investigations, a total of \$5,888,393.79 in taxes and penalties has been recommended for assessment, as indicated in the attached Schedule 1.

A great part of the investigation in the remaining nineteen tax cases has been completed, and it is estimated that these cases will involve approximately \$353,000 in taxes and penalties. The details of these cases are contained in the attached Schedule 2.

These investigations were conducted under the immediate direction of Acting Special Agent in Charge Frank W. Lohn, who had assigned to him four experienced special agents assisted by three younger special agents of his division, who worked in cooperation with two revenue agents from the New Orleans Division and six revenue agents assigned from other revenue agents' divisions. This was a picked group of agents and all of them performed outstanding services. They are entitled to a large share of the credit for the accomplishments achieved. Each of them assumed his full share of the responsibilities connected with the task and each faithfully carried out his assignment and consequently merits special commendation for the work completed by the group.

While these investigations may properly be considered as having been completed, there remain to be investigated the returns of a considerable number of related taxpayers against whom some information has been assembled. Schedule 4, attached, shows the names of these taxpayers, whose returns will either be fully examined or concerning whom some inquiry will be made as a result of information pending in our files.

I feel that the accomplishments in these cases reflect very considerable credit on the Bureau of Internal Revenue and its field officers, both among the internal revenue agents and the special agents of the Intelligence Unit. Undoubtedly, these investigations, most particularly in the State of Louisiana, have had a very wholesome effect and have increased immeasurably the respect for our investigating officers.

Encs.

SCHEDULE 1INVESTIGATIONS COMPLETEDAS OF JUNE 30, 1941

<u>Case Number</u>	<u>Taxpayer</u>	<u>Total Taxes and Penalties</u>	<u>Criminal Proceedings</u>	<u>Results</u>
SI-6386-E	Henry J. Miller (Enrolled Agent), New Orleans, Louisiana		Convicted with Newman, Harris, and Shushan for using mails to defraud	Final report recom- mended that card to practice as agent before Treasury Department be revoked.
SI-14135-F	Win or Lose Corporation		Seymour Weiss, James A. Noe, and Win or Lose Corporation indicted 10-3-40 for evasion of income and excess-profits taxes of Win or Lose Corporation; aiding, assisting, counseling, and advising in prepara- tion of false income tax returns; and con- spiracy	Seymour Weiss pleaded guilty 11-19-40 at same time he entered plea in case SI- 16425-F. Imposition of sentence suspended; defendant placed under probation five years beginning after sen- tence of four years served in SI-16425-F. James A. Noe arrested 10-4-40; trial to begin August 11, 1941.
SI-15479-F	Hart Enterprise Elec- trical Company, Inc. (Old case)	\$ 6,099.38	Not recommended	Supplemental report recommended net in- come be increased \$44,431.85 represent- ing unreported inter- est from L.S.U. & A.M. College, fiscal year 6-30-36.
SI-15615-F	J. H. Handley	884.43	Not recommended	
	Mrs. J. H. Handley	21.20	Not recommended	
SI-16072-F	James Monroe Smith	297,891.48	Indicted 8-21-39, yr. 1936	Pleaded guilty 11-10-39; sentenced to 30 months.

SCHEDULE 1 (Continued)

<u>Case Number</u>	<u>Taxpayer</u>	<u>Total Taxes and Penalties</u>	<u>Criminal Proceedings</u>	<u>Results</u>
SI-16356-F	Felix Magglore	\$ 6,624.69	Indicted 9-18-39	Sentenced 11-12-40 to 18 months and fined \$1,000 and to pay all costs of prosecution on count 1; imposition of sentence on count 2 suspended for 5 years. Related to SI-16356-F
	Thomas J. Campbell	3,885.38	Not recommended	
	Mrs. Thomas J. Campbell	2,433.42	Not recommended	
	Robert Dalovisio	151.54	Not recommended for evasion; indicted for conspiracy	Acquitted 11-15-40; related to SI-16356-F
	Jeal Fazio	80.26	Not recommended	Related to SI-16356-F
	Frank Nezzio	142.80	Not recommended	Related to SI-16356-F
	Port Commission Club (Partnership)			Related to SI-16356-F
	Frank & Bob Bar & Cafe (Partnership)			Related to SI-16356-F
	George W. Woodard		Indicted 9-18-39, for conspiracy to defraud	Related to SI-16356-F and SI-16515-F; acquitted 11-15-40 in both cases.
SI-16366-F	W. T. Burton	978,131.63	Recommended	
	Mrs. W. T. Burton	719,739.43	Not recommended	
	Sutton Joint Account (Partnership)			
SI-16367-F	W. T. Burton Co., Inc.	387,862.24	Recommended against W. T. Burton, L. Brown, Bruno R. Schulz, Mrs. A. Burton, and Herman Masur for conspiracy to defeat and evade income taxes of W. T. Burton Company, Inc., fiscal years ended July 31, 1936, 1937, and 1938; also against W. T. Burton for aiding and assisting in the filing of a false	

SCHEDULE 1 (Continued)

<u>Case Number</u>	<u>Taxpayer</u>	<u>Total Taxes and Penalties</u>	<u>Criminal Proceedings</u>	<u>Results</u>
SI-16368-F	Burton-Sutton Oil Co., Inc.	None	Not recommended	
SI-16378-F	M. E. Hart Mrs. M. E. Hart	62,019.72 44,426.17	Recommended for 1936 Not recommended	(Jeopardy assessment; M. E. Hart committed (suicide 9-6-40.
SI-16379-F	National Equipment Co.	39,658.07	Not recommended	
SI-16425-F	Seymour Weiss	190,487.45	Indicted 8-7-39 for eva- sion and conspiracy, 1936	Sentenced 11-19-40 to four years, sentence to run concurrently with a sentence of 2½ years imposed 9-15-39 on mail fraud charge; sentence suspended five years on conspiracy charge.
SI-16444-F	Richard W. Leche	63,870.47	Recommended	Jeopardy assessment 11-5-40; case being considered by U. S. Attorney.
SI-16477-F	Mrs. Elton R. Leche Dr. James A. Shaw (Dec'd) Mrs. James A. Shaw George B. Conover Mrs. George B. Conover	48,980.56 47,013.41 226.95 217.57 173.89	Not recommended Not recommended Not recommended Not recommended Not recommended	Suicide 8-20-39.  Related to SI-16477-F; closed on basis of RAR; taxpayer agreed to findings
SI-16512-F	Leon C. Weiss	137,316.79	Recommended; indicted 5-13-40 for evasion 1936, 1937, and 1938, and for filing false claim for refund for 1936	Date for trial not set. Sentenced 10-31-40 to serve five years on mail fraud charge— appealed.
	Mrs. Leon C. Weiss F. Julius Dreyfous Mrs. F. Julius Dreyfous Solis Seiforth Mrs. Helen B. Seiforth	89,655.39 371.18 371.18 474.44 474.44	Not recommended Not recommended Not recommended Not recommended	Related to SI-16512-F Related to SI-16512-F

SCHEDULE 1 (Continued)

<u>Case Number</u>	<u>Taxpayer</u>	<u>Total Taxes and Penalties</u>	<u>Criminal Proceedings</u>	<u>Results</u>
SI-16515-F	H. A. Mitchem	\$ 3,723.19	Indicted 9-18-39	Sentenced 11-18-40 to 18 months and fined \$1,000 and to pay costs of prosecution on count 1; imposition of sentence on counts 2, 3, and 4 suspended; probation five years.
SI-16515-F	Mrs. H. A. Mitchem C. M. Lewis	2,297.51 1,611.89	Not recommended Indicted 9-18-39	Received same sentence as H. A. Mitchem (same jacket number).
Unjacketed	Freddie Romero	654.40	Not recommended	
Unjacketed	Mrs. Freddie Romero	654.40	Not recommended	
SI-16525-F	Sam W. Smith and Wife George A. Caldwell	912.02 21,770.59	Not recommended Indicted 1-12-40, years 1935 to 1938	Pleaded guilty 2-14-40; sentenced to 24 months
SI-16584-F	Mrs. George A. Caldwell Lee Circle Hotel Company	14,513.71 79,331.32	Not recommended Not recommended	Transferee assessment against Roosevelt Hotel Corporation.
SI-16605-F	Allen Christman	1,018.97	Not recommended	Not guilty 5-15-40
SI-16686-F	Frank Costello	350,053.64	Indicted 10-9-39	Not guilty 5-15-40
SI-16687-F	Philip Kastel	444,130.78	Indicted 10-9-39	Not guilty 5-15-40
SI-16688-F	Dudley Geigerman	None	Indicted 10-9-39	Not guilty 5-15-40
SI-16690-F	James Brocato	None	Indicted 10-9-39	Not guilty 5-15-40
SI-16689-F	Harold Geigerman	None	Indicted 10-9-39	Not guilty 5-15-40
SI-16702-F	Gray D. Morrison	4,425.60	Indicted 6-11-40, year 1938	Pleaded guilty 11-27-40; sentence suspended five years; taxes and penalties paid.
SI-16703-F	The Progress Publishing Company, Inc.	2,415.62	Not recommended	

## SCHEDULE 1 (Continued)

<u>Case Number</u>	<u>Taxpayer</u>	<u>Total Taxes and Penalties</u>	<u>Criminal Proceedings</u>	<u>Results</u>
SI-16721-F	Julius Pace	\$ 23,383.04	Indicted 2-13-40	Pleaded nolo contendere on 3 counts and guilty on 2 counts on 1-11-41; sentence deferred to 3-3-41, at which time imposition of sentence was suspended until further orders of the court, to give defendant time to make effort to settle civil liabilities; probation 2 years.
SI-16760-F	Younger Motor Truck Company, Inc.	9,379.56	Not recommended	
SI-16765-F	Pelican Oil & Gasoline Company, Inc.	10,960.46	Not recommended	
SI-16779-F	L. Austin Fontenot	2,245.22	Not recommended	
SI-16780-F	D. J. Doucet	None	Not recommended	
SI-16782-F	Cecil T. Phillips	5,322.54	Not recommended	
SI-16933-F	Mrs. Cecil T. Phillips Meyers, Whitty & Hodge	529.91 (Partnership)	Not recommended	Involving Joseph C. Meyers, John W. Whitty, and J. Floyd Hodge; no additional taxes for partners. Case closed without prosecution.
SI-16935-F	James Thomas	7,653.11	Not recommended for evasion; recommended for failure to file information returns	
Unindexed	Mrs. James Thomas	6,224.79	Not recommended	
Unindexed	Louisiana Metal Copper Company	(Partnership)	Not recommended	Related to SI-16935-F
Unindexed	Louisiana Contracted Copper Co., Inc.	None	Not recommended	Related to SI-16935-F

SCHEDULE 1 (Continued)

<u>Case Number</u>	<u>Taxpayer</u>	<u>Total Taxes and Penalties</u>	<u>Criminal Proceedings</u>	<u>Results</u>
SI-16936-F	Louisiana Tractor and Machinery Company	(Partnership)	Not recommended	Related to SI-16935-F; \$9,747.71 recommended against partners. Partner - SI-16936-F
	George E. McNutt	\$ 2,501.15	Not recommended	
	Mrs. George E. McNutt	2,501.15	Not recommended	
	M. J. Carbone	3,092.19	Not recommended	Partner - SI-16936-F
	Mrs. M. J. (Willard) Carbone	1,440.05	Not recommended	
	Mrs. M. J. (Eileen) Carbone	213.17	Not recommended	
SI-16966-F	Louis G. LeSage	369.60	Not recommended for evasion of his income taxes	Indicted with Seymour Weiss (SI-16425-F) on mail fraud charges; also indicted 8-7-40 for conspiracy in connection with Weiss' income taxes; sentenced to year and a day on mail fraud charges 9-15-39; imposition of sentence on income tax conspiracy case suspended for five years 11-19-40.
Unjacketed	Harvey Peltier	13,259.45	Not recommended	Assessment recommended by revenue agent's report and agreement signed, based entirely on information furnished by Intelligence Unit.
Unjacketed	Ola Silcott	108.00	Not recommended	Based on income from W. T. Burton (SI-16366-F) Related to SI-16721-F
SI-16990-F	Joseph Pipitone	1,149.16	Not recommended	
SI-17103-F	Hart Enterprise Electrical Co., Inc.	164,133.23	Recommended against M. E. Hart, who later committed suicide	

## SCHEDULE 1 (Continued)

<u>Case Number</u>	<u>Taxpayer</u>	<u>Total Taxes and Penalties</u>	<u>Criminal Proceedings</u>	<u>Results</u>
SI-17147-F	William G. Rankin	\$ 41,549.81	Recommended	Related to SI-16444-F, SI-17148-F, and SI-17511-F; case submitted to U. S. Attorney, who does not believe prosecution advisable.
SI-17148-F	Philip A. Gehlbach	26,266.89	Indicted 11-29-40, years 1937 and 1938	Pleaded guilty and sentenced to one year and one day and pay costs of prosecution, 12-14-40.
SI-17209-F	Mrs. Philip A. Gehlbach Estate of Charles S. Bentley	815.09 435,722.84	Not recommended Not recommended	Indirectly related to La. "scandals" investigations
SI-17262-F	Summa Caldwell	8,169.98	Not recommended	
	Mrs. Summa Caldwell	8,169.98	Not recommended	
SI-17263-F	V. L. Caldwell	15,874.57	Not recommended	
	Mrs. V. L. Caldwell	15,874.57	Not recommended	
SI-17387-F	Hampton Reynolds	965.25	Recommended for conspiracy to defraud the United States; recommended to recover \$124,247.22 fraudulently obtained from the United States	
	Mrs. Elma F. Reynolds	965.25	Not recommended	
	Joseph A. Craven and wife	9,153.46	(Recommended to recover	) (Partners in Craven-Lang Company
	Louis N. Lang and wife	9,582.78	(\$91,770.51 fraudulently obtained from the United States; and for conspiracy to defraud the U. S.	
	Joseph B. Walker and wife	12,797.65		
	William Stanley Behren	15,079.66		
SI-17388-F	John W. Farmer	642.05	Not recommended	Prosecution not recommended in income tax case, but recommended in conspiracy case.

## SCHEDULE 1 (Continued)

<u>Case Number</u>	<u>Taxpayer</u>	<u>Total Taxes and Penalties</u>	<u>Criminal Proceedings</u>	<u>Results</u>
SI-17401-F	Mr. and Mrs. J. B. Miller	\$ 226.25	Not recommended	
SI-17427-F	Joseph E. Loper, Sr. Mrs. Retta Loper	12,260.89 13,404.86	Recommended Not recommended	
SI-17511-F	Joseph H. Connolly Mary H. Connolly	23,592.98 23,592.98	Recommended Recommended	( Both indicted 4-3-41; ( Arraigned 6-25-41 and ( pleaded not guilty; re- ( quested 15 days' time ( within which to file ( technical pleadings with ( the court, which was ( granted. Bond set at ( \$5,000 each.
SI-17575-F	John M. Nunes, et ux.	456.14	Not recommended	
SI-17605-F	N. C. McGowen, et al.	397,212.06	Not recommended— barred by the statute of limitations	
SI-17662-F	L. G. Boxwell	21,891.16	Not recommended	
	Mrs. L. G. Boxwell (O.A.)	(9,415.73)	Not recommended	
SI-17478-F	Homer W. Smith, et ux.	274.24	Not recommended	
SI-17718-F	Arthur A. Steiner	4,230.35	Indicted 4-8-41 for income tax evasion; indicted 1-12-40 on mail fraud charge	Arraigned 6-25-41 and pleaded not guilty in income tax case; re- quested 15 days' time within which to file technical pleadings, which was granted.
	Mrs. Arthur A. Steiner	1,417.14	Not recommended	
SI-Special	Robert S. Maestri, et ux. William H. Helis Canal Oil Company, Inc. Lincoln Oil Company, Inc.	171,246.59 309,461.80 5,763.22 None	( ( Not recommended ( (	( ( Case jacket requested ( 5-28-41. (
	Total	\$5,888,393.73		

SCHEDULE 2JACKETED CASES UNDER INVESTIGATION  
AS OF JUNE 30, 1941

<u>Case Number</u>	<u>Taxpayer</u>	<u>Estimated Taxes to be Recommended</u>	<u>Remarks</u>
SI-15616-F	Henry A. Reid		
SI-15617-F	Walter J. Goos		
SI-15618-F	Weston Fanguy		
SI-15619-F	Gus Broussard		
SI-16572-F	R. Thomas McDermott		Related to Maxwell Supply Company
SI-16713-F	W. T. Nolin		
SI-16759-F	John M. Fush		Former purchasing agent for dock board and custodian of "deducts" fund
SI-16983-F	Ulic J. Burke		Related to SI-16721-F
SI-17577-F	Bernard Titcha, Jr.	\$ 1,000.00	
SI-17734-F	Earl K. Long	50,000.00	Investigation suspended pending completion of Moran group of cases
SI-17876-F	Bruce Cartwright		Related to SI-17734-F
SI-17898-F	Joe L. Lieber		
SI-17900-F	Esther E. Stein	2,000.00	Indicted 1-12-40 on mail fraud charge
SI-17926-F	Alfred Moran, et ux.	300,000.00	
SI-17927-F	Arthur J. Moran, et ux.		
SI-17928-F	Harry P. Moran, et ux.		
SI-17929-F	Thomas J. Moran, et ux.		
SI-17930-F	Estate of Mrs. Thomas J. Moran		
SI-17931-F	A. Jay Moran		
SI-17932-F	Harry P. Moran, Jr.		
	Total	\$353,000.00	
SI-6428-E	Victor Canfield (Enrolled Agent)		Prepared false returns in W. T. Burton cases
SI-6457-E	Ulan Hill (Enrolled Agent)		

SCHEDULE 3INFORMATION REPORTS SUBMITTEDAS OF JUNE 30, 1961To Internal Revenue Agent in Charge

<u>Taxpayer</u>	<u>Address</u>	<u>Remarks</u>
Albert and Deen	Baton Rouge, La.	Made kickbacks to George Caldwell, SI-16525-F
American Heating and Plumbing Company	New Orleans, La.	Made kickbacks to George Caldwell
Architectural Stone and Plastering Company	New Orleans, La.	Made kickbacks to George Caldwell
Leo Cafiero	Donaldsonville, La.	Supplemental to SI-16935-F; received graft from James Thomas
A. J. Colfry	New Orleans, La.	Made kickbacks to George Caldwell
Consolidated Roofing Co.	New Orleans, La.	Made kickbacks to George Caldwell
D. A. Lubricant Company	Indianapolis, Ind.	Paid "commissions" to James Thomas
Gove Davis	Olla, Louisiana	Received graft from James Thomas
DeGeneres Brothers	Shreveport, La.	Received graft from James Thomas
Dixie Coin Machine Company	New Orleans, La.	Related to SI-16725-F (Julius Pace)
Jules Fisher	Cabinash, La.	Received graft from James Thomas
Holzer Sheet Metal Works, Inc.	New Orleans, La.	Made kickbacks to George Caldwell
Henry Lester Hughes	Natchitoches, La.	District attorney for Natchitoches and Red River Parishes
F. J. Hunter	Shreveport, La.	Report regarding graft payments by Pelican Oil and Gasoline Company, Inc. (SI-16765-F)
Ben King, et al.	Lake Charles, La.	
Clifford A. King	New Orleans, La.	Made kickbacks to George Caldwell
John D. Klorer, Jr.	New Orleans, La.	Received graft from James Thomas
George W. Lee	Alexandria, La.	Received graft from James Thomas
Louisiana Materials Co.	New Orleans, La.	Paid "commissions" to James Thomas
F. A. McIlhenry	Avery Island, La.	Related to Leche case (SI-16444-F)
Meriwether Gravel Company	Shreveport, La.	Paid "commissions" to James Thomas
The Progress Publishing Company, Inc.	Hammond, La.	SI-16703-F
F. J. Riley Heating and Plumbing Company	Monroe, La.	Made kickbacks to George Caldwell
Ross Gravel Company	Shreveport, La.	Paid "commissions" to James Thomas
Shell Petroleum Company	St. Louis, Mo.	Paid "commissions" to James Thomas
Steel Construction Company	Birmingham, Ala.	Paid "commissions" to James Thomas
Silveria and Scranton	New Orleans, La.	Investigation made to get evidence in connection with mail fraud case of Newman, Harris, et al.
I. G. Thomas	New Orleans, La.	Paid "commissions" to James Thomas
Twin City Gravel Company	Monroe, La.	Paid "commissions" to James Thomas
W. E. Woodard	Arcadia, La.	Received graft from James Thomas

SCHEDULE 3 (Continued)To Collector of Internal Revenue

<u>Taxpayer</u>	<u>Address</u>	<u>Remarks</u>
Equities, Inc.	New Orleans, La.	Report in regard to social security taxes
L. E. Frazer	Merryville, La.	Received graft from James Thomas (SI-16935-F)
Sheriff Druce Reed	( Allen Parish, La.	Alleged graft payments by Stephens-Cowart Partnership to Sheriff Druce Reed
Stephens-Cowart (a partnership)		
John Stabile		
	( Oakdale, La.	
	( New Orleans, La.	

SCHEDULE ATAXPAYERS WHOSE RETURNS HAVE BEEN CONSIDERED  
OR WILL BE THE SUBJECT OF SOME INVESTIGATION

<u>Name</u>	<u>Address</u>	<u>Remarks</u>
Asset, Henry	New Orleans, La.	Captain of New Orleans police— bribes from law violators
Barnett, Mr. and Mrs. J. M.	Baton Rouge, La.	
Blanchard, Max A.	New Orleans, La.	
Brennan, George	New Orleans, La.	Business manager of associations of operators of music boxes and iron claw machines
Brown, Joe W.	New Orleans, La.	Gambler—friend of Seymour Weiss
Burke, Edward	New Orleans, La.	
Couvillon, Foster	Baton Rouge, La.	Purchasing agent for Louisiana Highway Commission
Crude Oil Sales Company	New Orleans, La.	Related to SI-17427-F (Loper)
Delcambre, Isadore	Delcambre, La.	
Derbas, Louis J.	Houma, La.	
Donner, Charles J. (Dec'd)	New Orleans, La.	Related to Shushan case
Dornier, Joseph B.	Convent, La.	Collector of graft on slot machines
East Texas Refining Co.	Dallas, Texas	Related to SI-16425-F and SI-16444-F
Edwards Transportation Co.	Houston, Texas	Related to Hallis case
Ellison, David M.	Baton Rouge, La.	Formerly attorney general of La.
Evans, W. C.	Baton Rouge, La.	
Farley, Elmer	New Orleans, La.	Florist, nursery; monopoly on state business
Farrell, J. E., et ux.	Fort Worth, Texas	Related to SI-14135-F (Win or Lose Corporation)
Fiscal, W. C.	West Monroe, La.	Oil and gas operator; related to SI-16444-F
Fisher, Joseph	Lafitte, La.	
Fisher, Jules	Cabinash, La.	
Fiters, Charles S.	New Orleans, La.	Related to Shushan case
Mill, Thomas J.	New Orleans, La.	
Mortman, Paul	New Orleans, La.	Alleged racketeering in the Longshoreman's Union
Johnson, Edward W.	New Orleans, La.	Alleged racketeering in the Longshoreman's Union
Jones, William B.	New Orleans, La.	C. P. A. Related to SI-17147-F and SI-17148-F

SCHEDULE 4 (Continued)

<u>Name</u>	<u>Address</u>	<u>Remarks</u>
Londry, Fernand	Delcambre, La.	
Lindsey, Coleman and Cora	Baton Rouge, La.	
LONG, Mrs. Rose McConnell	Baton Rouge, La.	Widow of late Senator Huey P. Long
Gus Mayer Company, Ltd.	New Orleans, La.	Allegedly keeping two sets of records, with the assistance of an internal revenue agent, with intent to evade income taxes
Moran, Alfred and Son	New Orleans, La.	Partnership (See SI-17926-32-F)
Moran, Thomas J. and Sons	New Orleans, La.	Partnership
Moran's Sons, Thomas J.	New Orleans, La.	
Naron Supply Company	New Orleans, La.	Partnership (related to Moran group)
O'Hara, Dr. Joseph	New Orleans, La.	
Paves, Leander H.	Dalcour, La.	District Attorney, Jefferson Parish
Petroleum Sales Company	New Orleans, La.	Related to SI-17427-F (Loper)
Sehrt, Clem	New Orleans, La.	
Superior Oil Company	Houston, Texas	One of Helis interests
United Gas Affiliates		Related to SI-16425-F and SI-16444-F
Wallace, George M.	Baton Rouge, La.	Attorney and legal adviser to Earl K. Long when Long was governor of Louisiana
White, A. P.	Arcadia, La.	
Wimberly, Lorris M.	Arcadia, La.	State senator; received commissions from insurance agency handling state business
Wimberly, Shirley G.	New Orleans, La.	Attorney; law partner of former Governor Earl K. Long

AUG 8 1941

My dear Mr. Morgan:

In my letter of December 30, 1940, with respect to the four blocks of Tennessee Valley Authority bonds aggregating \$56,500,000, principal amount, I accepted the four typewritten bonds submitted to evidence the obligation of the Authority to the Secretary of the Treasury in that amount, and stated that the interest payable by the Authority beyond February 15, 1941, would be at the rates specified in the bonds, unless they were not resold before August 15, 1941, in which case consideration would be given to reducing the interest cost to the Authority for the current interest period below the rates specified in the bonds.

Since the bonds are not to be resold before August 15, 1941, the interest cost to the Authority for the six-month period ending on that date will be at the rate of 1/2 of 1 percent per annum, the same rate which has obtained since the bonds were originally purchased. Accordingly, the sum of \$141,250 in funds available for credit in the account of the Treasurer of the United States on August 15, 1941, should be remitted to the Treasury.

The interest payable by the Authority beyond August 15, 1941, while the bonds are still held by the Treasury, will be at the rate of 1 percent per annum until further notice. It is my intention, however, to resell these bonds to the public shortly, possibly next month. In connection with the offering, it appears advisable that certain information regarding the Authority's financial position and its expectancy with respect to a program of retirement of the bonds as they become subject to call for redemption prior to maturity, should be made public in order that bidders may more intelligently compute the

- 2 -

prices they are willing to pay for the bonds of the four different blocks. I will appreciate it if you will furnish me at your earliest convenience such data in this respect as you feel should be made public, to the end that the bonds may be sold at the most favorable prices obtainable. Just prior to the offering, the Treasury will estimate the probable premium to be realized on the bonds and will withhold from the public offering an amount of these bonds approximately equivalent to the estimated figure, the bonds so withheld to be repurchased by the Authority. Will you please advise me from which block the Authority desires these bonds withheld.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Honorable Harcourt A. Morgan,  
Chairman of the Board,  
Tennessee Valley Authority,  
Knoxville, Tennessee.

ELK:urp

2/7/42



## TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

OFFICE OF THE DIRECTOR

August 8, 1941

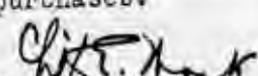
MEMORANDUM TO THE SECRETARY:

Weekly Report - Lease-Lend Purchases  
(8/1/41 - 8/8/41)

<u>Requisitions</u>	<u>Estimated Cost</u>
Cleared by O.P.M.....	\$ 187,002,398.74
Awaiting clearance by O.P.M.....	21,538,595.75
<hr/>	
Total Pending Requisitions.....	\$ 208,540,994.49
Less Requisitions for metals, where contracts will be made for term periods and allocations required from O.P.M.....	\$ 85,122,729.76
<hr/>	
Total Pending Requisitions for Spot Purchases.....	\$ 123,418,264.73
Purchases to 8/1/41.....	\$ 87,787,648.25
Purchases 8/1 to 8/8/41...	15,921,740.50
<hr/>	
Total to 8/8/41.....	\$ 103,709,388.75

Arrangements have been made for the establishment of priority ratings by OPM prior to purchase negotiations by the Procurement Division. This will enable prospective bidders to somewhat accurately determine possible deliveries.

In view of the widening scope of commercial purchases, discussions have been had with the Division of Defense Aid Reports and OPM representatives to further clarify policy in handling lend lease requisitions whereby the Division of Defense Aid Reports will determine whether requisitions come within the scope of the Lend Lease Act; OPM will establish availability of materials requisitioned; and the Procurement Division will make purchases.

  
 Clinton E. Mack  
 Director of Procurement

Attachments-7

<u>CONTRACT NUMBER</u>	<u>CONTRACTOR'S NAME</u>	<u>REQUISITIONER</u>	<u>COMMODITY</u>	<u>QUANTITY</u>	<u>TOTAL VALUE</u>
DA-TPS-710	Washoe Mfg. Co. Inc.	China	Blankets	600,000	\$ 669,000.00
DA-TPS-741	Marshall Field & Co.	"	Blankets	100,000	120,000.00
DA-TPS-675	The American Fork & Hoe Co.	U. K.	Hammers	5,000	6,300.00
DA-TPS-683	Gane's Chemical Works, Inc.	"	Barbitol	16,000#	53,200.00
DA-TPS-750	The Plastergon Wall Board Co.	"	Wallboard	Sq.Ft. 17,126,300	343,382.31
DA-TPS-685	Vlcheck Tool Co.	"	Wrenches	5,000	675.00
DA-TPS-358	Allis-Chalmers Mfg. Co.	"	Tractors		670,899.23
DA-TPS-243	Chicago Flexible Shaft Co.	"	Clipping Machines	200	4,992.50
DA-TPS-626	Sulphur Export Corp.	"	Discolored Sulphur	126,000 LT	1,953,000.00
DA-TPS-696	Barber-Greene Co.	"	Ditcher & Spares		13,191.41
DA-TPS-654	S K F Industries, Inc.	"	Balls, Steel	7.2 M	1,402.38
DA-TPS-671	Ganes Chemical Works, Inc.	"	Benzocaine	2,000#	6,175.00
DA-TPS-485	The Mohawk Rubber Co.	"	Tires	120	1,054.80
DA-TPS-487	The Falls Rubber Co.	"	Tubes	5,000	17,800.00
DA-TPS-489	The Firestone Tire & Rubber Co.	"	Tires	4,640	99,330.80
DA-TPS-486	Lee Tire & Rubber Co. of N.Y. Inc	"	Cases & Flaps	400	20,100.00
DA-TPS-632	David S. Ingalls	"	Cessna Airplane		32,400.00
DA-TPS-631	The Palmer Oil Corp.	"	Cessna Airplane		32,400.00

<u>CONTRACT NUMBER</u>	<u>CONTRACTOR'S NAME</u>	<u>REGISTRATION NUMBER</u>	<u>COMMODITY</u>	<u>QUANTITY</u>	<u>TOTAL VALUE</u>
DA-TPS-284	Atlantic Aviation Sales, Inc.	U. P.	Cessna Airplane		\$ 32,500.00
DA-TPS-630	F. E. Evans	"	Cessna Airplane		32,460.00
DA-TPS-629	E. W. Wiggins Airways Inc.	"	Cessna Airplane		29,725.00
DA-TPS-578	Caterpillar Tractor Co.	"	Tractor, Winch, Trailbuilder		6,972.38
DA-TPS-749	The Upson Co.	"	Wallboard	1,400,000 Sq.Ft.	27,930.00
DA-TPS-724	Brown Co.	"	Easy Bleaching Sulphite	2,000 T	122,000.00
DA-TPS-723	St. Joe Paper Co.	"	Kraft Pulp	15,000 T	862,500.00
DA-TPS-706	The Phosphate Mining Co.	"	Phosphate	17,500 T	94,500.00
DA-TPS-725	Rayonier, Inc.	"	Bleached Sulphite	9,500 ST	688,750.00
DA-TPS-709	Coronet Phosphate Co.	"	Phosphate	39,000 T	217,620.00
DA-TPS-727	The Champion Paper & Fibre Co.	"	Semi-Bleached Sulphite	1,000 ST	72,500.00
DA-TPS-684	Gane & Ingram, Inc.	"	Cincophin	2,000#	7,000.00
DA-TPS-726	Pulp Div. Weyerhaeuser Timber Co.	"	Bleaching Sulphite	1,000 ST	60,500.00
DA-TPS-681	Gane's Chemical Works Inc.	"	Phenobarbitol	20,000#	76,000.00
DA-TPS-625	Sulphur Export Corp.	"	Sulphur	81,000 LT	1,255,500.00
DA-TPS-226	Fairbanks, Morse & Co.	"	Spare Parts for Agric. Mch.		1,082.77
DA-TPS-592	The White Motor Co.	"	Spare Parts for Trucks		25,626.89
DA-TPS-677	S. B. Penick & Co.	"	Hydrastis	6,000#	22,650.00

<u>CONTRACT NUMBER</u>	<u>CONTRACTOR'S NAME</u>	<u>REQUISITIONER</u>	<u>COMMODITY</u>	<u>QUANTITY</u>	<u>TOTAL VALUE</u>
DA-TPS-579	U. S. Rubber Export Co. Ltd.	U.K.	Tires and Flaps		\$ 28,934.31
DA-TPS-580	The Mohawk Rubber Co.	"	Tires	50	1,639.00
DA-TPS-581	The Mansfield Tire & Rubber Co. Inc.	"	Tires, Tubes and Flaps		78,449.25
DA-TPS-582	The Firestone Tire & Rubber Co.	"	Tires, Tubes and Flaps		38,379.19
DA-TPS-583	The Goodyear Tire & Rubber Co. Inc.	"	Tubes		273.00
DA-TPS-81 (Adj.Ded.)	Oliver Farm Equipment Co.	"			- 26.03
DA-TPS-100 (Adj.Ded.)	Deere & Co.	"			- .58
DA-TPS-744	Behr - Manning Corp.	"	Stones, Oil	11,808	7,380.00
DA-TPS-748	The Duff-Norton Mfg. Co.	"	Jacks	100	1,260.00
DA-TPS-638	Schultz-O'Neill Co.	"	Pulverizer		3,050.00
DA-TPS-356	International Harvester Export Co.	"	Tractors		507,989.13
DA-TPS-618	Deere & Co.	"	Potato Diggers	10	13,367.86
DA-TPS-362	inn. /Moline Power Implement Co.	"	Tractors		337,170.24
DA-TPS-752	George P. Fuller	"	Lockheed Airplane		57,500.00
DA-TPS-298 (Adj.Add.)	Geo. P. Muth Co. Inc.	"			3,078.60
DA-TPS-624	Charles H. Jackson, Jr.	"	Lockheed Airplane		55,000.00

128

<u>CONTRACT NUMBER</u>	<u>CONTRACTOR'S NAME</u>	<u>RELATIONSHIP</u>	<u>COMMODITY</u>	<u>QUANTITY</u>	<u>TOTAL VALUE</u>
DA-TPS-737	The Superior Oil Co.	U.S.	Lockheed Airplane		\$ 75,000.00
DA-TPS-676	Benzol Products Co.	"	Ethyl Cyanoacetate	6,000#	7,500.00
DA-TPS-962	Underwood Elliott Fisher Co.	"	Computing Machines		14,580.00
DA-TPS-663	Laurens Bros.	"	Lathes, Turret	2	12,600.00
DA-TPS-367	James Fyfe	"	Manila Fiber	734,050#	22,837.32
DA-TPS-368	James Fyfe	"	Manila Fiber	96,950#	3,423.81
DA-TPS-369	Hanson & Orth	"	Manila Fiber	657,875#	24,357.82
DA-TPS-370	MacLeod & Co. Inc.	"	Manila Fiber	692,500#	21,394.38
DA-TPS-401	James Fyfe	"	Manila Fiber	277,000#	6,618.75
DA-TPS-402	James Fyfe	"	Manila Fiber	27,500#	1,100.00
DA-TPS-403	Hanson & Orth	"	Manila Fiber	277,000#	12,387.19
DA-TPS-404	Hanson & Orth	"	Manila Fiber	206,250#	8,868.75
DA-TPS-405	MacLeod & Co. Inc	"	Manila Fiber	206,250#	11,601.56
DA-TPS-406	Henry M. Peabody & Co.	"	Manila Fiber	401,650#	16,002.81
DA-TPS-436 (Adj.Ded.)	N.Y. Wire Cloth Co.	"			- 12,375.00
DA-TPS-128 (Adj.Ded.)	J. I. Case Co.	"			- 285.95
DA-TPS-605	Caterpillar Tractor Co.	"	Spare Parts for Tractors		46,652.34

<u>CONTRACT NUMBER</u>	<u>CONTRACTOR'S NAME</u>	<u>REQ. INST-TIONER</u>	<u>COMMODITY</u>	<u>QUANTITY</u>	<u>TOTAL VALUE</u>
DA-TPS-694	Dalzen Tool & Ig. Co.	U.K.	Taps, Hand		\$ 75,845.00
DA-TPS-711	The Torrington Co.	"	Bearings, Needle	10,700	2,741.29
DA-TPS-497	The Proctor & Gamble Distributing Co "	"	Glycerine	4,480,000#	607,530.00
DA-TPS-674	Bayonier, Inc.	"	Chemical Wood Pulp	1,000 T	85,000.00
DA-TPS-736	Armour & Co. of Delaware	"	Peptone	20,000#	35,000.00
DA-TPS-702	The Wilson Laboratories	"	Pancreatin	2,000#	7,500.00
DA-TPS-670	Mallinckrodt Chemical Wks.	"	Carbromal	6,000#	30,000.00
DA-TPS-682	S. B. Pennick & Co.	"	Cascara Sagrada	320,000#	48,800.00
DA-TPS-701	R. T. Greer & Co.	"	Wild Cherry Bark	30,000#	1,800.00
DA-TPS-619	Morey Machinery Co. Inc.	"	Hand Screw Machines	2	1,700.00
DA-TPS-593	Mack Mfg. Co.	"	Spare Parts for Mack Trucks		29,694.48
DA-TPS-693	Hill-Clarke Mchy. Co.	"	Lathe, Turret		7,700.00
DA-TPS-851	General Electric Supply Co.	"	Radio Receivers		18,291.55
DA-TPS-488	The Mansfield Tire & Rubber Co.	"	Cases & Flaps, Tires		186,584.00
DA-TPS-747	The Mahoning Valley Steel Co.	"	Steel Sheets	401 GT	29,573.23
DA-TPS-769	Walworth International Co.	"	Pipe Fittings		56,258.62
DA-TPS-315-1	Sharon Steel Corp.	"	Carbon Steel	2,752 GT	157,488.96

130

<u>CONTRACT NUMBER</u>	<u>CONTRACTOR'S NAME</u>	<u>REQUISITIONER</u>	<u>COMMODITY</u>	<u>QUANTITY</u>	<u>TOTAL VALUE</u>
DA-TPS-785	The Timken Roller Bearing Co.	U.K.	Tubing	11 GT	\$ 3,172.40
DA-TPS-308 (Adj.Add.)	Bethlehem Steel Export Co.	"			55,866.60
DA-TPS-761	Granite City Steel Co.	"	Tinplate	774 GT	96,846.90
DA-TPS-756	Bethlehem Steel Export Corp.	"	Tinplate	6210 GT	725,193.00
DA-TPS-793	Lukens Steel Co.	"	Plates	1484 GT	45,990.19
DA-TPS-792	Ellwood Forge Co.	"	Crank shafts	1000	297,500.00
DA-TPS-755	Weirton Steel Co.	"	Tinplate	10,055 GT	1,076,383.91
DA-TPS-757	Republic Steel Corp.	"	Tinplate	7,254 GT	831,289.72
DA-TPS-759	Youngstown Sheet & Tube Co.	"	Tinplate	3,080 GT	362,445.03
DA-TPS-352-1 (Adj.Add.)	Andrews Steel Co.	"			8,606.52
DA-TPS-758	Jones & Laughlin Steel Corp.	"	Tinplate	4340 GT	507,520.54
DA-TPS-760	Follansbee Steel Corp.	"	Tinplate	1510 GT	181,974.55
DA-TPS-797	Atlantic Steel Co.	"	Wire rods	542 GT	31,201.86
DA-TPS-798	Lukens Steel Co.	"	Galv. Plates	260,452#	15,727.98
DA-TPS-838	Lukens Steel Co.	"	Galv. Plates	736,263#	24,218.15
DA-TPS-754	U. S. Steel Export Co.	"	Terne Sheets and Tinplate	3617GT	503,235.88

<u>CONTRACT NUMBER</u>	<u>CONTRACTOR'S NAME</u>	<u>REQUISITIONER</u>	<u>COMMODITY</u>	<u>QUANTITY</u>	<u>TOTAL VALUE</u>
DA-TPS-843	Wisconsin Steel Co.	U.K.	Rerolling Billets	11,827 GT	\$ 502,410.96
DA-TPS-309-1 (Adj.Ded.)	Republic Steel Corp.	"			- 125,825.00
DA-TPS-848	American Zinc Co. of Illinois	"	Zinc	1,730,000#	127,328.00
DA-TPS-849	The American Metal Co., Ltd.	"	Zinc	1,650,000#	125,565.00
DA-TPS-853	Anaconda Sales Co.	"	Zinc	720,000#	59,400.00
DA-TPS-723 (Adj.Add.)	Laclede Steel Co.	"			3,710.96
Purchases 8/1 to 8/8/41.....					\$ 15,923,530.50
Contract DA-TPS-395 was cancelled in its entirety					- 1,790.00
Total Purchases 8/1 to 8/8/41.....					\$ 15,921,740.50

AUG 8 1941

Dear Mr. Keynes:

Thank you for your expressions of appreciation for our work here. Your own efforts have helped us toward establishing adequate financial arrangements for His Majesty's Government. We both realize that it is to our mutual advantage to expedite in any way we can the course in which our two countries are joined. I shall follow the program closely as its details are worked out and its operative results become measurable.

Your rough estimates of the probable future course of British dollar balances and gold holdings are of interest. I join you in the hope that no unforeseen contingencies will arise and that the funds will prove adequate to your needs.

Please accept for yourself and Mrs. Keynes the kindest personal regards from Mrs. Marganthen and myself.

Sincerely yours,

(Signed) E. Marganthen, Sr.

Secretary of the Treasury

Professor J. M. Keynes,  
The British Supply Council in North America,  
Box 600, Benjamin Franklin Station,  
Washington, D. C.

*File - Secretary Office  
cc - Mr. White's Office*

*JDM* **FILE COPY** *WNY*

THE BRITISH SUPPLY COUNCIL IN NORTH AMERICA

TELEPHONE REPUBLIC 7880



Box 680  
BENJAMIN FRANKLIN STATION  
WASHINGTON, D. C.

The Honble Henry Morgenthau, Jr.  
United States Treasury,  
Washington.

July 28th, 1941

Dear Mr Secretary,

I am hoping to catch a clipper from New York early tomorrow morning and am very sorry that I shall not have an opportunity to take leave of you. There have been long delays in getting a draft from the State Department on the matter I mentioned to you. Your advice about this proved quite right! But at last to-day I have got something, and the best I can do with it is, I think, to take it back with me immediately for discussion at home.

I am very grateful for the good progress which has been made and the essential help which you have given Phillips and myself in getting forward. The establishment of the Committee at the Treasury was a great idea and has made all the difference. I shall be able to report to the Chancellor of the Exchequer that he can now have full confidence in the adequacy of the financial arrangements which have been set up. Clearly it will take some time to work them out in detail, and it is not yet possible to estimate with any precision the total quantitative effect of the various measures under discussion. But we have now a sufficient margin to allow some of the reliefs (though not the biggest!) to fall through.

Our estimate is that the British dollar balances and the gold held by the Bank of England taken together should in due course attain the desired level of \$m600, not too much to provide for contingencies but enough to afford relief from anxiety. We cannot estimate at what date this figure will be reached. Much depends on whether old commitment contracts result in punctual deliveries. Hitherto, as you know, we have been better off each month than we expected as a result of serious delays in delivery, and it is possible that the above figure might be attained temporarily in the latter part of this year. If so, it will fall away next spring when a low point is likely to be reached, recovering again by the autumn of 1942, after which our currently accruing income (the old commitments having been substantially cleared off) should exceed our outgoing

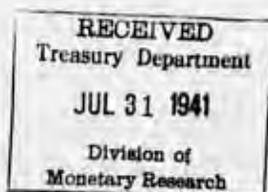
foreseen developments.

These figures take account of our normal sources of income and our known commitments. They make no allowance for unforeseen outgoings on the one hand or for possible windfalls on the other hand. I believe that the Chancellor of the Exchequer hopes to receive late in the year a special receipt of gold of about \$m120 from the South African Government out of which South African Government debt in London will be redeemed, the stock being requisitioned from the British holders and handed to the South African Government for cancellation.

Thank you for your kindness and hospitality to my wife and myself. May we be remembered to your wife? We have stayed in Washington much longer than we expected. But it has been a valuable and interesting, and educative experience. I shall be able to give our Treasury in Whitehall a much truer picture of what Washington is really like; - and, I should like to add, the full story of what you did for us during the critical months at the beginning of this year without which irreparable delays might have been suffered by this year's war effort.

Yours sincerely,

*JM Keynes*



AUG 8 1941

My dear Dr. Soong:

I acknowledge with thanks your letter of July 31, 1941, conveying the Generalissimo's expression of gratitude for the freeing of Chinese assets in the United States.

I am sure that you appreciate the desirability of full cooperation between our Governments in the successful administration of these freezing orders. I would appreciate it if you would convey to Generalissimo Chiang Kai-shek the need for close cooperation in these matters and our sincere desire to administer the control to the mutual benefit of the people of China and the United States.

Sincerely yours,

(Signed) E. B. Sargent, Jr.  
Secretary of the Treasury

Dr. T. V. Soong,  
1601 V Street, N. W.,  
Washington, D. C.

*cc - Mr. Soong's office*

1000  
8/5/41

WAT FILE COPY  
WTS

1601 V STREET N. W.  
WASHINGTON, D. C.

July 31, 1941

My dear Mr. Secretary:

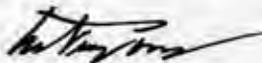
I am in receipt of the following telegram from the Generalissimo, dated Chungking, July 31st:

"Now that the American Government has acceded to my request to freeze Chinese assets in the United States, which will be of great assistance to China, please convey to the Secretary of the Treasury my grateful thanks for his strong support.

Chiang Kai-shek"

With kind regards,

Yours sincerely,



T. V. Soong

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

August 8, 1941.

Dear Birge:

It was very good of you to write me, speaking of the comment you have heard in regard to the New York Times editorial. I also appreciate your sending it to others who might have missed seeing the Times for that day.

I know you will be pleased to hear that I have had a number of letters commenting very favorably upon my statement in regard to the sale of cotton, and that these have come from different parts of the country and from people in widely different walks of life.

I hope that you, Mrs. Kinne and the children are well, and send my warm regards to you all.

Sincerely,

(Signed) H. Morgenthau, JR.

Mr. Birge W. Kinne,  
Better Homes & Gardens,  
420 Lexington Avenue,  
New York, New York.

GMF/dbs

# BETTER HOMES & GARDENS

MEREDITH PUBLISHING COMPANY

DES MOINES, IOWA

NEW YORK OFFICE: 220 Lexington Ave., New York, N. Y.

August 7, 1941

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

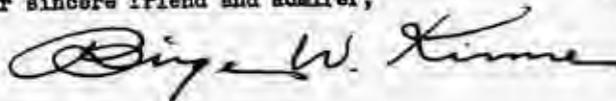
Dear Mr. Morgenthau:

More than one person has mentioned to me that splendid editorial in The New York Times and the approval of it was unanimous.

I am sending a copy of it to our people in Des Moines and also to Ed Eastman, who doesn't see every issue of The New York Times. Your many friends in advertising up here are becoming more proud of you every day and are saying now they wish there were more men like you in Washington.

Good luck to you and keep up the fight.

Your sincere friend and admirer,



Birge W. Kinne

BWK:st

CHICAGO

DETROIT

PHILADELPHIA

ATLANTA

SAN FRANCISCO

LOS ANGELES



TREASURY DEPARTMENT  
WASHINGTON

August 8, 1941

Memorandum for THE SECRETARY:

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

July 1-August 6	\$26,550.90
August 7	<u>232.50</u>
Total	\$26,783.40

GRAVES

## UNITED STATES SAVINGS BONDS

Comparative Statement of Sales During  
First Six Business Days of June, July, and August, 1941  
(June 1-7, July 1-5, August 1-7)

(Amounts in thousands of dollars)

Item	Sales			Amount of Increase or Decrease (-)		Percentage of Increase or Decrease (-)	
	August	July	June	August over July	July over June	August over July	July over June
Series E - Post Offices	\$11,450	\$12,851	\$10,608	-\$ 1,401	\$ 2,243	- 10.9%	21.1%
Series E - Banks	<u>21,194</u>	<u>19,277</u>	<u>14,971</u>	<u>1,917</u>	<u>4,306</u>	<u>9.9</u>	<u>28.8</u>
Series E - Total	32,644	32,128	25,578	516	6,550	1.6	25.6
Series F - Banks	6,516	6,751	9,670	- 235	- 2,919	- 3.5	- 30.2
Series G - Banks	<u>47,502</u>	<u>42,439</u>	<u>59,974</u>	<u>5,063</u>	<u>- 17,535</u>	<u>11.9</u>	<u>- 29.2</u>
Total	<u>\$86,661</u>	<u>\$81,317</u>	<u>\$95,222</u>	<u>5,344</u>	<u>-\$13,905</u>	<u>6.6%</u>	<u>- 14.6%</u>

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

August 8, 1941.

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

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

## UNITED STATES SAVINGS BONDS

Daily Sales - August 1941  
On Basis of Issue Price

(In thousands of dollars)

Date	Post Office Bond Sales  Series E	Bank Bond Sales				All Bond Sales			
		Series E	Series F	Series G	Total	Series E	Series F	Series G	Total
August 1941									
1	\$ 1,467	\$ 3,296	\$ 1,163	\$ 7,586	\$ 12,045	\$ 4,763	\$ 1,163	\$ 7,586	\$ 13,512
2	1,500	3,030	726	6,101	9,857	4,530	726	6,101	11,357
4	3,606	4,376	1,892	10,092	16,361	7,983	1,892	10,092	19,967
5	1,278	2,822	928	7,334	11,084	4,099	928	7,334	12,362
6	1,810	4,195	1,156	10,752	16,103	6,005	1,156	10,752	17,912
7	1,789	3,475	652	5,636	9,763	5,264	652	5,636	11,552
Total	\$ 11,450	\$ 21,194	\$ 6,516	\$ 47,502	\$ 75,211	\$ 32,644	\$ 6,516	\$ 47,502	\$ 86,661

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

August 8, 1941.

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

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

Report on Sales During May, June, and July, 1941  
(All figures in thousands)

CONFIDENTIAL

Item	Post Office Sales Series E	Bank Sales				All Sales			
		Series E	Series F	Series G	Total	Series E	Series F	Series G	Total
1. Number of bond units									
May	453	430	20	91	541	683	20	91	994
June	492	538	21	96	655	1,030	21	96	1,147
July	632	861	22	93	976	1,493	22	93	1,608
Total	1,577	1,829	63	280	2,172	3,406	63	280	3,749
2. Dollar volume (issue price)									
May	\$ 42,836	\$ 57,745	\$ 37,817	\$211,420	\$306,982	\$100,581	\$ 37,817	\$211,420	\$ 349,818
June	40,788	61,729	28,876	183,134	273,739	102,517	28,876	183,134	314,527
July	50,558	94,717	27,359	169,498	291,574	145,274	27,359	169,498	342,132
Total	\$134,183	\$214,190	\$ 94,052	\$564,053	\$872,294	\$348,373	\$ 94,052	\$564,053	\$1,006,477
3. Number of purchasers, excluding second owners									
May	218	207	4	30	241**	425	4	30	459**
June	225	246	5	31	282**	471	5	31	507**
July	275	375	5	30	410**	650	5	30	685**
Total*	718	828	14	91	933**	1,546	14	91	1,651**

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

August 8, 1941.

Source: All dollar figures are deposits with the Treasurer of the United States on account of proceeds of sales of United States Savings Bonds. Estimates of the number of units are pro-rated on the basis of daily reports by the Post Office Department and the Federal Reserve Banks during May and June. Estimates of the number of purchasers are based on special reports by the Federal Reserve Banks covering the period May 1 through May 21, and, in respect to Series E, on similar data for Series A-D.

\* Totals represent the number of different purchasers in the three-month period, allocated to the month of first purchase.

\*\* Each series of bonds has been considered separately in estimating number of purchasers; hence totals are overstated in respect to purchasers of more than one series.

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

DEFENSE SAVINGS STAFF

## ADVANCE NOTICE RADIO PROGRAMS

FRIDAY - AUGUST 8, 1941

Time: 11:45 - 12:00 P.M.  
 Program: Our Gal Sunday  
 Station: WJSV and CBS Network

Time: 12:30 - 12:30 P.M.  
 Program: Daniel W. Bell, Under Secretary,  
 Treasury Department Speaks on  
 Tax Savings Plan  
 Station: WRC and NBC Red Network

Time: 4:45 - 5:00 P.M.  
 Program: Treasury House Quiz  
 Station: WRC - Washington, D. C.

Time: 8:00 - 8:30 P.M.  
 Program: Great Plays  
 Station: WJSV and CBS Network

Time: 8:30 - 8:55 P.M.  
 Program: Your Happy Birthday  
 Station: WMAL and NBC Blue Network

Time: 9:00 - 9:30 P.M.  
 Program: Wings of Destiny  
 Station: WRC and NBC Red Network

BULOVA TIME SIGNALS PROMOTE DEFENSE BONDS AND STAMPS  
 REGULARLY NOW AT THE RATE OF 428 ANNOUNCEMENTS DAILY  
 OVER 134 RADIO STATIONS.

August 8, 1941

MEMORANDUM TO Mr. D. W. Bell, Under Secretary  
From Mr. Delano

In reference to the David Lawrence settlements which we have discussed, I have come to the following conclusions:

1. The settlement with David Lawrence was made after careful and thorough consideration of the relevant facts upon reasonable belief that no alternative method would have returned a larger sum for the depositors.
2. Unless there was some fraudulent misrepresentation or lack of disclosure, which we had no reason to suspect, the debt was worth no more than the settlement price.
3. It is believed that our receiverships fared better than other creditors of the same class.
4. The first step in the settlement, acceptance of a 20-year note (maturing five per cent per annum) for the principal amount of the debt as it stood in 1939, after substantial monthly payments for many months, was agreed to by all but one of about thirty other creditors before being agreed to by our receiverships. That one creditor later settled on the same basis as our receiverships. Bankruptcy or refuge in the Chandler Act was believed to be a probable alternative to acceptance of the 20-year note.
5. The second step in the settlement, a lump sum payment of ten per cent of the principal of the 20-year note (the first five per cent installment having been paid to our two receiverships and two or three other creditors) was believed to be all the asset was worth and was more than could be secured from several outside buyers of such items. Most of the 20-year notes held by others are in default as to the first installment, with the second installment coming due August 13, 1941.

Memorandum to Mr. Bell, Under Secretary

From Mr. Delano

6. We know of no material facts, which would have resulted in a greater return to depositors, which were unknown or left uninvestigated, except that if some representations of the debtor were untrue, it is possible that some hidden assets could have been uncovered. As indicated above, there was no reason to suspect fraud.
7. Because many of the preliminary negotiations were had by the receivers, and others, particularly the compromise of 1939, were conducted by the Insolvent Division staff, there is no file in either place which reveals all of the investigations that were undertaken, all of the facts that were known, and all of the considerations that went into the final approval.
8. There was more consideration and discussion, and questioning of the debtor in this case by receivers and by the administrative staff of the Insolvent Division than in most of our compromise settlements. Moreover, one Judge examined the receivers on the information which they had assembled and another Judge called the debtor before him for further lengthy questioning.

These conclusions are drawn from the facts and statements contained in the attached detailed memorandum discussing this matter more fully.

The Chemical Bank and Trust Company of New York City and the Marine Trust Company of Buffalo have assured me their responsible officers conducted very careful independent investigations leading to the acceptance of Mr. Lawrence's 20-year notes. They apparently proceeded along the same lines as our receivers and insolvent staff and arrived at the same conclusions. As of today they regard the settlement as a good one and entirely justified by the facts.

*Per Mr. Delano*

August 8, 1941

MEMORANDUM FOR MR. BELL:

Subject: Compromise settlements negotiated by Mr. David Lawrence with the receivers of the District National Bank and the Federal-American National Bank and Trust Co., of Washington, D. C.

In this memorandum I wish to augment with further facts and additional discussion the information in my memorandum of July 21, 1941 to Secretary Morgenthau. It is not my purpose to attempt in this manner a justification of the settlements approved by my staff for I believe the files and the record made abundantly support the action taken. No file, however, consisting of the accumulated correspondence and documents can ever set forth all of the circumstances which influenced the action taken and it is with the hope that the picture presented by the files may be better understood that I now undertake to amplify it in this manner. The procedure by which banks are liquidated under the Statute, the limitations under which receivers perform their tasks and the nature of the supervisory work of this office should be understood. The financial condition of the debtor is set forth in financial statements but the files do not contain an extended interpretation of his condition made in the light of the receivers' problem. The general objectives of this office in its work of liquidating banks do not appear, nor do the limitations of time, law or expense. The business judgment which had finally to be displayed can only be determined by a process of deduction from the data contained in the files. I believe that these imponderables should be given their due weight.

- 2 -

The Federal-American National Bank and Trust Company of Washington, D. C. suspended March 5, 1933, and was placed in conservatorship. It was placed in charge of Cary A. Hardee, receiver, on October 31, 1933 who served until May 15, 1939 when he was succeeded by the present receiver, Frederick J. Young. The total claims proved against this trust amount to \$8,370,000 and dividends of 75% have heretofore been paid to the creditors with a final dividend which will approximate 2% to be distributed in the immediate future. The liquidation of this bank (with the exception of one piece of real estate) has been completed. All of the remaining assets, with that exception, were sold at public auction on July 14, 1941 and it is anticipated that the receivership may be wound up within the next few months.

The District National Bank of Washington, D. C. suspended March 5, 1933 and, after a period of conservatorship, was placed in the charge of Norman R. Hamilton as receiver, who served until July 2, 1936 when he was succeeded by Justus S. Wardell, the present receiver. The total claims proven against this receivership amount to \$3,916,000, upon which dividends have been hitherto paid aggregating 85% while a final dividend which will approximate 19% will be available within a few weeks. In this case also liquidation has been completed except for the sale of two parcels of real estate and a few pending items, all other assets having been sold at public auction July 15, 1941, and it is believed that the receivership may be wound up within a few months.

At suspension both of these receiverships held the obligations of David Lawrence.

That held by the Federal-American National Bank & Trust Company consisted of a note made by the United States Society, a non-profit corporation which was later dissolved in 1934, in the sum of \$30,000 and endorsed by David Lawrence. At or about suspension Lawrence deposited with the receiver a seven-year term life insurance policy in the sum of \$30,000 as a form of collateral. Mr. Lawrence was the sole responsible person upon the debt and his liability was duly preserved by having the note protested at maturity. This note bore interest at the rate of 6% from February 14, 1933. No payments were made upon the note until the month of December, 1936 when the debtor started upon a program of payments of \$100 per month. These payments were continued for thirty months, until June, 1939, when they ceased. These

payments, together with an offset of \$278.52, had reduced the debt to a principal balance of \$26,721.48 by June 30, 1939, a total of \$3,278.52 having been paid. No part of the interest was paid.

The debt held by the District National Bank consisted of three notes made by David Lawrence for money directly borrowed, all dated February 6, 1933 and bearing 6% interest. These notes aggregated the sum of \$21,332.25 at suspension and at or about suspension Lawrence had deposited a life insurance policy as a form of collateral, which was exchanged for another policy in June 1937, also a limited term policy. It should be remarked that this form of insurance accumulates no cash surrender value and can only be realized upon in the event of the death of the insured during the term. It has no other value as collateral. At or about the time of suspension the debtor entered upon a program of payments of \$100 per month with the Conservator. These were continued from April, 1933 to June 1934, fourteen such payments having then been made. At that time the payments were increased to \$200 per month and continued at that rate for five years, until June 1939 when they ceased. By this means the debtor paid a total of \$13,400, which, with an offset, reduced his debt by total payments of \$13,695.62, or from the original amount of \$21,332.25 to a balance in June 1939 of \$7,636.63.

During the six years prior to June, 1939 Lawrence had reduced his debt to these banks in the total amount of \$16,974.14, although not in the same proportion to each. The collection effort made upon the assets of an insolvent national bank is left to the receiver, a responsible officer appointed under the Statute to take charge of the assets. While his accounting, his expenses and many of his acts are closely and regularly scrutinized by my office, the general collection effort must necessarily reflect his diligence and initiative, my office watching his results closely and checking upon his energy and thoroughness by field examination and in other ways. An individual asset is brought to the attention of my staff, in ordinary cases, when it becomes the subject of litigation, compromise or sale, or other situation requiring specific authorization.

By the close of March, 1939 Lawrence had become alarmed about the state of his finances. His debts, including those assumed, had increased materially while

- 4 -

his assets were of uncertain nature and his earning power, while large by ordinary standards, would not support his obligations. He decided that some form of settlement must be made with his creditors to relieve him from immediate pressure, to preserve his earning power and to permit him to reduce all his obligations in an orderly manner. By that time the Chandler Act had been passed permitting debtors to make such settlements with all their creditors upon the approval of the Court of a definite plan and with the consent of a majority of the creditors in number and amount. This course was open to him, and he considered availing himself of it, or he might attempt a similar settlement with his creditors upon a voluntary basis, saving the expense of a petition in bankruptcy and the publicity attendant upon it. He determined to test out a voluntary settlement. To avoid a preference he ceased his payments to the two receivers in June 1939.

Accordingly he devised a Plan which he presented to all of his unsecured creditors whereby each should waive all accrued and unpaid interest and should accept notes due in twenty years without interest, payable at the rate of 5% of the principal each year.

In due course the Plan was proposed to both receivers and was favorably received by neither. Lawrence at that point offered both receivers an immediate cash settlement of 10% and neither receiver was favorable. These cash offers were withdrawn in August, 1939 on the ground that such a payment, which he could not offer to all his creditors would constitute a preference and interfere with the entire project.

On July 5th and 11th, 1939 the two receivers submitted the Plan as proposed, with sworn financial statement and supporting data, to my office without recommendation for its information and asking advice and instructions. Receiver Young expressed no opinion upon the merit of the Plan while Receiver Wardell leaned to acceptance. During this period Receiver Young obtained a credit report upon Lawrence and his wife from the Stone Mercantile Agency. My office asked the receivers to obtain more information about the liquidating value of Lawrence's assets; and concerning his income and the possibility of reaching it by garnishment. The receivers did obtain additional letters, statements and data from

Lawrence. None of this data was prepared in the formal manner to show an audited condition nor was it vouched for other than by the debtor who, however, furnished his statement of condition in affidavit form.

The matter stood in this status until September 15, 1939. Each receiver, independently of the other, was trying to assemble information from which a decision might be reached. Neither was fully aware of the representations being made to the other nor of the attitude the other might be taking. Payments had ceased to both receiverships. My office was writing almost identical letters to both receivers with varying results. Neither receiver could obtain action until simultaneous action was possible and the situation was drifting. Obviously the case was one requiring a round table discussion at which the same information might be available to all and all might have an opportunity to question the debtor. Such a conference was arranged for September 15, 1939 but I cannot say upon whose initiative.

This conference was attended by Lawrence; by the two receivers, Wardell and Young (the latter accompanied by his clerk Lochts); by John Anderson, of the General Counsel's office; and by L. M. Reed and R. B. McCandless of the Division of Insolvent National Banks of my office. A full and free discussion appears to have been had, at which a tentative conclusion was reached and a memorandum of the discussion was placed in the file enumerating some of the subjects discussed and the tentative agreement arrived at. I am informed that the discussion took the following lines:

1. My office had been under the impression, from previous letters, that the debtor was actually invoking the Chandler Act to enforce a uniform settlement upon all his creditors but it now developed that he had neither prepared nor filed such a petition. He had, however, presented his plan to his creditors and upon his representations he had, he stated, obtained consents from "practically 90% in number" and that the consents of the two receivers would make the consent unanimous. (This statement was changed slightly in a subsequent affidavit, as will be noted hereinafter). He felt that the situation was thoroughly in hand and that the consenting creditors could be depended on to aid him if resort to the Chandler Act were still necessary. He stated that it had become apparent to him that the plan

could thus be made operative on August 18, 1939, when more than two-thirds in number and amount of his creditors had consented, and that he had thereupon advised them that he had declared the Plan "operative". While this act had no legal significance it was his way of declaring to his creditors that resort to the Chandler Act would only serve to make mandatory what the majority had approved. My staff were, of course, informed concerning the Chandler Act and the inability of a single creditor to force liquidation or to enforce a preferred status and realized that this course was an active possibility. As a matter of fact, there was some indication that resort to bankruptcy itself might be had.

2. The nature and volume of his debts was discussed at length. The debtor did not then or thereafter file with either of the receivers a list of the creditors to whom he had presented the Plan. A considerable portion of his debt was held by banks, reference being then made to the Marine Trust Co. of Buffalo, New York, which held a note of \$30,000 and a contingent claim of \$75,000. Some part of the debt was held by tradesmen and people serving him in his capacity as writer who were interested in preserving his status and earning power in the hope of future business. The members of my staff and the receivers apparently satisfied themselves that the debt was genuine, that he was obtaining the cooperation he claimed and that he was acting in good faith.

3. He stated that as soon as his creditors had accepted the new notes under the Plan, he would feel free to make individual settlements with them, in addition to the 5% per annum payments, as rapidly as he could raise funds for that purpose and could make suitable offers, and that he would try to make cash offers in settlement to the two receivers before they found it necessary to wind up their receiverships.

4. When it appeared that an agreement might be reached the debtor expressed the wish to review the petitions to the court, seeking the necessary orders, before actual presentation. This is not an unusual request as courts occasionally seek verification of the statements made therein by direct examination of the debtor. He appeared interested in the accuracy of the language used and it was assumed by my staff that he wished to avoid newsworthy or extreme statements that might reflect unnecessarily on his credit. (This was arranged and tentative drafts were later examined by him).

5. The status of the debtor's life insurance was discussed but he had previously informed Receiver Wardell that all his insurance had been lodged with creditors or placed in irrevocable trusts. The two policies held by the receivers, amounting to \$55,000 were term policies of no cash value. His total insurance was understood to be very large but he did not file with the receivers then or afterward any schedule of companies or amounts. To attempt to disturb the insurance trusts or to reach cash surrender values over the objection of beneficiaries would require the identification of the proceeds of the original loans with premium payments and this could not be done.

6. The financial condition of the debtor was discussed with care. He had previously supplied both receivers with financial statements in affidavit form showing his condition as of June 30, 1939 together with statements of the United States News, the Bureau of Public Affairs, Inc., and the Independent Syndicate, Inc., the latter three not being in affidavit form. These three corporations were of his creation and carried on his business but he claimed to hold no stock in them although he was president of each. His assets consisted largely of the obligations of two of them for advances made, while each of the corporations held assets and had liabilities arising from transactions and relationships between the corporations. Complete liquidation of Lawrence's assets would have required four receiverships and a determination of his financial worth involved estimates of what these liquidations might yield. From information supplied by the debtor, obtained from the statements and elicited at the conference, the following analysis was believed dependable.

a. Liabilities as of June 30, 1939

\$ 9,681.77 Unpaid taxes.

\$103,815.07 Mortgage debt on home. This debt, being separately secured, was not included in the debts made subject to the stand-by agreement. The debtor's general creditors would only be affected (and then adversely) by a deficiency occurring after foreclosure which, as the home was represented as worth less than the debt, was a possibility. It was disregarded in all computations.

\$115,525.86 Contingent liability as endorser on current obligations of his operating companies. As he believed these companies would be able to meet these obligations he did not offer the 20-year Plan to these creditors. They would ripen into actual liabilities only when the operating companies had to liquidate or defaulted. These were taken into account in determining net worth on a liquidation basis.

\$373,000.00 Notes and debts subject to the settlement. The debtor represented that 90% of these creditors had consented to his 20-year Plan.

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\$602,022.70 Total liabilities.

b. Assets as of June 30, 1939

\$ 596.74 Cash on hand.

\$133,390.00 The assessed value of the home shown above in his liabilities as being under mortgage of \$103,815.07. The sale value was considered to be substantially less than this assessed value.

\$ 17,650.00 Note made by the Independent Syndicate, Inc., and endorsed by J. J. Williams, an officer of that company. The statement of the condition of the maker company shows no assets from which it could be paid, while Williams was represented by Lawrence to be irresponsible. The debt was stated to have originated in 1929 and that no interest had been paid, although by a recent renewal for five years, it would not fall due until 1942.

\$ 53,961.01 Note of the Bureau of National Affairs, Inc. The balance sheet of this company (as of December 31, 1938) indicates that this is part of a total indebtedness of \$390,000 which must participate in any recovery from its assets. The face amount of these assets is shown to be \$288,788.76, of which \$250,000 is the carrying value of preferred stock of United States News. As shown below this stock is believed to be worthless. Of the balance of the assets, \$20,581.88 is cash, \$9,384.77 is accounts

- 9 -

receivable, \$4,011.55 inventory, \$1,595.50 furniture and fixtures, and \$2,615.06 miscellaneous. It was the opinion of my staff that on this showing the assets might yield as much as \$30,000 which would be reduced by the costs of liquidating the company to a maximum of \$20,000, or approximately four cents on the dollar. This asset therefore might not yield more than \$2,160 if the company were to cease operations and be liquidated.

\$248,467.15 Notes of the United States News. The balance sheet of this company as of December 31, 1938, shows that this is part of total liabilities of approximately \$340,000. To pay these liabilities the balance sheet showed assets carried at \$147,502.14, of which only \$33,520.54 is shown as current assets while the balance is in notes receivable, inventory, building and equipment. At the conference there was a good deal of discussion upon liquidating value of these assets. The debtor was sure that owing to their age and special nature they would not yield over \$10,000 while receiver Wardell was quite certain they would yield as much as \$100,000. It seemed to my staff that if liquidated economically and favorably, there might be as much as \$50,000 for the creditors, or fifteen cents on the dollar. The note in the Lawrence assets might therefore have a maximum value of \$37,500.

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\$454,064.90 Total assets.

The realizable value in the Lawrence assets can therefore be tabulated as follows:

\$	596.74	Cash
	2,160.00	Bureau of National Affairs
	<u>37,500.00</u>	United States News
\$40,256.74		

- 10 -

This value must be distributed to \$373,000 unsecured liabilities and to \$115,525.86 contingent liabilities (for it contemplates the liquidation of the maker companies), a total of \$488,525.86 or eight cents on the dollar, (subject to minor adjustment by way of returns upon the maker liability) which amount will be still further reduced by the costs of administering the Lawrence estate in bankruptcy.

My staff therefore concluded that upon a liquidation basis the notes held by the two receivers were worth not over eight cents on the dollar, that this recovery must come through three or four bankruptcy liquidations, which they were in no position to bring about, with the attendant delay and expense. If any greater recovery were to be had during the life of the two receiver-ships, it must come through the earning power and voluntary payments of Lawrence.

7. The debtor reported his annual earnings to be around \$50,000 to \$55,000. Either at this conference or to the receivers the debtor had informed them that of this \$18,650 would be absorbed in the annual 5% payments on his deferred debts; taxes amounting to \$18,000 and insurance premiums of \$15,000, while the care of an invalid son cost \$5,000 or more a year. This left no provision for living expenses and business expense. The possibility of garnishment of some part of this salary had been considered but abandoned as the debt must first be reduced to judgment and this would bring on, without doubt, the invoking of the Chandler Act, or bankruptcy proceedings.

From this study my staff were satisfied with regard to certain conclusions:

1. Upon a liquidation basis the notes held by the two receivers were worth not over eight cents on the dollar.
2. That any attempt to force liquidation by legal remedy would result in a petition under the Chandler Act, or bankruptcy.
3. That invoking the Chandler Act might not affect adversely the debtor's earning power, but it might prevent him from offering a cash compromise settlement afterward.

- 11 -

4. That the best chances of recovery lay in preserving the earning power and freedom of action of the debtor.

5. That his life insurance, although very large, could not be reached for the benefit of these debts.

6. That during these months of negotiations nothing had occurred to make any of the numerous persons concerned suspicious of any misrepresentation or fraud and the statements of the debtor seemed entirely credible, his reputation and public standing contributing to this feeling.

7. That from all that could be learned the previous payments of the debtor to these two receiverships had been made more regularly and in a larger percentage than to other creditors of the same class.

8. That the possibility of recovery by bankruptcy or by liquidating his assets showed so little of real value and was so remote in any practical sense that the effort involved in an examination of the debtor or in the verification of all his statements would not affect the result, particularly as a cash settlement was not being offered.

The choice before the receivers was not one of legal remedy, which would precipitate the Chandler Act protection; or one of a cash settlement involving an evaluation of his assets. The choice was between voluntarily consenting to the 20-year Plan and of refusing to participate, which also would precipitate refuge in the Chandler Act in their opinion. Consent would certainly preserve the debtor's earning power while refusal might interfere with it. Consent would go as far as could be arranged to ensure some small annual reduction and would preserve the debtor's right to make a lump sum settlement later on. It seemed quite sure that consent would yield more than the estimated value of 8%, and sooner and at less expense and it was hoped this recovery might be as much as 15% during the life of the two receiverships (as subsequently did develop).

It was therefore the consensus of the conference that it would be to the advantage of the depositors of both receiverships to accept the 20-year deferred notes and my staff informed both receivers that if and when they recommended such a settlement, an approval would be forthcoming.

Our general objective in liquidating banks is to achieve the maximum recovery for the depositors with the least undue delay and at a minimum of expense and to do so, as far as practicable without disrupting the business interests of the community or working an unnecessary hardship on the debtor. We do not resort to legal procedure unless there is a definite object to be gained and we try to obtain the cooperation of debtors rather than their hostility. The immediate steps deemed necessary in any given case are left to the discretion of the receiver although when he needs advice, legal or otherwise, or guidance he seeks it from my staff who exercise a general supervision over the management of his trust. This kind of conference has been found useful many times in assisting receivers to come to a decision as to a course of action. In this case the long continued voluntary payments prior to June 30, 1939, amounting to \$16,400 are deemed an evidence of the value of the policy.

Following this conference the two receivers immediately wrote to my office recommending that they be authorized to accept the 20-year notes.

Under date of September 16, 1939 Receiver Young of the Federal-American National Bank and Trust Co. wrote, "In view of the information supplied by Mr. Lawrence in yesterday's conference and based on his insolvent condition it is recommended that I be permitted to join other creditors in accepting the twenty-year plan of liquidation as outlined above."

Under date of September 22, 1939, Receiver Wardell of the District National Bank wrote in part: "At this conference a thorough discussion of the assets and liabilities of the debtor and his present and prospective earnings was had as well as his offer of settlement which, if accepted, will result in this trust receiving a new note made by Mr. Lawrence in the principal amount of \$7,836.83, without interest, maturing in annual installments over a period of twenty years, the first of such installments to be paid one year from the date of said note. Mr. Lawrence has also advised that with the acceptance of this plan of compromise settlement by this trust he would then be in a position at a later date to offer a lump sum settlement covering his indebtedness . . . Considering the circumstances and as it appears from conferences held that the best interest of this trust can be served by the acceptance of the offer as now tendered by Mr. Lawrence it is accordingly recommended that I be authorized to petition the court for an order permitting its acceptance."

My staff, however, did not immediately approve the acceptance of these notes. Under date of September 20, 1939 a letter was addressed to Receiver Young asking him to obtain additional information about the United States Society, the maker upon the note he held, and asking that he obtain verification in some manner of Lawrence's statement that 90% of his creditors had acceded to the 20-year plan. The receiver advised October 6th that the corporate existence of the United States Society had been terminated in 1934 and that Lawrence had assumed its liabilities.

With this letter of October 6th receiver Young enclosed an affidavit of Mr. Lawrence in which it was stated that his plan was submitted to all of his creditors, thirty-five in number, who held a total of \$372,371.07 of unsecured notes against him; that acceptances as of October 6, 1939 had been received from 32 out of the 35 creditors, with a total holding of substantially in excess of two-thirds both in number and amount; that two of such acceptances covering \$9,047.96 were oral and were to be confirmed in writing; and that the only three creditors that had not then accepted were an estate in New York holding \$5,000 and the two Washington receiverships and that the former had signified an intention to accept when the two receiverships consented. As stated above this statement was in affidavit form.

Under date of October 18, 1939, more than a month after the conference, my staff authorized both receivers to petition the court for an appropriate order.

These petitions were prepared in due course and were submitted to Judge Proctor, and at the same time his attention was called to the size of the debts and the identity of the compromising debtor. Before signing the orders he called before him receiver Young and a representative from the office of receiver Wardell and in chambers he examined into such matters as the value of his home, the amount of the mortgage, his income, the nature of his debts and the contents of the financial statements.

The petitions as filed by the two receivers are identical in form, as both are served by the same firm of attorneys, and both show to the court that Lawrence has represented that his 20-year plan has been submitted to all his creditors and that all have accepted except the New York estate and these two receivers and attention is

- 14 -

called to his financial statement, and they conclude with these words: "Petitioner has made a study of the assets and liabilities of the debtor and his present and prospective earnings and has concluded that it is to the best interests of his trust to accept the said offer in compromise".

Both receivers immediately consummated the settlements by accepting the new notes as contemplated and the first phase of this matter was closed.

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Following the settlement outlined above, receiver Young of the Federal-American National Bank and Trust Co. was holding a note in the sum of \$26,721.48 payable without interest in twenty annual installments, dated August 18, 1939. In August 1940 Lawrence made the first payment of 5%, amounting to \$1,336.07 reducing the debt to a balance of \$25,385.41.

In the same manner receiver Wardell of the District National Bank was holding a note in the sum of \$7,636.63 payable on the same terms. In August 1940 Lawrence made the first payment of 5% in the sum of \$381.84 reducing the debt to a balance of \$7,254.79.

Early in 1941 it became apparent that it would be possible to so nearly complete the liquidation of the two receiverships within a few months as to no longer justify the expense of a receivership office and staff. Both receivers were instructed to contact all remaining debtors and to inform them that the assets must soon be disposed of by sale to the highest bidder. Negotiations were soon started by Lawrence looking toward a lump sum cash settlement in full compromise of all his liability.

His offer to both receivers was payment of 10% of the face amount of the 20-year notes accepted in 1939, making, with the 5% paid in 1940, a total recovery after consent to the plan of 15% of the then balance. Protracted and difficult negotiations followed.

Taking up first the reactions of receiver Young of the Federal-American National Bank & Trust Co., the offer was submitted in the receiver's letter of March 1, 1941 with the recommendation that it be rejected. Lawrence had represented to him that he had been unable to make any of the first annual payments of 5% except to the two Washington receiverships and that he was in default on all of the balance, his default aggregating \$16,900.64 and did not know when they could be made; that he was unable to make a better offer and would have to let his note go to sale, preferring to take his chances with the purchaser, rather than increase his offer; and that his financial condition had not materially changed. Receiver Young expressed the belief that the Lawrence note would be worth more in the final sale than 10% and recommended rejection.

My staff, by letter dated March 14, 1941, agreed with him that the settlement was not too favorable but having in mind the early closing of the receivership and the well-known disinclination of asset buyers to invest any substantial amount for uncollected assets, and particularly for a 20-year note made by a man of such uncertain financial condition, we felt that he should reconsider the offer unless, after calling in several individuals or firms in the habit of buying paper of this kind, he should get a better offer.

Receiver Young, by his letter of April 8, 1941, stated that he had solicited a higher offer from Lawrence without success and submitted a copy of a letter from Lawrence saying that he was then in default for over \$15,000 of the first 5% payments due in 1940 and that there would be due \$17,000 in August of 1941, and that he had no funds with which to meet either payment. Also that his offers to these receiverships required that in fairness he make similar offers to his other creditors which if accepted, would require an additional \$17,000, or \$49,000 in all for which he did not possess the resources, and hinting that before the end of 1941 he might find it necessary to seek a new arrangement with his creditors whereby the debt would be scaled down. The receiver reported that after his best efforts to develop an offer for the note he had succeeded in getting offers of \$2,250 and \$2,500, neither of which is as large as the 10% offered by Lawrence.

Receiver Young concludes his letter of April 8th, saying: "I have had several conferences recently with Mr. David Lawrence. . . . The results from these conferences

confirmed the fact that he is not financially able to go any higher than 10%, the amount offered. Considering the recent investigation that I have made and the lack of interest shown by prospective buyers and the fact that the trust is in the process of termination and the sale of assets scheduled for the near future, I respectfully recommend the acceptance of the offer of 10% . . ."

My staff approved acceptance of the offer by letter dated April 21, 1941 and authorized him to petition the court. In due course the petition was presented to Judge Morris.

Judge Morris declined to sign the order until he had had an opportunity to interview Mr. Lawrence personally, which was arranged. In answer to the questions of the Judge, Mr. Lawrence stated that he had an expensive home encumbered by a mortgage of \$103,000 which he had tried unsuccessfully to deed to the mortgagee. Also that although he has an income of \$60,000 his taxes amounted to 35% or more; that he had an invalid son whose care cost \$6,000 per year for whom he is carrying heavy insurance; that his profession entails certain expenses; that he would like to withdraw the offer if it seemed unfair to the court. Judge Morris was still unwilling to sign the order without a showing that some others of the Lawrence creditors had accepted settlements of 15% of the face amounts. Thereafter there were placed in the court files letters from the Chemical Bank and Trust Company of New York, administering an estate which owned a Lawrence note of \$10,000, and from Chadbourne, Wallace, Parke and Whiteside, attorneys in New York also administering an estate owning a \$5,000 Lawrence note, stating that each had settled similar notes with Lawrence on a basis of 15% of face.

The settlement was consummated on May 23, 1941 by payment to the receiver of the sum of \$2,672.15 whereupon the receiver cancelled and delivered the note and returned the term life insurance policy. This payment reduced the debt to \$22,713.26. The total payments after the bank suspended amounted to \$7,285.74, or 24.3% of the original principal of \$30,000 with no expense except the cost of two court orders.

Turning now to the reaction of receiver Wardell of the District National Bank, holding an unpaid balance of \$7,254.79.

Mr. Wardell, by letter dated February 20, 1941 recommended rejection of the offer of 10% saying that he believed it would bring at least that much in the final sale of assets then scheduled for the month of June. He writes: "In July 1939 Mr. Lawrence revealed his income as being between \$50,000 and \$55,000 a year. Mr. Lawrence is one of the leading columnists in the country. In light of this income and the generous treatment of his indebtedness accorded in the compromise of August 1939 I am unwilling to recommend acceptance of the present offer." He encloses a copy of a letter from Lawrence to him stating that he did not pay the 1940 payment of 5% to any other creditors than the two receiverships and that he would not be able to meet the 1941 installments.

By letter dated March 8th my staff made the same suggestions to receiver Wardell that had been made to receiver Young; that the note is non-interest bearing and considering its term and the financial condition of Lawrence, it may be unattractive to asset buyers; that the offer covers all payments that could be defaulted until August 18, 1943. It was further suggested that he offer the note for sale in an effort to obtain a price higher than the Lawrence offer of 10%.

The next letter from receiver Wardell is dated April 11, 1941 in which he remains unwilling to recommend the Lawrence offer of 10%. He had tried to sell the note and had found one buyer who would pay \$2,500 for the note (approximately double the Lawrence offer) if Lawrence would (quoting) "submit to the physical examination required in obtaining such life insurance protection. Mr. Lawrence has refused to entertain this proposition, stating that others having insurable interest in him have been unsuccessful along these lines by reason of having obtained the limit of life insurance." When Wardell attempted to plead the advisability of this insurance and the ease of compliance, Lawrence reminded him that he had paid this bank a larger proportion of its debt than that of any other creditor. He closes his letter as follows: "This tender has received my further careful consideration. If Mr. Lawrence would agree to the restoration of the amount of \$13,380.63 due when the compromise was effected and not seek additional concession and then make a tender, I would be disposed to urge favorable consideration. But a concession has already been made and in one and a half year's time he seeks another revision cutting greatly the amount agreed upon

after serious consideration a year and a half ago. In view of the large income of the debtor and substantial concessions made in the last compromise effected I cannot conscientiously recommend the acceptance of the present tender. I should very much prefer to have your specific instructions in the premises."

This of course placed my staff in something of a dilemma. The recommendation of receiver Young to accept 10% on a debt of \$25,385.41 was in their hands waiting action. Receiver Wardell was unable to see his way clear to accept the same offer on a debt of \$7,254.79. The same facts were available to both receivers and the same situation existed. Both receiverships were within a few weeks of a final sale of assets. There was no good reason to accept one offer and reject the other. If either were objectionable, both were and if one were deemed in the interest of depositors, no good reason existed to deprive the other body of depositors of the benefit. The receiver holding almost three-fourths of the debt was on record favorably to the offer.

The two files were again studied and all the representations of Lawrence reviewed. Neither receiver, in almost two years had been able to discover any evidence of bad faith, misrepresentation or fraud. They advanced no reason why the written representations of Lawrence were not credible.

It was finally determined that the situation was brought about by a difference of opinion which could not be explained on the basis of any facts available to my office and that in its supervisory capacity it was necessary to resolve the difficulty in the most reasonable manner in the interests of both bodies of depositors.

It was accordingly determined to approve the acceptance of both offers and letters to that effect went forward to both receivers under date of April 21, 1941.

Receiver Wardell thereupon had counsel prepare a petition to the court to which was attached as an exhibit the letter of my staff approving the offer dated April 21st, reading in part as follows: "While you cannot recommend acceptance of the offer, your efforts to dispose of this note to investors have met with no success and . . . . we are of the opinion that the offer should be accepted." The court, on noting that the receiver did not recommend, refused to sign the order until the receiver could see his

way clear to do so. When advising receiver Wardell that the court had taken this attitude upon the petition, his counsel addressed a letter to him under date of June 30, 1941, reading in part as follows:

"To me this David Lawrence matter is strictly a business one. As I think I have told you, when the comparable settlement with the Federal-American National Bank and Trust Company was sent to me by Mr. Young, I wrote a rather strong letter to him objecting to it. Certainly I am in no respect prejudiced in favor of David Lawrence.

"After writing my letter to Mr. Young, however, he telephoned me and discussed the matter in some detail and then he and Mr. Wainwright of this office and Mr. Lawrence went down and discussed the matter with Judge Morris. Judge Morris had refused to sign an order approving the settlement with the Federal-American National Bank & Trust Company, but finally did so after there had been submitted to him letters showing comparable settlements with two estates in New York, and also two letters showing that offers lower in amount than Mr. Lawrence's offer had been made by other investors.

"Therefore, it seems to me clear that this matter comes down to this - the executors of two estates in New York, namely, the Chemical Bank and Trust Company of New York, and Chadbourne, Wallace, Parke & Whiteside, have accepted the same settlement from David Lawrence, and Judge Morris has approved a similar settlement with the Federal-American National Bank and Trust Company. As I understand it, you have sought to get other offers for the Lawrence notes held by you, but that the largest offer you have received is less than the David Lawrence offer. Based on these facts, there appears to be not the slightest reason for believing that any higher offer will ever be received.

"Furthermore, while I was not present, I am told that during the discussion with Judge Morris, Mr. Lawrence stated a few facts which

- 20 -

have some bearing on the situation. In the first place, he stated that while he lives in an expensive house, such house has a mortgage upon it of approximately \$105,000.00, and he has offered to turn the house over to the mortgage owner, but that such offer has been rejected; and that while he makes a comparatively large gross income of something over \$75,000.00 a year, his corresponding obligations are also very large. For example, I understand he told Judge Morris that one of his sons is in some sort of an institution and that it costs approximately \$6,000.00 a year for his maintenance and because of this son's condition, he feels it absolutely necessary to carry a comparatively large amount of insurance for the future support of such child. Of course his income tax is high and he told Judge Morris of various other expenses, such as labor costs, etc.

"In addition, of course, the obligation now being discussed is in the form of a note for \$7,636.63 payable in 20 yearly instalments of \$381.84 each without interest, one payment having already been made. My guess would be that few investors would be interested in buying such an obligation since the worth of such obligation is dependent entirely upon the future earnings of Mr. Lawrence, and his life expectancy. I do not know exactly how old he is, but I think he is about 60 years old, or slightly over that age.

"The above is not written to convince you of the soundness of the present offer. With that I have nothing to do, my function being entirely that of a lawyer in the matter and all the business negotiations having been had with you and the Comptroller's office.

"It does seem to me, however, that this present offer will have to be submitted to the Court without reservation, or not submitted at all. It is too much to expect the Court to approve a compromise not approved by the petitioner.

"Shall I submit the revised petition?"

- 21 -

This letter seemed to contain information that was new to receiver Wardell notwithstanding the fact that this settlement had been discussed very thoroughly time and again and he had had numerous conferences with the debtor for he addresses a letter to his counsel in reply to the above, reading as follows:

"I have your letter of even date in respect to the David Lawrence indebtedness to the District National Bank.

"You revealed to me in your communication some matters with which I was unfamiliar. For instance, I had no distinct impression that Mr. Lawrence's home had a mortgage of approximately \$105,000. I certainly had no impression that he had offered to turn the house over to the mortgagee, and that such offer had been rejected. I had no knowledge whatever of the fact that he has a son in some sort of an institution and that it costs approximately \$6,000 a year for his maintenance, and because of this son's condition, Mr. Lawrence feels it absolutely necessary to carry a comparatively large amount of insurance for the future support of such child.

"The criticism I have to offer is based principally upon the fact that Mr. Lawrence refused to permit his life to be insured to the extent of the amount the purchaser was willing to pay for the note. I could sell the note for \$1,500 if he would agree to the issue of such insurance. However, he may have reasons that are purely personal and perhaps I am unfair in my deductions.

"In the light of all the circumstances I think it would be well to submit the revised petition, as probably no more could be obtained at the sale and perhaps not as much."

When the petition had been revised to contain the recommendation to the court that the settlement be approved and that the order be granted and the revised petition was presented to the court, it was immediately signed. It may be profitable at this point to quote the language used by receiver Wardell in the revised petition to the court which

contains his recommendation that the settlement be accepted, which is as follows:

"In a letter to the Comptroller of the Currency dated April 11, 1941, petitioner requested instructions from the Comptroller of the Currency stating that petitioner could not conscientiously recommend acceptance of such offer. Since writing such letter, petitioner has been informed of the facts stated above, namely, that the executors or administrators of two estates in New York had accepted offers from the said David Lawrence upon the basis of the same percentage as is involved in the present offer to petitioner. Furthermore, petitioner has sought offers for the indebtedness of the said David Lawrence from several possible purchasers with the result that one offer was received to pay 10% of the amount remaining due, or \$725.47, which is less than the amount of \$763.66 offered by the debtor himself. No other offers for such asset have been received by petitioner. In view of the fact that petitioner's efforts to dispose of this asset to investors at an amount in excess of the debtor's tender have met with no success, it is apparent that the offer of \$763.66 is the maximum that can be obtained during the remaining life of this receivership. Under the circumstances, it is believed to be to the best interest of the creditors of this receivership to accept the present offer. The acceptance of said offer has been approved by the Deputy Comptroller of the Currency as is shown by a copy of a letter dated April 21, 1941, from him, marked Exhibit B and attached hereto."

Thereafter Mr. Lawrence completed the settlement with Receiver Wardell paying to him the sum of \$763.66, reducing the unpaid balance to \$6,491.16.

The total payments upon the debt, which at suspension stood at the amount of \$21,332.25, made during the life of the receivership, therefore amounted to \$14,841.09, or 69.6% of the original debt.

As stated above there has never been presented to my office any evidence that any pertinent fact was withheld during the negotiation of these settlements or that the debtor misrepresented the facts in any way or that

any fraud was committed upon the depositors of these closed banks. On the other hand there is considerable evidence to the effect that these two closed banks have fared much better at the hands of Mr. Lawrence than others of his creditors in the same class and that those to whom he has not yet made an offer in settlement will more likely be asked to still further scale the obligations down than otherwise. My staff is convinced that the final settlement whereby the two receiverships received 5% and 10% of the 20-year notes was to the advantage of the depositors and that it represented a greater recovery than could have been obtained from the assets of Mr. Lawrence in any other manner. Particularly is this true if the extreme remedy of bankruptcy had been attempted or if the debtor had resorted to that refuge when it is quite apparent that the costs and delays of liquidation by that means would have largely defeated the interests of these depositors whose receiverships are subject to early termination, and they would necessarily have lost the benefit of the debtor's earning power.

It should be added that the first settlement is based upon representations made to the receivers of these banks under oath. Should it appear that any fraud or misrepresentation of a material nature causing a loss to these depositors has been perpetrated, the settlements can be set aside and to this end the courts take an attitude liberal to the depositors when such a situation is found to exist.

*Reuben Delano*

Comptroller of the Currency

TREASURY DEPARTMENT  
INTER OFFICE COMMUNICATION

DATE August 8, 1941

TO Ferdinand Kuhn, Jr.  
FROM Alan Barth

EAST AND FAR EAST

Qualms

If newspaper editors know their readers, there is a tide of optimism about the war throughout the land. A good many editors call it over-confidence -- or wishful thinking. They feel obliged repeatedly in editorials to caution the public against raising its hopes too high.

Russia's checking of the German blitzkrieg thus far, together with Britain's sustained aerial offensive, has clearly gone a long way toward dissipating the discouragement which prevailed in the United States not long ago. There is a feeling now that Hitler may be beaten without direct American participation in the war. Speculative stories about uprisings in conquered territory, about waning German morale, appear in the press with a frequency and prominence which reveal the public's avidity for reading them. Certainly there is a terrible letdown in store for the American people if Russian resistance should now suddenly crumble.

Extravagant hopes have been consciously fostered by the isolationists. Their line is that we need no longer worry about Hitler; Stalin and Churchill will take care of him. This is so precisely what Americans want to believe that it is perhaps not entirely without effect. The Gallup Poll published on August 1 indicates, however, that it has not yet diminished popular support for the aid-to-Britain policy. Seventy-two per cent of the sample polled held that helping Britain is as important as ever, despite the Nazi-Soviet conflict; only 20 per cent recorded opposition.

The editors themselves have been both surprised and pleased at Russian resistance. Current editorials indicate, however, that to a good many of them the surprise is proving rather greater than the pleasure. A decided majority continue to insist staunchly that Nazism is the only menace to America. But they fear the Communists even when bearing gifts.

The New York Times, for example, in its leading editorial for August 6, argues that although "it is Hitler and not Russia that constitutes the immediate threat to us . . . at the same time it must be clear that our primary interest is not in 'helping Russia' but in 'stopping Hitler' . . . Stalin is on our side today. Where will he be tomorrow?"

There are other signs of editorial distaste for giving more than formal support to the U. S. S. R. Some commentators regarded Mr. Hopkins' visit to Moscow and Mr. Welles' pledge of full economic assistance as laying it on a little thick. There have been rather frequent expressions of relief over the fact that we are selling, not giving, arms to associates whom even so vigorous an interventionist paper as The Richmond Times Dispatch refers to as the "Bolshevist brigands in the Kremlin."

What the American press hopes for on the eastern front is not a victory, but a stalemate which will bog down the German armies sufficiently to thwart their aggressive instincts.

#### Heat on Japan

The press has adopted an extraordinarily bellicose tone toward Japan. In part, this may stem from a desire to impress the Japanese with America's readiness to fight. In part, it seems to be a reaction from our avoidance of war in Europe -- a compensation for the caution which has characterized our behavior in the West. It is worth noting that a Gallup Poll shows no comparable belligerency in the part of the general public. The results of a survey published August 3 presented 51 per cent in favor of checking Japan even at the risk of war, 31 per cent opposed, 18 per cent undecided or with no opinion.

There was nearly unanimous editorial approval for the freezing of Japanese assets. Many of the commentators assumed that this meant the application of full economic sanctions. A considerable number expressed keen disappointment that the Administration is still "temporizing" with the Japanese. Almost all insist that stringent economic measures be taken in response to any further aggressive moves in the Orient.

The President's explanation of American policy in the Far East was accepted as valid and reasonable by the majority of commentators. But they are glad to think that the policy has now been abandoned. The commonest editorial heading for comments on the subject was "An End of Appeasement." The moral generally drawn from the Japanese occupation of Indo-China was that appeasement has once more been proved a failure -- this time so conclusively that it must not be resorted to again. The term "appeasement" now appears to have uglier connotations to American ears than ever before.

It seems possible that American editorial writers have indulged in an oversimplification of the Japanese problem. They are inclined to attribute Japanese expansion to the ambitions of a handful of "war lords" and to suppose that these ambitions can be overcome by a sufficient display of force. They take it for

granted that conflict with the United States would be suicide for Japan; editorial comments are replete with contemptuous phrases such as "little yellow men." The vulnerability of Japan's cities to air attack and of the island to blockade are cited frequently. In short, American newspapers dislike, distrust and disdain the Japanese.

Notes

The action of France in applying to Japan for protection of Indo-China produced vigorous resentment over here. The prevailing sentiment appears to be that an end of appeasement on our part is in order for Vichy, as well as for Tokyo.

Secretary Ickes' program for voluntary conservation of gasoline has evoked a good deal of grumbling -- principally on the ground that oil continues to be shipped to Japan.

Newspapers took with remarkable calm the sensational rumors of a meeting between President Roosevelt and Prime Minister Churchill. Some compared it with the Hitler-Mussolini conferences at Brennero, finding in it a symbol of democratic unity to match the dictators' partnership.

August 8, 1941

File

Mr. Cushman

Mr. Jay Grana telephoned me from New York at 2:45 p.m. on August 6. He asked if I was aware that Foreign Funds Control had refused his second application for a license to permit the Standard Oil to sell its Hungarian holdings to German interests. I told Mr. Grana that I was, of course, aware that the first application had been refused, and that a second was to be submitted, involving a larger part of the payment to be made in gold in Portugal and in free currencies. I was not aware, however, that this second application had been refused.

In answer to Mr. Grana's unofficial and personal inquiry, I told him that I was convinced that no license would be given for the transaction under reference, no matter what the character of the compensation offered. That is, it did not matter whether the payment be made in gold, blocked currencies and securities, or free currencies. I added that the Treasury would not buy gold abroad, and that the fact that Germany was offering a considerable amount of gold in Portugal might arouse the suspicion of Government officials as to the source of such gold. That is, had the Germans looted such gold and now wanted to obtain control of American-owned property in the Axis countries using it as the medium? Mr. Grana shared my view that the Foreign Funds Control committee was definitely opposed to a transaction of this type, and he contemplated expressing such an opinion to his Board of Directors.

At 11:30 this morning Mr. Grana called me again on the above matter. He said that his directors, and particularly Mr. Parrish, were not happy over the decision which had been taken by our Control Board. The first suggestion had been that Mr. Grana should come to Washington to consult Secretary Morgenthau in the presence. Mr. Grana had thought this inadvisable and the plan is now for one of the Vice Presidents of the Standard Oil Company of New Jersey to come to Washington and make representations to Secretary Hall with the view to obtaining the desired license.

August 9, 1941

At 10:30 this morning Mr. Lathriger telephoned me from the Department of State that a cablegram had been received from the American Minister at Budapest in regard to the German desire to obtain Standard Oil holdings in Hungary. I suggested that an acknowledgment be made to the effect that the information was timely, and that no favorable action had been taken by the Treasury upon this proposal which had been before it for some time. It was understood that Mr. Lathriger would provide the Treasury with copies of the cablegram.

EMG: dm: 5/9/41

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Chungking, China, via H.K.

DATE: August 8, 1941, 11 a.m.

NO.: 337

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

Yesterday (?), the following order was received by the board.

"August 6, 1941. Ministry of Finance. A secret order to the Currency Stabilization Board (?).

"In the setting up of the currency Stabilization Board, the objective is to consolidate the foreign exchange value of the fapi (?) maintaining the smooth progress of China's trade with those nations who are friendly. Because of the importance of this task and, (?) (?) prepare careful plans in advance and then faithfully put the plans into practice. The principles which are given below are formulated, therefore, for the guidance of (?) (?) in the working out of the plans in detail.

1. At the present time, one most important concern is the maintenance of the confidence of the public in fapi. The stability of the foreign exchange value of fapi and the question of lowering of prices are both related to (?). Hence, detailed plans to develop the potentialities of the stabilization fund should be worked out by (?).

2. The

-2-

2. The system of governmental allotment of exchange, in the past, was not used in the operation of the stabilization fund. Therefore, the manager of the fund was unable to stop both the speculators and the enemy from getting hold of exchange resources of China and prevent the flight of capital. (?) from (?) as before the exchange market were often great and (?) (?).

(NOTE: A request has been sent for a repetition of the above information. As soon as the correction is received the proper persons will be notified.)

Therefore, at the present, attention must be directed to the objective of stopping the flight of capital as well as making it impossible for speculators and the enemy to obtain U.S. exchange resources in order that the stabilization fund's resources will be effectively used instead of squandered.

3. When legitimate businessmen -- for proper use -- request to purchase foreign exchange, the request should receive careful consideration in order that such demand may be supplied promptly and legitimate business can go on without delay in an efficient manner.

On the basis of the above three principles, the board should work out detailed concrete measures. These measures should then be submitted for authorization to the Ministry. The Government hopes that this order will be carried out and that the Ministry may have a report of the results.

The Ministry of Finance  
(s) K'ung Ksiang Hsi

Even

-3-

Even after the needs of the principles are now furnished to the board and after the freezing, reference is still made to the prevention of the flight of capital and the checking of speculators' inroads. The latter subject seems to be the Minister's favored topic.

In the last paragraph, the Board is directed to work out a detailed plan. It is my understanding, however, that on Monday there will be placed before the Board an organizational procedure now being formulated in the Ministry. It seems that the board is merely to be the Ministry's rubber stamp.

On Saturday, Hall-Patch is coming to Chungking for a few days. This is upon instruction from the British Ambassador (three telegrams) and orders from the home office. Immediately after his arrival the Board will organize officially.

This is the end of the message.

GAUSS

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CORRECTED COPY

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Chungking, China, via H.K.

DATE: August 8, 1941, 11 a.m.

NO.: 537

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

Yesterday (7), the following order was received by the  
Board.

"August 8, 1941. Ministry of Finance. A secret order  
to the Currency Stabilization Board.

"In the setting up of the currency Stabilization Board,  
the objective is to consolidate the foreign exchange value  
of the fapi for the purpose of maintaining the smooth  
progress of China's trade with those nations who are friendly.  
Because of the importance of this task, the Board must  
prepare careful plans in advance and then faithfully put  
the plans into practice. The principles which are given  
below are formulated, therefore, for the guidance of the  
Board in the working out of the plans in detail.

"1. At the present time, one most important concern  
is the maintenance of the confidence of the public in fapi.  
The stability of the foreign exchange value of fapi and the  
question of lowering of prices are both related to this  
task. Hence, detailed plans to develop the potentialities  
of the stabilization fund should be worked out by the Board.

"2. The

-2-

"2. The system of governmental allotment of exchange, in the past, was not used in the operation of the stabilization fund. Therefore, the manager of the fund was unable to stop both the speculators and the enemy from getting hold of exchange resources of China and prevent the flight of capital. Hence, the fluctuations in the exchange market were often great. This was followed by serious consequences."

GAUSS

(NOTE: The above is a correction on Section One of telegram No. 357.)

EA:PAK

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YDEPARTMENT OF STATE  
WashingtonIn reply refer to  
EA 893.50/248

August 8, 1941.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses a copy of strictly confidential despatch dated July 2, 1941, from the American Consulate General, Shanghai, China, transmitting memoranda prepared for the Treasury Department representative, Mr. Manuel Fox.

Enclosure:

from Shanghai, July 2.

Copy:lg 8/8/41

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NO. \_\_\_\_\_ Embassy, China

NO. 602THE FOREIGN SERVICE  
OF THE  
UNITED STATES OF AMERICA

AMERICAN CONSULATE GENERAL

Shanghai, China, July 2, 1941

CONFIDENTIALSUBJECT: Transmittal of Memoranda Prepared for Treasury  
Department Representative Mr. Manuel Fox

THE HONOURABLE

THE SECRETARY OF STATE

WASHINGTON

SIR:

I have the honor to refer to the Department's instruction of May 10, 1941, (file no. 893.50/242) conveying the request of the Treasury Department for data on economic and financial subjects and to my despatch no. 545 of June 16, 1941, in reply, entitled "Background Information on Problems of Maintenance of an Exchange Stabilization Fund in Support of the Chinese Yuan in the Shanghai Foreign Exchange Market", and to forward herewith two memoranda prepared in this Consulate General by Mr. A. Bland Calder, Assistant Commercial Attache, for and at the request of Mr. Manuel Fox, Treasury Department representative and member of the new exchange stabilization committee.

The memoranda, which are self-explanatory, attempt to reply to two questions put by Mr. Fox, firstly, "What is the Importance and Advantage of Shanghai to Free China Now?", the treatment giving both the advantages and disadvantages, as argued both by proponents and opponents of further stabilization effort at Shanghai, and, "What would have been the effects in Shanghai in the last twelve months had the United States frozen China accounts on July 1, 1940?"

Further copies of memoranda which are being prepared for Mr. Fox will follow.

Respectfully yours,

Frank P. Lockhart  
American Consul General

Enclosures:

- 1/ Memorandum answering the question "What is the importance and advantage of Shanghai to free China now?"
- 2/ Memorandum answering the question "What would have been the effects in Shanghai in the last 12 months if the U.S. had frozen China accounts on July 1, 1940?"

851/851.51  
ABC:PAR

Original and four copies to Department  
Copy to Embassy, Peiping  
Copy to Embassy, Chungking

Copy:lg 8/8/41

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Enclosure no. 1 to despatch no. 602, dated July 2, 1941, from Frank P. Lockhart, American Consul General at Shanghai, China, on the subject: "Transmittal of Memoranda Prepared for Treasury Department Representative, Mr. Manuel Fox".

MEMORANDUM

Shanghai, June 26, 1941.

What is the importance and advantage of Shanghai to free China now?

(The following points give the advantages and the disadvantages, i.e. they give the arguments pro and con as to whether Shanghai's position should be preserved and whether the yuan should be supported on the Shanghai foreign exchange market further.)

The Advantages

1. STRATAGEM.

The continued maintenance of a free exchange market at Shanghai for Chinese currency represents the choice of the lesser of two evils. The alternative would encourage the Japanese to introduce drastic and close financial and trade control measures at Shanghai similar to those in force in North China and would throw Shanghai more completely into the yen bloc. Were the Japanese unable to secure, through the Shanghai market, needed exchange for certain of the imports which they find it necessary to bring in from abroad, and should they be unable to use Shanghai as a supply base for securing these imported materials, they would be most likely to introduce full financial and economic controls in the foreign controlled areas (International Settlement and French Concession) and thus it would be difficult or impossible for the American, British, other foreign and Chinese vested interests further to hold their position here. It is some advantage to Free China to keep this foreign "front" at Shanghai as a curb to Japanese aims.

2. PREVENTS LOOTING.

Present stocks of goods in Shanghai are enormous. It is said that stocks of raw cotton, cotton yarn and cotton cloth alone are worth yuan 1,250,000,000, or about US\$63,000,000. Stocks of chemicals, dyes, metals, mun-dries, foodstuffs and fuels are also huge, not to mention the aggregation of capital goods in established plant and the value of real property, much of which would be expropriated to Japanese purposes if the Japanese were to move in. The Settlement and Concession represent by far the richest compact war prize in prospect for Japan in China. Japan's hesitancy to take it lies in the fear that neither the United States nor Great Britain would put up with a complete Japanese encroachment here. So long as a Chinese-British-American stabilization fund is maintained here, that fact signifies a determination on the part of the United States and Great Britain to maintain the status quo and to continue material and moral support for China.

3. ENABLES NON YEN BLOC COUNTRIES TO ACQUIRE CENTRAL CHINA EXPORT GOODS.

Were there no free market, it would not be possible to sell foreign currencies in the Shanghai market for acquisition by the United States, Great Britain and other non-yen bloc countries of Central China export goods, except through Japanese hands. From China's point of view it is preferable for the non-yen bloc countries to be able to acquire such goods. Free China apparently would prefer that her friends should have these goods rather than that Japan should have the whole quantity.

4. EXPORTS TO NON YEN BLOC COUNTRIES HELP TO MAINTAIN A SUPPLY OF FOREIGN EXCHANGE FOR THE SHANGHAI MARKET, to the extent of US\$5 to 10 million monthly, (average for the past year).

5. MORALE.

The continued circulation of the Chinese national currency at Shanghai and in its occupied hinterland definitely bolsters the morale and helps to hold the loyalty of the populace in this region toward the National Government at Chungking.

6. REHABILITATION will be an easier task for the National Government when it returns to this part of China if its currency system is maintained more or less intact.

7. PRESERVATION OF FREE ECONOMY IN CHINA.

The maintenance of a free economy at Shanghai will have an important influence in restoring free economy in China generally after the termination of the present hostilities.

8. SUPPLIES FOR FREE CHINA.

While there is nothing like the relatively free movement of goods from Shanghai to "free China" now which prevailed prior to June, 1940, it is still possible to ship 5,000 to 10,000 bales of cotton yarn and cotton cloth monthly from Shanghai by round about routes, to Chinese controlled territory. The value of the movement monthly at present prices is therefore between US\$500,000 and US\$800,000. There is thus some material value to "free China" in the form of such supplies.

9. PRESERVES A STANDARD OF VALUE.

The fact that the possibility exists for flight of capital from "free China" to Shanghai enables the National Government at Chungking to inflate its currency and still to keep alive among the populace in the Chinese controlled interior a prevailing faith in an ultimate value (Shanghai value) of that currency. Thus the rate of exchange at Shanghai represents the ultimate value or standard of value of the Chinese currency.

10. FAST STABILIZATION EFFORT IS NOT LOST if further stabilization is maintained. Were the Shanghai market now to be abandoned at a time when the stabilization operations cost so little, the considerable sums spent in stabilization effort in 1937, 1938, 1939 and 1940 would be lost except for some economic gains by acquisition of goods by free China from Shanghai in those years.

11. JAPANESE ECONOMIC SUCCESS AT SHANGHAI WOULD PROBABLY RESULT FROM CESSATION OF A MARKET FOR "FAPI" AND WOULD ECLIPSE FREE CHINA'S PRESTIGE DOMESTICALLY AND ABROAD.

THE BRITISH, if there is no exchange market for "fapi", WOULD TEND, as in North China, to adjust themselves REALISTICALLY (though under protest) to the situation created by greater JAPANESE CONTROLS and would get in line with Japanese schemes. The pressure of the Shanghai British firms upon London for support and preservation of their position here is strong and often colors British policy in China. The British because of their greater concern (militarily) with the European situation, and because of the huge British investment here are inclined toward temporary appeasement of Japan as repeatedly evidenced. Hence, Japanese complete controls would achieve considerable success with this British acquiescence. Free China would naturally not want to see any greater degree of cooperation between the British interests and the Japanese, as Free China is trying at least to preserve something of a semblance of having Britain as an Ally. If the Japanese were thus successful in establishing complete control at Shanghai, it would demonstrate that the Chungking Government is no longer essential to the trade and economy of East Central China, which would affect its political prestige.

### The Disadvantages

#### 1. POOR STRATEGEM

many observers believe that the war in China will continue two or more years longer and that Chinese victory in the sense of recapturing the occupied areas is uncertain. Japanese efforts at obtaining greater control over the financial and economic life of China (particularly of the occupied areas) may thus be expected to continue and to increase until complete control is achieved despite the availability of exchange. Faced with the inevitable, costly defense efforts designed to delay the progress of Japanese control are therefore unjustifiable. Furthermore, as soon as a state of war exists between Japan and the Anglo-Saxon powers, the Japanese will unhesitatingly take over the whole of Shanghai. Indeed they may take this action as soon as it becomes impossible to secure commodities from abroad at Shanghai. Shanghai is already lost, so why try to starve off a fait accompli. These are the observations of defeatists in the outlook for Shanghai.

#### 2. MORALE OF THE PEOPLE IN FREE CHINA IS MORE IMPORTANT THAN THAT OF THOSE IN OCCUPIED REGIONS.

The fate of the Chinese people in the occupied areas of the country will be determined only by the outcome of the Sino-Japanese hostilities, not by the maintenance of stabilized exchange rates at Shanghai. The loyalty of the people in North China (loyalty to the Chungking Government), where the Chinese National currency is almost wiped out, is as great as the loyalty of the people in the Shanghai region, where "fapi" is still the dominant currency in use. There is a good deal of realism practised by the people both of North China and East Central China. Their loyalty is somewhat impaired by circumstance. The moral and material contribution by the Chinese people in East Central China to Free China is pitifully insignificant, the people in Free China look upon the relatively better condition of the people in occupied China with something of envy. Thus the virtual luxury enjoyed by the people of Shanghai has a demoralizing effect upon the spirit of the people of Free China.

#### 3. FREE ECONOMY FOR CHINA.

If it prevails after this conflict is over, will depend upon the political complexion of the National Government and upon its considered policies at that time and not upon the preservation of a nucleus for free economy at Shanghai in the interim.

4. GOODS FOR FREE CHINA

There is no guarantee that the Maintenance of a free exchange market at stabilized levels at Shanghai will assure a continued supply of Shanghai goods to Free China. The Japanese blockade has become more and more intensified and of late is even being applied to a greater degree through the Shanghai customs in prohibitions against export of various commodities to the south.

5. FALLACIOUS AIMS ARE SERVED.

The purpose of currency stabilization is defeated by making Shanghai the "safety valve" for currency inflation in Free China. Furthermore, inflation in Free China should be checked. The huge concentration of capital at Shanghai makes for unhealthy, inflated values here. The fact that cash can be exchanged for foreign currency in the Shanghai market or can be invested here with possibly more promise than in interior China attracts capital here from Free China. There is likely to be very little flow of capital from Shanghai to Free China so long as the economy and administration of Free China remains unimproved, and so long as Shanghai's status appears likely to remain reasonably intact.

6. MAINTENANCE OF RATES IS TOO COSTLY - FILLS UP CHINA'S FOREIGN INDEBTEDNESS.

The maintenance of a free exchange market for a national currency within enemy territory is a novel phenomenon in the world's financial history. Note that Great Britain blocked its currency immediately after the declaration of war. How can China afford to waste more funds (thus increasing its foreign obligations) in maintaining the value of its currency in the occupied areas?

(Initialed) A.B.C.

A. Bland Calder

Copied by: EAW  
Compared with: JCB

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Enclosure no. 2 to despatch no. 602, dated July 2, 1941, from Frank P. Lockhart, American Consul General at Shanghai, China, on the subject: "Transmittal of Memoranda Prepared for Treasury Department Representative, Mr. Manuel Fox".

MEMORANDUM

Shanghai, June 27, 1941.

What would have been the effects in Shanghai in the last 12 months if the U.S. had frozen China accounts on July 1, 1940.

(Note: The effects as enumerated are naturally highly suppositional.)

1. Shanghai's foreign trade would have been drastically reduced. The huge imports of materials to Shanghai for hoarding, representing a flight of capital, would not have been possible.
2. The Japanese and their sponsored Nanking regime would probably have introduced exchange and trade controls at Shanghai and would have sooner and more rapidly introduced and expanded the circulation of military yen and of the bogus currency of the Nanking regime, and these currencies would now be dominant in the Settlement and Concession here as is the case at Tientsin.
3. Unless Japan accounts were frozen at the same time in the United States, the freezing of China credits would have immediately given Japan export monopoly privileges in this region in trade with the United States. Japanese firms would have been able to export China goods to the United States from Shanghai and to acquire the credits in the names of their Tokyo head offices as Japan credits and could have used such credits for purchases of strategic materials for Japan and via Japan for their use in China not only from the United States but from other countries (the funds of which were not frozen) using the U.S. Dollar credits.
4. The repatriation to Shanghai of Chinese capital from the U.S. and from Hong Kong and from other British territory in Southern Asia, Malaya, and Australasia, which occurred after the fall of France, would not have been realized, as the conditions of partial boom which have prevailed in Shanghai because of free exchange and free trading would not have obtained and the situation would thus not have been inviting for such capital repatriation. It is estimated that no less than US\$50,000,000. was repatriated to Shanghai because of impending or anticipated war time restrictions in British possessions, and because of fears of American freezing of China accounts or of devaluation of the U.S. Dollar.

5. Property values in Shanghai would not have become as inflated as has been the case as Shanghai holders of U.S. Dollar credits would not have been able to convert them back to Chinese yuan with which to purchase property to hold as a hedge against further inflation (of Chinese currency).
6. China would have been able to get the benefits of the repatriation of the frozen credits after the war and would thus have a neat egg which could contribute toward rehabilitation, whereas the gradual dissipation of some portion of these free credits in the past year will probably necessitate larger American loans to China after the hostilities than would otherwise have been necessary.
7. Had Shanghai credits been frozen but liberal exchange licensing facilities been granted to free China (for imports and for repatriation of funds) confidence in the Chinese currency would have been maintained.
8. Free China, if a free and stabilized exchange market had been maintained at, say, Chungking, would thus have obtained some of the exchange credits sold by Shanghai hoarders for acquisition of merchandise to store in warehouses awaiting higher prices, or for property purchases or for investment in local stocks.
9. The incentive for flight of capital from Free China to Shanghai would not have obtained, but prices because of inflation in free China might have been even higher than has been the case, as the Shanghai "outlet" or "safety valve" would not have existed.
10. Commodity prices in Shanghai would probably have risen enormously, not because hoarders would have been holding goods to such an extent for war time profits, but because import commodities would have been very scarce in the market.
11. There would probably have been exceedingly great hardships for the Shanghai residents and possibly a million or more people would have had to leave Shanghai for the interior as it would not have been possible to import the rice from French Indochina (paid for, out of U.S. Dollar exchange purchased in the Shanghai market) nor the coal from India, nor cotton from the U.S., India and Brazil. Mills and factories would have had to close and unemployment would have been a serious problem, more so than has been the case.
12. The huge potential or "paper" profits of the Chinese banks in Shanghai who loaded themselves with U.S. Dollar exchange at 16¢ would have vanished.

(Initialed) A. E. C.

A. Bland Calder

Copied by: EAW  
Compared with: JCB

Copy:lg 8/9/41

RS

PLAIN

TOKYO VIA SHANGHAI &amp; N.R.

Dated August 8, 1941

Rec'd 10:35 a.m., 10th

Secretary of State,  
Washington.

1199, Eighth, 6 p.m.

Today's press reports Finance Ministry announcement made yesterday relaxing restrictions on Netherlands and Netherlands Indies under act controlling transactions nations certain designated countries. Announcement states in view few restrictions imposed economic activities other than monetary transactions of Japanese residing these countries restrictions will be relaxed from August 8. Economic activities to which regulations cease to apply are defined as follows:

One. Acquisition or disposal nonmovable property, movable property, leaseholds, rights of pledge, rights of mortgage, industrial proprietary rights, other invisible proprietary rights, businesses, undertakings, investments in businesses or undertakings, credits in foreign currency and credits in Japanese currency.

Two. Deposit of immovable property, Japanese  
currency

-2-, No. 1199 from Tokyo, August 8, 1941; 10:35 a.m., 10th  
currency and credits in Japanese currency.

Three. Loans of movable property and securities.  
Sent Department via Shanghai.

GREW

JRL

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Panamá, Panama.

DATE: August 8, 1941, 7 p.m.

NO.: 177

Reference is made to the Embassy's telegram of August 8, 4 p.m., No. 217.

Information has been requested by the Department from the American Consulate General in Barcelona and the American Embassy in Madrid in regard to the circumstances which surround the sale to the Spanish Government oil monopoly of the Santa Helena. The Department would appreciate it if the withholding by the Panamanian Government of the confirmation of the instruction from Madrid as regards the cancellation of the Panamanian registry of the Santa Helena can be made until information requested from the above sources has been received which indicates definitely that the transaction is or is not above suspicion. The Embassy may point out to the Minister of Finance that, in view of the circumstances surrounding this case, a withholding of confirmation - for the present - appears to be justifiable.

Because the cancellation of the Panamanian registry may not be effected, the <sup>Department</sup> ~~Embassy~~ suggests that the Embassy continue to regard the plan which was outlined in telegram No. 161, dated July 28, 5 p.m., as the basis for discussion with the authorities of Panama as regards the possible requisitioning of this ship by Panama.

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EA:PAK

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TREASURY DEPARTMENT  
INTER-OFFICE COMMUNICATION

DATE August 8, 1941

TO Secretary Morgenthau  
FROM Mr. Cochran

**CONFIDENTIAL**

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	238,000
Purchased from commercial concerns	254,000

Open market sterling closed at 4.03-3/4, unchanged, and there were no reported transactions.

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

Canadian dollar	11 1/2 discount (off 1/8)
Argentine peso (free)	.2390 (up .0005)
Brazilian milreis (free)	.0505
Uruguayan peso (free)	.4380
Colombian peso	.5800
Mexican peso	.2070
Cuban peso	1-3/16% discount (off 1/8)
Venezuelan peso	.2650

In Shanghai, the yuan lost further ground with the rate off 7/32¢ at 4-13/16¢. Sterling advanced 1-1/4¢ to 4.01-3/4¢.

There were no gold transactions consummated by us today. No new gold engagements were reported.

The London fixing prices for spot and forward silver were unchanged at 33-7/16¢. The United States equivalent of this price is 42.55¢.

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

We made three purchases of new production silver from various foreign sources amounting to 175,000 ounces under the Silver Purchase Act.

BRITISH EMBASSY,  
WASHINGTON.

Personal and Secret.

August 8th 1941.

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

*Halifax*

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D.C.

TELEGRAM FROM LONDON DATED AUGUST 6th 1941.

1. NAVY. Of the five ships torpedoed in convoy west of Ireland on the 5th one has not been sunk.
2. On the 5th Royal Air Force aircraft attacked convoy off the Hook of Holland, two hits scored on merchant vessel estimated 2,000 tons, believed destroyed.
3. Suez Canal is open. During air attacks on Suez night of 3rd/4th 2,000 tons British tanker hit, will probably be beached, 5,000 ton Belgian tanker torpedoed, not reported sunk. Small Belgian ship torpedoed and sunk.
4. British submarine night of 27th/28th blew up a train on a railway line in east Sicily (sic).
5. Royal Air Force. Night of 3rd/4th. Two ships estimated 2,000 tons were each hit by Wellington aircraft west of Apponia.
6. On the 4th and 5th. Blenheim claimed to have sunk 800 tons schooner near Misurata and 9 small ships off Tunis night of 5th/6th.
7. Night of 5th/6th very strong force of aircraft sent to Germany. Heavy attacks delivered on Frankfurt, Mannheim and Karlsruhe. Light attacks on Aachen and Boulogne. Eleven missing. Enemy night activity over the United Kingdom still very slight.
8. Military - Russia.  
No change except in the Ukraine where the German south east advance south of Byelays Teorokv apparently continues against stiff resistance.

RESTRICTED

G-2/2657-220; No. 462 M.I.D., W.D. 12:00 M., August 8, 1941.

SITUATION REPORTI. Eastern Theater.

Ground: The German High Command reports that its troops in Estonia, after capturing Rakvere, on the Tallinn--Leningrad railroad, have reached the Gulf of Finland.

Southeast of Smolensk, the Desna River east of Roslavl, has been reached.

In the Ukraine the Germans claim to have captured 30,000 prisoners south of Uman.

In addition, the German High Command reports privately that an armored group under Colonel General von Kleist is advancing southeastward through the Ukraine in wedge formation. The central division of the wedge captured Kirovo on August 4.

German forces advancing to the northeast from Kholm have reached the foothills of the Valdai Hills.

II. Western Theater.

Air: The Axis claims to have brought down British planes over the Channel coast during the day.

Normal night raiding over Scotland and northwest Germany.

III. Mediterranean Theater.

Ground: Nothing to report.

Air: Axis planes made a night attack on Alexandria.

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G-2/2657-220; No. 463 M.I.D., W.D. 12:00 M., August 9, 1941.

SITUATION REPORTI. Eastern Theater.

Ground: The German High Command reports the capture of 38,000 Russians of a combat group encircled a week ago near Roslavl, 60 miles southeast of Smolensk.

The German High Command, in a special communique, reports the capture of 103,000 men in an area around, south and southeast of Uman. These prisoners were said to belong to the Russian Sixth, Twelfth and Eighteenth Armies. The Commanders of the Russian Sixth and Twelfth Armies were among the prisoners.

German pursuit detachments continue to advance to the south and southeast, in the areas of Perwomajsk and Kirovo.

II. Western Theater.

Air: Russian and British planes cooperated in night bombing operations against Germany. The R.A.F. operated against Kiel while the Russian Air Force reported bombing Berlin.

Light German night operations over the eastern British coast.

III. Mediterranean Theater.

Air: British raids on Benghazi and Tripoli.

Ground: Limited patrol activity on Sollum front.

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G-2/2657-220; No. 464 M.I.D., W.D. 12:00 M., August 11, 1941.

SITUATION REPORTI. Eastern Theater.

Ground: Two distinct Russian combat groups, each of very considerable strength, continue to offer desperate resistance in Estonia to the invading Germans. The larger group is in control of Tallinn and northwestern Estonia. A smaller group is defending itself west of Narva and northwest of Lake Peipus. Between these groups the German Eighteenth Army has driven a wedge beyond Radvere to the southern shore of the Gulf of Finland. The Russian force at Tallinn is surrounded; that west of Narva may also be surrounded, but it is possible that this latter group still has a line of retreat open to Leningrad over Narva.

Following the destruction of strong Russian combat groups near Uman, German armored and infantry divisions are following the defeated Russian army to the south and southeast.

A German armored detachment has reached the western bank of the Dnepr River opposite Kremenchug. Another German armored division advancing down the eastern bank of the Bug has reached the vicinity of Voznesensk, 55 miles northwest of Nikolaev.

Air: German night raids on Moscow took place on the nights of the 9th and 10th.

II. Western Theater.

Air: D.N.B. reports daylight R.A.F. raids on the French coast. Normal German night raids on Scotland.

III. Mediterranean Theater.

No important activity.

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199

Paraphrase of Code Cablegram  
Received at the War Department  
at 17:40, August 8, 1941.

London, filed 18:20, August 8, 1941.

1. British Air Activity over the Continent.

a. Night of August 6-7. The numbers of tons of high explosive bombs and numbers of incendiary bombs dropped upon the objectives named were as follows: Mannheim, 29 and 3600; Frankfurt, 26 and 4900; Calais, 20 and 700; and Karlsruhe, 28 and 2000.

b. Day of August 7. A total of 903 fighters were employed as follows: 141 on interception missions, 229 in the protection of shipping, 45 on special patrols, and 478 on offensive patrols. A Lysander escorted by Spitfires carried out sea rescue patrol duty. Lille and the airdrome at St. Omer were each attacked by 6 Blenheims.

c. Night of August 7-8. A total of 208 bombers were sent out as follows: 46 to the railway center at Hamm, 106 to the Krupp works at Essen, 40 to the Dortmund railway center, 6 to Boulogne, 2 attacking airdromes and to drop leaflets over Paris, and 8 on sea mining operations. These attacks were reported as being generally successful.

2. German Air Activity over Britain.

a. Day of August 6. Five long range bombers and 15 reconnaissance aircraft were dispatched.

b. Night of August 6-7. 15 fighters and 20 long range bombers were used.

c. Day of August 7. The Germans carried out reconnaissance

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INFORMATION UNIT

operations off the southwest coast of Britain and over the North Sea.

d. Night of August 7-8. A few raids took place over the Yorkshire coast. Activity against shipping also occurred off the East Anglian coast.

3. Aircraft Losses Reported.

a. British losses. 11 Spitfires, 1 Hurricane and 10 pilots were lost on August 7. During the night of August 7-8, three bombers were unreported from the raid on Essen.

b. Axis losses. On August 7 these were as follows: 1 Me-111, two Me-109F's and two Me-109's shot down, 6 Me-109F's probably destroyed, and 8 Me-109's and 1 Ju-88 damaged.

4. British Air Activity. Other Theaters.

a. Mediterranean Theater. A convoy off Lampedusa was attacked by Swordfish planes from Malta during the night of August 6-7. These aircraft dropped 5 torpedoes, resulting in the sinking of one motor vessel of 8000 tons. On the day of August 7, the same convoy was attacked by Heinkel bombers, which obtained hits on a destroyer and two large motor vessels.

5. Axis Air Activity. Other Theaters.

a. Middle Eastern Theater. An oil storage tank was hit during an attack on shipping facilities at Suez during the night of August 6-7.

LHE

Distributions:

State Department	Chief of the Army Air Forces
Assistant Chief of Staff, G-3	
War Plans Division	
Office of Naval Intelligence	
G.H.Q.	
Secretary of Treasury	
Assistant Secretary of War for Air	
Assistant Chief of Staff, G-3	
Air Corps	

CONFIDENTIAL



TREASURY DEPARTMENT  
WASHINGTON

August 9, 1941

Memorandum for THE SECRETARY:

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

July 1-August 7	\$26,783.40
August 8	<u>1,328.30</u>
TOTAL	\$28,111.70

GRAVES

UNITED STATES SAVINGS BONDS

CONFIDENTIAL

Comparative Statement of Sales During  
First Seven Business Days of June, July, and August, 1941  
(June 1-9, July 1-9, August 1-8)

(Amounts in thousands of dollars)

Item	Sales			Amount of Increase or Decrease (-)		Percentage of Increase or Decrease (-)	
	August	July	June	August over July	July over June	August over July	July over June
	Series E - Post Offices	\$13,262	\$15,080	\$13,732	-\$ 1,818	\$ 1,348	- 12.1%
Series F - Banks	<u>24,262</u>	<u>23,324</u>	<u>18,904</u>	<u>938</u>	<u>4,420</u>	<u>4.0</u>	<u>23.4</u>
Series E - Total	37,525	38,405	32,636	- 880	5,769	- 2.3	17.7
Series F - Banks	7,515	7,631	12,648	- 116	- 5,017	- 1.5	- 39.7
Series G - Banks	<u>50,864</u>	<u>51,852</u>	<u>74,491</u>	- <u>988</u>	- <u>22,639</u>	- <u>1.9</u>	- <u>30.4</u>
Total	<u>\$95,903</u>	<u>\$97,888</u>	<u>\$119,775</u>	- <u>\$ 1,985</u>	- <u>\$21,867</u>	- <u>2.0%</u>	- <u>18.3%</u>

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

August 9, 1941.

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

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

202

## UNITED STATES SAVINGS BONDS

Daily Sales - August 1941  
On Basis of Issue Price

(In thousands of dollars)

Date	Post Office Bond Sales	Bank Bond Sales				All Bond Sales			
		Series E	Series F	Series G	Total	Series E	Series F	Series G	Total
August 1941									
1	\$ 1,467	\$ 3,296	\$ 1,163	\$ 7,586	\$ 12,045	\$ 4,763	\$ 1,163	\$ 7,586	\$ 13,512
2	1,500	3,030	726	6,101	9,857	4,530	726	6,101	11,357
4	3,606	4,376	1,892	10,092	16,361	7,983	1,892	10,092	19,967
5	1,278	2,822	928	7,334	11,084	4,099	928	7,334	12,362
6	1,810	4,195	1,156	10,752	16,103	6,005	1,156	10,752	17,912
7	1,789	3,475	652	5,636	9,763	5,264	652	5,636	11,552
8	1,812	3,069	999	3,362	7,430	4,881	999	3,362	9,242
Total	\$ 13,262	\$ 24,262	\$ 7,515	\$ 50,864	\$ 82,641	\$ 37,525	\$ 7,515	\$ 50,864	\$ 95,903

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

August 9, 1941.

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

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

Aug. 9DEFENSE SAVINGS BONDS & STAMPSFILM RELEASE SCHEDULE1941

- April 18 Secretary Morgenthau - Bureau of Engraving shot. All five newsreels.
- May 2 President - Secretary Morgenthau. All five newsreels. Paramount News also carried shots from Meddybemps, Maine.
- May 22 Abbott and Costello. All five newsreels.
- May 28 Universal and Movietone story of Mrs. Whitehurst, President, General Federation of Women's Clubs.
- May 28 "America Preferred" released nationally.
- June 6 "130 Million Americans" on Columbia Pictures "Penny Serenade".
- June 6 "Protect Them" on RKO Pictures "Sunny".
- June 13 "Watch This Baby Grow" on Paramount Pictures "One Night In Lisbon".
- June 13 "Where To Buy" on Universal Pictures "In The Navy".
- June 13 News of the Day, Movietone and Universal story of Billy Conn buying Defense Bond.
- June 13 Columbia Pictures "She Knew All The Answers" refers to Defense Bonds.
- June 14 "The Army Is Yours" on Warner Bros. "Shining Victory".
- June 16 Defense Bond and Stamp shot injected into Agriculture Department defense reel. This is being released on both 35 and 16 mm.
- June 18 Jack Benny and Carolyn Lee shot released nationally.
- June 20 "All Walks of Life" on 20th Century Fox "Man Hunt".
- June 27 "Shoulder To The Wheel", on Loew's Inc. "They Met In Bombay".
- June 27 Story of the White Family buying Stamps released nationally in all five newsreels.
- July 11 News of The Day and Fox Movietone carry story of four Hollywood Starlets completing the sewing of a huge silk banner bearing slogan "Buy Defense Savings Bonds".

Aug. 9 In Warner Brothers feature picture "Manpower", reference is made to Defense Bonds in the following manner:

Alan Hale: "Now don't you wish you'd saved your dough?"

Ward Bond: "What are you talking about? I just bought two Defense Bonds."

In Production: Metro-Goldwyn-Mayer Our Gang Comedy "Helping Hands" has a scene with dialogue of Our Gang Kids buying Stamps at post office Defense Window.

DEFENSE SAVINGS STAFF

## ADVANCE NOTICE RADIO PROGRAMS

SATURDAY - AUGUST 9, 1941

Time: 9:30 - 10:00 A.M.  
Program: America, The Free  
Station: WRC and NBC Red Network

Time: 6:30 - 7:00 P.M.  
Program: Wayne King  
Station: WJSV and CBS Network

Time: 7:30 - 8:00 P.M.  
Program: Truth or Consequences  
Station: WRC and NBC Red Network

Time: 8:00 - 9:00 P.M.  
Program: National Barn Dance  
Station: WRC and NBC Red Network

BULOVA TIME SIGNALS PROMOTE DEFENSE BONDS AND STAMPS  
REGULARLY NOW AT THE RATE OF 428 ANNOUNCEMENTS DAILY  
OVER 134 RADIO STATIONS.



# FIELD ORGANIZATION *News Letter* 207

DEFENSE SAVINGS STAFF

TREASURY DEPARTMENT, WASHINGTON, D. C.



August 9, 1941. NUMBER 12.

## THE FIRST BILLION

"Cash deposits at the Treasury from the sale of Defense Savings Bonds went over a billion dollars as of yesterday, July 31, 1941. This is great and good news. I congratulate all those whose united cooperation has made it possible. I congratulate especially the multitude of patriotic Americans who have begun to invest their savings for their country's freedom.

"The first billion has been raised in the American way, by cooperation rather than compulsion. I am confident that the second billion can be raised in the same democratic way, yet still more speedily.

"I am especially glad to see that the sales of the Series E bonds, the 'people's bonds,' were 37 per cent greater in July than in June. When it is remembered that nobody may buy more than \$5,000 worth of these bonds in any one year, it seems plain to me that the good habit of thrift is spreading fast among the American people.

"Systematic savings plans are now in operation in hundreds of factories and offices from coast to coast, in every case with the willing approval of the workers themselves. Defense Savings Stamps are now being sold by more than 30,000 retail stores in addition to 16,000 post offices and 10,000 commercial and savings banks, and savings and loan associations, and we intend in the next few weeks to double and redouble the number of these outlets. . .

"The results so far are a ringing proof that we Americans can unite in defense of our liberties. And we have only just begun."

—Hon. Henry Morgenthau, Jr.,  
Secretary of the Treasury

Portland, Oregon,  
August 6, 1941.

TO THE FIELD STAFF:

The response of the public to the Defense Savings Program will be typical of every fine standard set by the American nation in its history. Evidence is unmistakable that there is genuine understanding of the national emergency, that the public is uniting behind the Defense Program as only a loyal and an aroused citizenship can do.

The above statements are made after visits with many Defense Savings Committees in every section of the country. State, county and city groups are demonstrating their devotion to and belief in the American way by action. Outstanding citizens by the thousands are enlisting as volunteers to carry the Defense Savings message to millions of men, women and children throughout the land and to provide the most convenient methods to make the securities available for purchase. The plans for organization and marketing that are being followed in the sections visited are sound and truly American. The public response will be equally fine.

Sincerely yours,

GALE F. JOHNSTON

Field Director, Defense Savings Staff

IN THIS ISSUEALLOTMENT DEVELOPMENTS—

- Labor and industrial leaders cooperate - page 6
- Manufacturers Association urges prompt action - page 6
- Bankers stand by to render assistance - page 6
- Picture - Airplane parts makers 100% - page 8
- Oil companies installing plans - page 9
- Picture - Model allotment card available - page 12
- Allotment in the Pacific Northwest - page 14

BANK NEWS—

- Bankers assist employers install allotment plans - page 6
- Defense Bond Week in Georgia - page 7
- Florida banker looks for new ideas - page 7
- One bank's program described in detail - page 7
- Pictures - Special bank displays - page 8
- Seattle bankers install allotment plans - page 15

COMMITTEES REPORT—

- Florida, Maine, New Jersey and New York - page 4
- Oklahoma, Texas and Washington - page 5

MISCELLANEOUS—

- State Government employees organize savings clubs - page 9
- Federal Credit Unions sell Defense Bonds - page 10
- Defense Savings statistics - page 15
- Life underwriters' Defense Savings committee - page 15
- Baseball public address systems mobilized - page 17
- Boy Scouts on the job - page 17
- Chairmen of State Defense Savings Committees - page 18

QUOTABLE QUOTES—

- James B. Carey, National Secretary, CIO - page 13
- Walter D. Fuller, President, National Association of Manufacturers - page 13
- William Green, President, American Federation of Labor - page 13
- Albert Hawkes, President, Chamber of Commerce of the United States and Chairman of the Defense Savings Committee for New Jersey - page 13
- James A. Phillips, Chairman, Railway Labor Executives Association - page 13
- Hon. Henry Morgenthau, Jr., Secretary of the Treasury - page 13

RADIO—

- Programs for coming week - page 11
- Many fine local programs - page 11
- Picture - Boston's Defense Varieties - page 12

CHAIRMEN APPOINTED IN FOUR ADDITIONAL STATES

FOUR MORE DISTINGUISHED CITIZENS have accepted Secretary Morgenthau's invitation to serve as the active chairmen of the Defense Savings Committees being organized in their states:

**IDAHO**

John A. Schoonover  
President, Idaho First National  
Bank, Boise

**WASHINGTON**

Joel E. Ferris  
Executive Vice President,  
Seattle-First National Bank

**KANSAS**

William Allen White  
Editor and Publisher,  
The Emporia Gazette

**WISCONSIN**

Charles E. Broughton  
Editor and Publisher,  
The Sheboygan Press

A LIST OF THE ACTIVE CHAIRMEN in the 22 states where the heads of State Defense Savings Committees have been appointed is presented on page 18 of this issue of the NEWS LETTER.

THE HONORARY CHAIRMAN of these committees in each instance is the Governor of the State or Commonwealth.

\* \* \* \* \*

NEWS OF STATE AND LOCAL COMMITTEES

**FLORIDA**--Four counties are now fully organized, reports Deputy State Administrator Karl Lehmann, and Defense Savings Committees are rapidly shaping up in the other counties. County Commissioners are serving as the Honorary Chairmen in most cases.

**MAINE**--The State Committee is nearly complete. . . County Chairmen have been appointed in five counties. . . Fairs held in the State of Maine this year have booths where people can secure information about Defense Savings Bonds and purchase Defense Savings Stamps.

**NEW JERSEY**--Organization of local committees in Essex, Hudson and Union counties is progressing rapidly. In this work, Deputy State Administrator Paul Canada has had the assistance of Alfred J. Speak, Assistant Treasurer of the Fidelity Union Trust Company. Mr. Speak has been loaned by Horace K. Corbin, President of the Fidelity Union Trust Company and Chairman of New Jersey's Banking and Finance sub-committee.

**NEW YORK**--Commander Henry P. Heimann of the U. S. Navy has recently been assigned to the State Defense Savings Committee for New York to serve as executive assistant to Chairman Richard C. Patterson, Jr. Commander Heimann was formerly Chairman of the United States Shipping Board and is now Executive Manager of the National Association of Credit Men.

News of State and Local Committees (Continued)

OKLAHOMA--Direct representatives of the Oklahoma headquarters of the Defense Savings Staff are being appointed in each of the state's 77 counties by State Administrator H. C. Jones. These "county administrators" will help in the selection of the chairmen and members of Defense Savings Committees for the cities and towns in their counties.

All of the 4,200 lawyers in this state have received material which they can use in preparing speeches on the Defense Savings Program. . . Leading retail stores in the state have been asked by Roy L. Sanford, President of the Oklahoma Retail Merchants Association and member of the state committee, to place Defense Savings Stamps on sale in their stores. . . Each member of the State Committee has been asked to write a 100 to 150-word statement on "Why \_\_\_\_\_ (the individuals and organizations which he particularly represents) Should Buy Defense Bonds and Stamps." Oklahoma newspapers are being asked to publish this series one article at a time.

TEXAS--In Fort Worth, the Tarrant County Medical Society, the Life Underwriters Association of Fort Worth, and the Tarrant County Bar Association have appointed "Defense Bond Committees," which are circularizing the members of these professional groups and urging regular purchase of Defense Savings Bonds.

In Houston, the Junior Chamber of Commerce has established a Defense Bond speakers committee, under the chairmanship of Milton Gregory. The Jaycees will work with the speakers bureau of the Houston Defense Savings Committee.

WASHINGTON--For purposes of the Defense Savings Program, five areas have been established in the state and an "area director" appointed in each. Area directors, who are members of the State Committee, will appoint county chairmen in their territories.

Norman S. Archibald, who is serving as executive secretary of the King County Committee, is giving his entire time to the program. . . Office space for the King County Defense Savings Committee headquarters has been donated by the United Exchange Building, Seattle; the Washington Mutual Savings Bank donated office furniture; and several women have volunteered to do stenographic and secretarial work. . . A Speakers Bureau has been set up by the King County Committee and letters sent to the heads of all clubs, informing them that speakers are available on request.

NEWS LETTERS

Texas, Oklahoma, and Florida were the first states to have their own Defense Savings News Letters. A number of other states are planning to establish them. (Which makes us recall the remark about the sincerest kind of flattery.)

LABOR AND INDUSTRIAL LEADERS  
COOPERATE TO INSTALL ALLOTMENT PLANS

EVERY LABOR UNION in New Jersey was invited to send representatives to a meeting on August 5, called by John J. Toohey, Jr., Commissioner of the State Department of Labor and member of the Defense Savings Committee for New Jersey. Samuel L. Rothbard of the New Jersey State Council, C. I. O., cooperated with Mr. Toohey in calling this meeting and in explaining the advantages of the allotment plan to those present.

THE 1,100 LARGEST EMPLOYERS of labor in New Jersey (list secured from the New Jersey State Chamber of Commerce through the cooperation of George K. Balt, president) have received a special letter from State Administrator John W. Manning, explaining how they can aid the Defense Savings Program by making it convenient for their workers to save and invest in Defense Bonds regularly.

Mr. Manning suggests that companies set up Defense Savings Committees and that the members of these committees personally see each employee and ask him to become a partner of Uncle Sam.

"We want the individual worker," writes Mr. Manning, "to feel that he has a personal share in the Defense task. From the standpoint of morale, this is important."

MANUFACTURERS ASSOCIATION  
URGES PROMPT ACTION

THE INDIANA MANUFACTURERS ASSOCIATION, which recently invested a substantial sum in Defense Savings Bonds, has urged all of its 3200 members to cooperate with the program by making Defense Savings allotment plans available to their employees.

"The Association has set aside funds for the purchase of Defense Bonds," writes H. M. Cochrane, secretary. "It urges the same cooperation from all employers of the state. . . If you have received the letter and forms (for the installation of payroll allotment plans) from Will H. Smith, State Administrator, Defense Savings Staff, and have not put the program into effect, won't you do so at once?"

BANKERS STAND BY  
TO RENDER ASSISTANCE

WITHIN THREE DAYS after the Seattle Trust and Savings Bank had offered to assist employers install Defense Savings allotment plans, 13 employers — representing 1300 employees — had taken advantage of the offer. This bank has sent full information about the Defense Savings Program to 1600 employers in the State of Washington (most of them in Seattle). . . Another Seattle bank which has written to all of its depositors offering to cooperate with them in setting up allotment systems is the Pacific National. And in Spokane all employers have received information from The First Federal Savings and Loan Association about the application of the pay roll allotment plan to Defense Savings.

BANKERS STAGE DEFENSE BOND WEEK

"HIGHLY SUCCESSFUL" is the report of State Administrator Marion Allen on the Georgia Defense Savings Bond Week, July 28-August 2. Public speeches, parades and patriotic displays lent emphasis to the program, which was sponsored by the Georgia Bankers Association.

In Atlanta, prominent bankers staffed a booth set up at "Five Points," principal intersection in the business area, and sold Stamps and Bonds to all comers.

In Savannah, army bombers showered Defense Savings leaflets on the city each day during Defense Bond Week.

In Macon, Columbus, Augusta and Rome - and in many smaller places - Wrightsville, for example, the week was celebrated with appropriate ceremonies. In this latter town, Mayor W. F. Outlaw proclaimed a two-hour suspension of business, from 3 to 5 PM, in order that all could attend the mass meeting at the courthouse.

\* \* \* \*

"I AM LOOKING FOR NEW IDEAS"

EVERY BANKER IN FLORIDA has recently received a letter from H. H. McEachern, President of the Union Trust Company of St. Petersburg, Chairman of the Public Relations Committee of the Florida Bankers Association and member of the State Defense Savings Committee for Florida, asking for suggestions as to how to promote the sale of Defense Savings Bonds and Stamps. The Union Trust Company's program he outlines as follows:

Regular purchase plan installed for all officers and employees--  
practically 100% participation;  
Reminder notices included in all bank advertisements;  
Special poster displays prepared for bank windows and lobby;  
Special Defense Bond blotters sent to all bank customers;  
Small business firms asked to stock Defense Savings Stamps for  
their employees.

"I am looking for new ideas," writes Mr. McEachern. "Please let me know what you and your institution are doing along these lines."

\* \* \* \*

ONE BANK'S PROGRAM DESCRIBED IN DETAIL

THE OUTSTANDING JOB of Defense Savings promotion being done by the First National Bank and Trust Company of Tulsa (See NEWS LETTER No. 8, page 19) will be matched by other banks in Oklahoma.

AN EIGHT-PAGE BOOKLET explaining and illustrating that bank's program of newspaper advertising, bank signs, billboards, forms for regular depositor withdrawal orders, bank blotters, etc., has been prepared and sent by H. C. McClintock, President of the First National and member of the State Defense Savings Committee for Oklahoma, to 416 Oklahoma banks and 465 newspapers in the state.



Workers in a factory producing airplane and automotive machine parts are shown as they enlist in the defense savings program. These are a few of the 300 employees of the M-B Manufacturing Co. of New Haven, Conn. who are now participating in the defense savings payroll allotment plan.

**BANK DISPLAYS BOOST SALES OF DEFENSE SAVINGS BONDS**



Windblown American Flags surround the Minute Man poster in the lobby of the First Trust & Deposit Co. of Syracuse, N. Y.



The biggest watermelons grown in the county call attention to defense savings in the lobby of the Leesburg, Fla., National Bank.

U.S. GOVERNMENT PRINTING OFFICE: 1941-O-49973

STATE GOVERNMENT EMPLOYEES ORGANIZE DEFENSE SAVINGS CLUBS

GOVERNOR LEVERETT SALTONSTALL of Massachusetts, responding to a suggestion made by State Administrator Daniel J. Doherty, has called upon all state employees to enlist in the Defense Savings Program.

"Our blessings can only be preserved by sacrifice," Governor Saltonstall wrote to Patrick J. Moynihan, Chairman of the State Commission on Administration and Finance. "Those of us who are carrying on the work of government have the responsibility of helping our government protect the security we enjoy. We have also the added responsibility of leading the way and setting the example for our fellow citizens."

COMMISSIONER MOYNIHAN has transmitted copies of the Governor's letter to all heads of state departments and suggested the formation of Defense Savings Clubs and the establishment of other plans for encouraging systematic purchase of Defense Bonds and Stamps by state employees.

PLEDGE CARDS used in connection with the Federal Employee Purchase Plan could be used without alteration by state and local governments which have similar purchase programs under way. These cards are available from the Defense Savings Staff upon request.

PAY ROLL ALLOTMENT IN NATION'S OIL FIELDS

OIL COMPANIES in Oklahoma and adjoining states are establishing salary allotment plans modeled after the one installed by the Phillips Petroleum Company of Bartlesville (18,000 employees in 22 states).

K. S. Adams, President of the Company and member of the State Defense Savings Committee for Oklahoma, has sent copies of his company's plan to more than 500 oil companies. The accompanying letter to oil company presidents urging them to set up Defense Savings salary allotment plans, was signed by Mr. Adams and Frank Phillips, Chairman of the Board of Phillips Petroleum.

PAY ROLL ALLOTMENT FOLDERS AVAILABLE

The four page folder containing the message "Billions For Defense" and information about Series E Defense Savings Bonds is now available with the following paragraph:

"For your convenience, a Pay Roll Allotment Plan  
has been adopted by your employer.  
"Ask about it."

These folders may be requisitioned through the offices of the State Administrators. The folders are identified as "Pay Roll Allotment Folders - DSS - 111."

FEDERAL CREDIT UNIONS SELL DEFENSE BONDS

HUNDREDS OF FEDERAL CREDIT UNIONS in all parts of the country are qualifying as issuing agents for Series E Bonds. These credit unions are most frequently composed of the employees of the same business or industrial establishment and maintain offices in the plants where their members work. By qualifying as issuing agents, these credit unions make it very convenient for workers who do not have occasion to go to a bank or post office regularly to invest in Defense Bonds.

"Credit unions are by their very nature particularly well adapted to reach the broad sections of thrifty people the Treasury Department hopes will purchase this offering of Bonds," states the news letter of the Credit Union Section of the Farm Credit Administration — the agency responsible for the supervision of all federally chartered credit unions.

"We are very pleased that the Treasury Department has given Federal credit unions the opportunity of selling these Bonds. . . It is a chance for Federal credit unions to render invaluable public service as well as a gratifying recognition."

RECENT REPORTS indicate that credit unions organized among the employees of the Yale & Towne Manufacturing Company, Pitney-Bowes Postage Meter Company, and Colt's Patent Fire Arms Manufacturing Company, all in Connecticut, have qualified as issuing agents:

The Colt Employees Federal Credit Union, to which a majority of all Colt employees belong, has made it possible for both members and non-members to invest in Defense Bonds through regular salary allotments.

L. B. Kilburn, treasurer of the Yale Lockmakers Federal Credit Union, states that "everything possible will be done to encourage credit union members to buy bonds in the interests of national defense."

The establishment of a "Defense Bond League" by the Groton Shipbuilders Federal Credit Union was reported in the NEWS LETTER of August 2.

Up to July 31, 197 Federal credit unions had qualified as issuing agents for Series E Bonds.

\* \* \* \* \*

A Correction

Only individuals may be named either as co-owner or beneficiary in registering Defense Savings Bonds. Accordingly, the United States cannot be named as beneficiary as one man was reported to be doing in NEWS LETTER of July 26, page 14. A bond naming the government or a corporation as beneficiary will, if issued, be called for reissue when this error comes to the attention of the officials in charge of its registration.

**DEFENSE SAVINGS ON THE AIR**  
Leading Programs for the Coming Week

Tuesday, August 12

FOR AMERICA WE SING

7:30-8:00 P.M. (EST)  
 NBC Blue Network

A musical program featuring a 44-piece NBC symphony orchestra and chorus, conducted by Dr. Frank Black, contributed by the National Broadcasting Company.

GUEST STARS: Gladys Swarthout and Lanny Ross.

\* \* \* \* \*

Wednesday, August 13

MILLIONS FOR DEFENSE  
 (The Treasury Hour)

8:00-9:00 P.M. (EST)  
 CBS Network

GUEST STARS: Al Jolson, Edgar Bergen and Charlie McCarthy, Joan Crawford, Bibu Sayao, with Al Goodman and his band, Barry Wood and Ray Block's choir.

\* \* \* \* \*

MANY FINE LOCAL PROGRAMS

IN ADDITION to the network features listed above, there are several locally-produced and arranged radio shows devoted entirely to Defense Savings. Boston, for example, now has two such programs. One, "Millions For Defense," has been on the air since June 15 (NEWS LETTER Number 11, August 2). The other, "Defense Varieties," was first heard Sunday evening, July 27, over station WAAB, and in the future will be heard on Sunday evenings over station WMEX. See studio picture on the next page.

"Defense Varieties" is written and produced by Edward A. Cronin and Pat La Selva, two Treasury employees in the office of Thomas B. Hassett, Collector of Internal Revenue for the district of Massachusetts. A feature of this show is the theme song "Keep Your Lights Always Burning, America" written by Messrs. Cronin and La Selva. The Boston musicians union has given local orchestras permission to contribute their musical talent to the program.

\* \* \* \* \*

IN MINNESOTA the Defense Savings Committees of Minneapolis and St. Paul sponsored jointly a round table discussion participated in by Deputy State Administrator Lief Gilstad, Minneapolis Chairman Robert F. Paek, and St. Paul Chairman Ray Wentz. A special playing of "Any Bonds Today?" opened and closed this broadcast.

\* \* \* \* \*

"IDENTIFY THE MUSICAL SELECTION and win a Defense Savings Bond!" Every Thursday night over Station WLBZ, Bangor, the Maine Central Railroad sponsors a program which features the awarding of Defense Bonds and Stamps. Telephone numbers are called at random, and the persons answering, asked to identify musical selections played on the program. If they do so correctly, they receive \$25 Defense Bonds; otherwise, \$5 in Defense Savings Stamps.



Station WORL, Boston, has aired New England's own "Millions For Defense" radio show every Sunday evening since June 15. In the studio picture above, from left to right: Karl Nazarine, tenor; George Micheals, WORL announcer; Gordon Wayne, WORL director of the program; Bill Cannady, WORL announcer; Ed Cronin, Deputy Collector of Internal Revenue; Pat La Selva, musical director; and Bert Williams, orchestra leader.

PAY ROLL ALLOTMENT CARDS AVAILABLE

NAME					DEPT. & LOCATION					DEDUCTION					PAY-ROLL PERIOD					1st DEDUCTION					ISSUE PRICE				
M	FISCAL PERIOD				APPLIED TO PURCHASE OF BOND	NET CREDIT END OF MONTH	PAY-ROLL PERIOD				APPLIED TO PURCHASE OF BOND	NET CREDIT END OF MONTH	PAY-ROLL PERIOD				APPLIED TO PURCHASE OF BOND	NET CREDIT END OF MONTH	M	C	O	N	T	H					
	1	2	3	4			1	2	3	4			5	1	2	3									4	5			
YEAR 19										YEAR 19																			

**PAY ROLL ALLOTMENT AUTHORIZATION FOR PURCHASE OF UNITED STATES SERIES E SAVINGS BONDS**

I hereby authorize you to deduct from my earnings each \_\_\_\_\_ (Payroll period) the amount of \$ \_\_\_\_\_ effective with the pay roll ending \_\_\_\_\_ Each time the required amount \$ \_\_\_\_\_ has accumulated to my credit, to purchase and deliver to me a United States Series E Savings Bond maturity value of \$ \_\_\_\_\_. Such deduction shall continue each pay period thereafter until (a) Termination of my employment; (b) Written notice by me of the cancellation of this allotment; or (c) Termination of this allotment arrangement by you.

I understand that no interest is to be paid by the company on Register bonds in the name of and deliver to:

Miss \_\_\_\_\_  
 Mr. \_\_\_\_\_  
(Name and street) (City or town)  
 Address of Co-owner or beneficiary if different \_\_\_\_\_

This is a reproduction of the pay roll allotment authorization card now available from the defense savings staff in sufficient quantities to supply small employers who do not wish to print their own allotment authorization forms. These cards are being distributed through the various State headquarters of the defense savings staff and an employer who needs a supply should address his request to the State administrator in his State.

↑  
BACK

Excerpts from the

FORUM ON DEFENSE SAVINGS BONDS AND STAMPS  
Broadcast July 22, 1941 over stations of the CBS

"The appeal to voluntary action has already brought promising results from the ranks of organized labor in the early months of this drive. You know of the action of many locals in the automobile industry—they voted to have their employers set aside a percentage out of their pay envelopes each week to go toward buying Defense Bonds. . . Personally, I hope—and I expect—that this voluntary weekly savings plan will be adopted by large numbers of locals throughout the organization of the C. I. O."

—James B. Carey, National Secretary of  
the Congress of Industrial Organizations

"I have great faith in the American people. And I'm sure when they grasp the soundness of the Defense Bonds and Stamps idea, they're going to pitch in and really make a go of it."

—Walter D. Fuller, President of the  
National Association of Manufacturers

"We workingmen don't expect perfection in our lifetime, but we know what we've got, and we know it can be improved only in the democratic way. . . It's not a choice between a perfect world and an imperfect world. . . It's a choice between hope and hopelessness. Our hope lies in America, and we know it. That's why we'll buy Defense Savings Bonds and Stamps."

—William Green, President of the  
American Federation of Labor

"We here represent five groups that are pledged to protect different phases of the national interest; and now we're all menaced by a gangster system which, beyond a shadow of a doubt, will wreck all our interests if it prevails. Seeing that that's so, the first thing, as of July 22, 1941, is to unite in the effort to secure ourselves from that menace."

—Albert Hawkes, President of the  
Chamber of Commerce of the United States  
and Chairman of the Defense Savings  
Committee for New Jersey.

"Americans are at last waking up to the fact that this war is a tragedy that's really happening, a crisis that affects the future of every man, woman and child. . . Speaking for the railroad men of this country, I would say that we will buy Defense Savings Bonds because each bond sold is a blow struck in the defense of our sacred freedom as a nation and the preservation of our democratic way of life."

—James A. Phillips, Chairman of the  
Railway Labor Executives Association.

\* \* \* \* \*

"I cannot tell you how pleased I am to find such a united stand in this discussion. . . You have provided a dramatic proof that America is able to unite in a time of crisis. . . I don't think it is exaggeration to say that this discussion, informal though it has been, has been of historic importance."

—Hon. Henry Morgenthau, Jr.,  
Secretary of the Treasury

PAY ROLL ALLOTMENT POPULAR IN PACIFIC NORTHWESTLUMBER INDUSTRY--

Lumbermen in the Northwest want to participate in Defense Savings through pay roll allotment plans, according to John Christenson, president of the Lumber & Sawmill Workers Union, who has been active in explaining the Defense Savings Program to officers and members of the locals affiliated with his organization. J. H. Bloedel, president of the Bloedel-Donovan Lumber Mills and a member of the Defense Savings Committee for Washington, is assisting lumber executives throughout the region with the various details connected with the installation of allotment plans.

METAL INDUSTRY--

Ed Johnson, president of the Metal Trades Union in Washington, is an active supporter of the Defense Savings Program and is urging local unions affiliated with his organization to petition their employers for installation of pay roll allotment plans.

BAKING--

The Silver Loaf Baking Company was the first company in Spokane to report that all of its employees were participating in a Defense Savings pay roll allotment plan.

BANKING--

Salary allotment plans have been installed by the Seattle-First National Bank, Washington Mutual Savings Bank of Seattle, and The Pacific National Bank of Seattle.

PUBLISHING--

"Some weeks ago, we put in a voluntary pay allotment plan in The Oregonian. . . Tomorrow afternoon, there will be the first meeting of the employees' committee and I believe that before we are through we will have 100% participation. We already have three departments 100% including the engraving room," reports Palmer Hoyt, publisher of the Portland Oregonian and chairman of the Defense Savings Committee for Oregon.

RETAIL TRADE--

The largest department store in Seattle--Frederick & Nelson--has installed a Defense Savings salary allotment plan. General Manager William H. St. Clair has assumed the responsibility of seeing that all department stores follow his company's example.

AVIATION AND SHIPBUILDING--

Installation of Defense Savings allotment plans by the Boeing Aircraft Company, Seattle-Tacoma Shipbuilding Corporation, and Todd-Seattle Dry Docks, Inc., was announced in the NEWS LETTER of July 19.

## DEFENSE SAVINGS STATISTICS

Bond Sales On Basis Of Issue Price  
For First Three Months Of Program

<u>Types of Bond</u>	<u>Total</u>	<u>May</u>	<u>June</u>	<u>July</u>
Series E	\$ 348,373,000	\$100,581,000	\$102,517,000	\$145,274,000
Series F	94,052,000	37,817,000	28,875,000	27,359,000
Series G	564,053,000	211,420,000	183,134,000	169,498,000
<b>TOTAL</b>	<b>\$1,006,477,000</b>	<b>\$349,818,000</b>	<b>\$314,527,000</b>	<b>\$342,132,000</b>

Source: All figures are deposits with the Treasurer of the United States on account of proceeds of sales of United States Savings Bonds. Figures have been rounded to nearest thousand and will not necessarily add to totals.

Note: Figures previously released by the Treasury Department for May and June were on the basis of telegraphic daily reports from sales agencies and of course do not conform to cash deposits as shown above. Actual sales by sales agencies for the three months May, June, and July, exceed the figures given in this table by approximately \$50,000,000.

LIFE UNDERWRITERS ESTABLISH COMMITTEE  
FOR NATIONAL DEFENSE SAVINGS

"The Life insurance agents of this country hope to be of aid to the National defense program and to the all-out effort of the American people to preserve intact the democracy which has reached its greatest heights here in our time," said Harry T. Wright, president of the National Association of Life Underwriters, following the first meeting of the Life Underwriters Committee for National Defense Savings. "This new committee, in addition to developing a special program, will seek to coordinate the efforts of all life insurance agents to aid National Defense."

The committee, headed by Mr. Wright of Chicago, includes:

John A. Witherspoon, Nashville	Grant Taggart, Cowley, Wyo.
Walter E. Burton, New York	Judd Benson, Cincinnati
Charles J. Zimmerman, Chicago	L. Mortimer Suckley, Chicago
E. L. Carson, Milwaukee	Kenneth Cassidy, San Francisco
O. Sam Cummings, Dallas	Ralph G. Engelsman, New York
Alvin T. Haley, Greensboro, N.C.	J. Hawley Wilson, Oklahoma City
	Warren Woody, Chicago

\* \* \* \* \*

Purchase of Defense Savings Bonds "to the limit" by the Standard Life Insurance Company of Indiana was recently featured in Indianapolis newspapers.

"It is the purpose of this Company," Harry V. Wade, general manager, was quoted as saying, "to support solidly the United States Government in all its endeavors and this purchase represents tangible evidence of that purpose."

PATRIOTISM DEMONSTRATED

Here is a heartwarming little story that helps to indicate that our great campaign is a truly human affair, after all:

A State Administrator was interviewing a retired railroad worker with the idea of enrolling him as County Chairman. The man seemed to be just the one qualified to do the work—fine personality, plenty of leisure time, excellent contacts, and a genuine spirit of helpfulness. Yet he seemed reluctant to agree to actual participation in a committee. Finally, he confessed that his niece with whom he lived was counting on him to accompany her on a vacation in Canada. They had planned their schedule, budgeted strictly to finance the trip on her modest salary and his pension, and were looking forward to a grand new experience. His niece, herself enthusiastic over the Defense Savings Program, sensed his eagerness to be of real service and tried to persuade him to accept the chairmanship. Finally he agreed to talk it over with her and notify the Administrator of his decision. At seven-thirty the next morning the Administrator learned that the trip had been cancelled, that the gentleman would represent his county, and that the young lady was contributing her vacation money toward financing the program in that county.

This is but one of many examples of personal sacrifice on the part of those who are active participants in the Defense Savings Program and who see in this Program an opportunity to render patriotic service.

\* \* \*

MOVIE SHORT AVAILABLE

The movie short "America Preferred" is now available in 16-millimeter sound film. This is a ten-minute version of the picture made especially for the Defense Savings Program and shown widely in commercial theatres. (During the first three months of the campaign, this feature was shown in 6,813 theatres and it is still being shown.)

Prints of the 16-millimeter film are being sent to all State Administrators and, in addition, 75 copies are being distributed by the U. S. Department of Agriculture to extension agents and other departmental officials in the field who have facilities for showing sound movies to farm audiences.

City and county Defense Savings Committees may want to arrange to have this film shown in their communities under their auspices.

\* \* \*

A volunteer soldier purchased the first \$1,000 Defense Savings Bond sold in Apalachicola, Florida, according to Postmaster Hal Hoffman. Franklin County, in which Apalachicola is located, has the distinction of having had enough volunteers for the Army, Navy and Marine Corps to more than make up its selective service quota.

BOY SCOUTS ON THE JOB AGAIN

The Boy Scouts of America, who placed on display early in May more than 1,000,000 posters announcing the sale of Defense Savings Bonds and Stamps, have been given their second assignment by Secretary Morgenthau. They have been called upon to place 400,000 of the large Minute Man posters in prominent locations.

In a letter to Chief Scout Executive James E. West, Secretary Morgenthau said:

"Kindly convey to the members of your organization my very sincere appreciation of this good turn for Uncle Sam. . . I am confident that the Boy Scouts will undertake this service and that it will be done effectively and with dispatch."

BASEBALL PUBLIC ADDRESS SYSTEMS MOBILIZED

Branch Rickey, Vice President and General Manager of the St. Louis Cardinals and Chairman of the Defense Savings Committee for Missouri, has arranged to have Defense Savings Bond and Stamp announcements made over the public address systems at Sportsman's Park, St. Louis, home of the Cardinals. He also asked major and minor baseball league officials throughout the country to follow suit and to boost Defense Savings between innings. This is now being done at practically all baseball parks.

In a recent letter, Mr. Rickey says:

"There should be spot announcements on Defense Savings Bonds at all the football games. . . and when I say all I mean high school, college and university games as well as professional games. . . This effort will at the same time provide the framework for basketball broadcasts. . . In other words, the Defense Savings Bond announcement and advertising can be worked into the program of all sports all the time and everywhere."

DEFENSE SAVINGS BONDS WILL DO AS MUCH FOR THIS GENERATION!

War Savings Stamps made possible his college education, W. D. Robertson reported at the organization meeting of the Santa Rosa County (Fla.) Defense Savings Committee. Mr. Robertson's grandfather, a ship builder at Milton, purchased two \$5 War Savings Stamps back in 1918 for each of his grandsons. With this beginning, Mr. Robertson eventually saved the money which made it possible for him to enter the University of Florida. He is now an attorney in Milton and President of the Junior Chamber of Commerce there.

\* \* \*

Desk cards reading "I am buying United States Defense Savings Bonds for National Safety and Personal Security" are being distributed by the Seattle Trust and Savings Bank.

"Hats Off" to —

CHAIRMEN OF STATE DEFENSE SAVINGS COMMITTEES

## CONNECTICUT

Robert Brewer Newell  
President, Hartford National Bank  
and Trust Company

## FLORIDA

Linton E. Allen  
President, First National Bank,  
Orlando

## IDAHO

John A. Schoonover  
President, Idaho First National Bank,  
Boise

## KANSAS

William Allen White  
Publisher, The Emporia Gazette

## MAINE

Walter S. Wyman  
President, New England Public  
Service Corporation, Augusta

## MASSACHUSETTS

Edwin C. Johnson  
President, H. A. Johnson  
Company, Boston

## MICHIGAN

Frank N. Isbey  
President, Detroit Fruit Auction

## MINNESOTA

O. J. Arnold  
President, Northwestern National  
Life Insurance Co., Minneapolis

## MISSISSIPPI

Alfred H. Stone  
Chairman, Mississippi State  
Tax Commission, Jackson

## MISSOURI

Branch Rickey  
Vice President and General  
Manager, St. Louis Cardinals

## MONTANA

A. A. Hoerr  
Cashier, Federal Reserve Bank,  
Helena

## NEW JERSEY

Albert W. Hawkes  
President, Congoleum-Nairn, Inc.,  
Kearny

## NEW YORK

Col. Richard C. Patterson  
Chairman of the Board, Radio-Keith,  
Orpheum Corporation, New York

## NORTH CAROLINA

Julian Price  
President, Jefferson Standard Life  
Insurance Company, Greensboro

## OHIO

Roy D. Moore  
Vice President and General Manager  
of Brush-Moore Newspapers, Canton

## OKLAHOMA

Law Wentz  
Independent oil producer, Ponca City

## OREGON

Palmer Hoyt  
Publisher, The Portland Oregonian

## SOUTH CAROLINA

James H. Hammond  
Attorney-at-Law, Columbia

## TEXAS

Tom Miller  
Mayor of the City of Austin

## VERMONT

Levi P. Smith  
President, Burlington Savings Bank

## WASHINGTON

Joel E. Ferris  
Executive Vice President,  
Seattle-First National Bank

## WISCONSIN

Charles E. Broughton  
Publisher, The Sheboygan Press

August 5, 1941.

225

Appointment made with Oscar Cox  
for 9:00 August 12th.

EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE FOR EMERGENCY MANAGEMENT  
WASHINGTON, D. C.

August 9, 1941

Dear Secretary Morgenthau:

I appreciate very much your note of August 7, 1941.

On the Russian situation, I enclose for your confidential information a cable which Wayne Coy sent to the President. The President answered this cable late last night and when you get a chance I would like to tell you orally what the present situation is.

Wayne Coy has done a good job in blasting out of OPM and the War Department action on the other items on the list of Russian needs, such as toluol, aluminum, etc.

Sincerely yours,

*Osman Cox*

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

C  
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P  
Y

AUGUST 6, 1941

SECRET

THE PRESIDENT

## USS POTOMAC VIA NAVAL COMMUNICATIONS

ARRANGEMENTS NEARLY COMPLETE TO TRANSFER 200 P-40's TO RUSSIA. 140 NOW IN ENGLAND TO BE TRANSFERRED BY WATER 59 NOW IN U. S. TO BE TRANSFERRED VIA NORTH ATLANTIC IN ACCORDANCE WITH REQUEST OF GUMANSKY. OTHER MATERIAL ON IMMEDIATE LIST WILL COMPLETE CARGO FOR FIRST SAILING 2 SHIPS MAY BE REQUIRED. MARITIME COMMISSION ARRANGING NECESSARY TRANSPORTATION. BOMBER DELIVERIES TO BE DISCUSSED THURSDAY WITH ARMY AND BRITISH. THREE QUESTIONS, (1) SINCE ALL OF THE FIGHTER SHIPS BEING MADE AVAILABLE TO RUSSIA ARE FROM BRITISH ORDERS CAN I INSIST TO ARMY NECESSITY TO SCHEDULE LATE AUGUST AND SEPTEMBER DELIVERIES FROM CURRENT U. S. PRODUCTION, I.E., TWO OR THREE SQUADRONS (28 PLANES TO SQUADRON) PER MONTH FOR NEXT TWO MONTHS? (2) IF NECESSARY TO GET MORE SPEED ON IMMEDIATE AID CAN WE SUPPLY PROCUREMENT SERVICES THROUGH THE LEND-LEASE MECHANISM ON A CASH REIMBURSEMENT BASIS? (3) IN LINE WITH QUESTION ONE, IF ANSWERED AFFIRMATIVELY, DO YOU WISH TO PREPARE BRITISH FOR FURTHER DELIVERIES IN AUGUST AND SEPTEMBER FROM THEIR ORDERS IN THIS COUNTRY? IN THE MEANTIME WE WILL PREPARE FOR YOUR DECISION TENTATIVE RECOMMENDATIONS ON THE DIVISION OF PRODUCTION BETWEEN U. S. BRITAIN AND RUSSIA FOR AUGUST AND SEPTEMBER.

WAYNE COY

EXECUTIVE ORDER

REGULATION OF CONSUMER CREDIT

EXPLANATION OF NECESSITY AND PURPOSE

WHEREAS a large volume of credit is being devoted to financing and refinancing purchases of consumers' goods and services through extensions of credit that usually are made to individuals and to a large extent are on an instalment payment basis; and

WHEREAS the conditions under which such credit is available have an important influence upon the volume and timing of demand, not only for the particular goods and services purchased on credit but also for goods and services in general; and

WHEREAS liberal terms for such credit tend to stimulate demand for consumers' durable goods the production of which requires materials, skills, and equipment needed for national defense; and

WHEREAS the extension of such credit in excessive volume tends to generate inflationary developments of increasing consequence as the limits of productive capacity are approached in more and more fields and to hinder the accumulation of savings available for financing the defense program; and

WHEREAS the public interest requires control of the use of instalment credit for financing and refinancing purchases of consumers' durable goods the production of which absorbs resources needed for national defense, in order (a) to facilitate the transfer of productive resources to defense industries, (b) to assist in curbing unwarranted price advances and profiteering which tend to result when the supply of such goods is curtailed without corresponding curtailment of demand, (c) to assist in restraining general inflationary tendencies, to support or supplement taxation imposed to restrain such tendencies, and to promote the accumulation of savings available for financing the defense program, (d) to aid in creating a backlog of demand for consumers' durable goods, and (e) to restrain the development of a consumer debt structure that would repress effective demand for goods and services in the post-defense period; and

WHEREAS in order to prevent evasion or avoidance of this order and such regulations as may be prescribed to effectuate its purposes, means should also be available for regulating the use of other instalment credit and other forms of credit usually extended to consumers or on consumers' durable goods; and

WHEREAS it is appropriate that such credit be controlled and regulated through an existing governmental agency which has primary responsibilities with respect to the determination and administration of national credit policies:

NOW, THEREFORE, by virtue of the authority vested in me by section 5(b) of the act of October 3, 1917, as amended, and by virtue of all other authority vested in me, and in order, in the national emergency declared by me on May 27, 1941, to promote the national defense and protect the national economy, it is hereby ordered as follows:

ADMINISTRATION

Section 1. (a) The Board of Governors of the Federal Reserve System (hereinafter called the Board) is hereby designated as

the agency through which transfers of credit between and payments by or to banking institutions (as defined herein pursuant to section 5(b) of the aforesaid Act) which constitute, or arise directly or indirectly out of, any extension of credit of a type set out in section 2(a) of this order shall be investigated, regulated and prohibited.

(b) The Board shall, whenever it deems such action to be necessary or appropriate, take any lawful steps herein authorized and such other lawful steps as are within its power to carry out the purposes of this order, and may, in administering this order, utilize the services of the Federal Reserve Banks and any other agencies, Federal or State, which are available and appropriate.

(c) In order to facilitate the coordination of the Board's functions under this order with other phases of the program for national defense and for protecting the national economy, there shall be a committee consisting of the Secretary of the Treasury, the Federal Loan Administrator, and the Administrator of the Office of Price Administration and Civilian Supply, or such alternate as each shall designate, and such other members as the President shall subsequently appoint. The Board shall maintain liaison with the committee, and in formulating policies with respect to down-payments, maturities, terms of repayment, and other such questions of general policy shall consult with the committee and take into consideration any suggestions or recommendations it may make.

#### REGULATIONS

Section 2. (a) Whenever the Board shall determine that such action is necessary or appropriate for carrying out the purposes of this order, the Board shall prescribe regulations with respect to transfers and payments which constitute, or arise directly or indirectly out of, any extension of installment credit for the purpose of purchasing or carrying any consumers' durable good except a residential building in its entirety; and the Board may in addition, to the extent deemed by it to be desirable and feasible in order to prevent evasion of such regulations as may be so prescribed or in order to control forms of credit the use of which might defeat the purposes of this order and such regulations, prescribe regulations with respect to transfers and payments which constitute, or arise directly or indirectly out of, (1) any other extension of installment credit, or (2) any other extension of credit for the purpose of purchasing or carrying any consumers' durable good, or (3) any other extension of credit in the form of a loan other than a loan made for business purposes to a business enterprise or for agricultural purposes to a person engaged in agriculture. Such regulations may be prescribed by the Board at such times and with such effective dates as the Board shall deem to be in accordance with the purposes of this order.

(b) Such regulations may from time to time, originally or by amendment, regulate or prohibit such transfers and payments or exempt them from regulation or prohibition and may classify them according to the nature of the transactions or goods or persons involved or upon such other basis as may reasonably differentiate such transfers and payments for the purpose of regulations under this order, and may be made applicable to one or more of the classes so established; and, without limiting the generality of the foregoing, such regulations may require transactions or persons or classes thereof to be registered or licensed; may prescribe appropriate limitations, terms, and conditions for such registrations or licenses; may provide for suspension of any such registration or license for violation of any provision thereof or of any regulation, rule, or order prescribed hereunder, may prescribe appropriate requirements as to the keeping of records and as to the

Form, contents, or substantive provisions of contracts, liens, or any relevant documents; may prohibit solicitations by banking institutions which would encourage evasion or avoidance of the requirements of any regulation, license, or registration under this order; and may from time to time make appropriate provisions with respect to—

- (1) The maximum amount of credit which may be extended on, or in connection with any purchase of, any consumers' durable good;
- (2) The maximum maturity, minimum periodic payments, and maximum periods between payments, which may be stipulated in connection with extensions of credit;
- (3) The methods of determining purchase prices or market values, or other bases for computing permissible extensions of credit or required down-payments; and
- (4) Special or different terms, conditions, or exemptions with respect to new or used goods, minimum original cash payments, temporary credits which are merely incidental to cash purchases, payment or deposits useable to liquidate credits, and other adjustments or special situations.

(c) On and after the effective date of any regulation prescribed by the Board with respect to any extension of credit of a type set out in section 2(a), and notwithstanding the provisions of any other proclamation, order, regulation, or license under the aforesaid Act, all transfers and payments which are in violation of such regulation shall be and hereby are prohibited to the extent specified in such regulation.

(d) Neither this order nor any regulation issued thereunder shall affect the right of any person to enforce any contract, except that after the effective date of any such regulation every contract which is made in connection with any extension of credit and which violates, or the performance of which would violate, any provision of such regulation (other than a provision designated therein as being for administrative purposes), and every lien, pledge, seller's interest in a conditional sale, or other property interest, subject to the provisions of such contract or created in connection therewith, shall be unenforceable by the person who extends such credit or by any person who acquires any right of such person in such contract; provided that such disability shall not apply to any person who extends such credit, or acquires such right for value, in good faith and without knowing or having reason to know the facts by reason of which the making or performance of such contract was or would be such a violation.

#### REPORTS

Section 3. Reports concerning the kinds, amounts, and characteristics of any extensions of credit subject to this order, concerning transfers and payments which arise out of any such extensions of credit, or concerning circumstances related to such extensions of credit or such transfers or payments or to the regulation thereof, shall be filed on such forms, under oath or otherwise, at such times and from time to time, and by such persons, as the Board may prescribe by rule, regulation, or order as necessary or appropriate for enabling the Board to perform its functions under this order. The Board may require any person to furnish, under oath or otherwise, complete information relative to any transaction within the scope of this order, including the production of any books of account, contracts, letters, or other papers, in connection therewith in the custody or control of such person.

#### DEFINITIONS

Section 4. For the purposes of this order, unless the context otherwise requires, the following terms shall have the following meanings, provided that the Board may in its regulations give such terms more restricted meanings:

(a) "Torsion" has the meaning set forth in section 5(b) of the act of October 6, 1917, as amended.

(b) "Transfers and payments" means "transfers of credit between and payments by or to banking institutions".

(c) "Banking institution" means any person engaged as principal, agent, broker, or otherwise, in the business of making or holding extensions of credit and includes, without limitation, any bank, any loan company, and finance company, or any other person engaged in the business of making or holding extensions of credit whether as a vendor of consumers' durable goods or otherwise.

(d) "Consumers' durable good" includes any good, whether new or used, which is durable or semi-durable and is used or usable for personal, family or household purposes, and any service connected with the acquisition of any such good or of any interest therein.

(e) "Extension of credit" means any loan or mortgage, any installment purchase contract, any conditional sales contract, or any sale or contract of sale under which part or all of the price is payable subsequent to the making of such sale or contract; any rental-purchase contract, or any contract for the bailment or leasing of property under which the bailee or lessee either has the option of becoming the owner thereof or obligates himself to pay as compensation a sum substantially equivalent to or in excess of the value thereof; any contract creating any lien or similar claim or property to be discharged by the payment of money; any purchase, discount, or other acquisition of, or any extension of credit upon the security of, any obligation or claim arising out of any of the foregoing; and any transaction or series of transactions having a similar purpose or effect.

(f) An extension of credit is an extension of "installment credit" if the obligor undertakes to repay the credit in two or more scheduled payments or undertakes to make two or more scheduled payments or deposits usable to liquidate the credit, or if the extension of credit has a similar purpose or effect, or if it is for the purpose of financing a business enterprise which makes such extensions of credit.

(g) An extension of credit is "for the purpose of purchasing or carrying any consumers' durable good" if it is directly or indirectly for the purpose of financing or refinancing the purchase of any consumers' durable good or is directly or indirectly secured by any consumers' durable good, or if the extension of credit has a similar purpose or effect, or if it is for the purpose of financing a business enterprise which makes such extensions of credit.

PENALTIES

Section 5. Whoever willfully violates or knowingly participates in the violation of this order or of any regulation prescribed hereunder, shall be subject to the penalties applicable with respect to violations of section 5(b) of the said act of October 6, 1917, as amended.

FRANKLIN D. ROOSEVELT

THE WHITE HOUSE,

August 9, 1941.

August 9, 1941

Mr. Felt

Mr. Cochran

At the urgent request of Secretary Hargenthan, will you kindly forward by the earliest possible means the six attached copies of Secretary Hargenthan's tax statement to Mr. Frank Gee, Special Assistant to the American Ambassador, London.



C  
O  
P  
YSAFE HAND

BRITISH EMBASSY,

WASHINGTON, D.C.,

August 9th, 1941.

Dear Mr. Cochran,

I enclose two copies each of the following documents which I have received from London:-

- (a) Extracts from the Times of July 26th and July 29th.
- (b) Mr. Eden's statement of July 30th.
- (c) Circulars issued by the British Bankers' Association containing the Treasury regulations of July 26th and July 28th.

I have also received the following information:-

1. Sterling accounts of the following have been released for payments within the sterling area:-

- (a) Central Bank of China
- (b) Bank of China
- (c) Bank of Communications
- (d) Farmers Bank of China
- (e) The National Government of the Republic of China and any agencies or organs thereof, e.g.

Chinese Embassy  
 Chinese Government Purchasing Mission  
 Chinese Government Purchasing Agency  
 Chinese Government Trading Commission  
 Societe Generale de Commerce, at  
 Chinese Embassy, London.

2. British and American Banks who have agencies in the Republic of China and the International Settlement in Shanghai have been informed that they may use sterling which is their own property to finance sterling area/Chinese trade.

Mr. Merle Cochran,  
 Foreign Funds Control,  
 U. S. Treasury Department,  
 Washington, D.C.  
 WR:FMJ

- 2 -

3. The Chungking Government has been asked to cable urgently a list of banks operating in China whom they will appoint as banks authorized or licensed to deal in foreign exchange.
4. The Chungking Government has been urged to accept the full responsibility for controlling the rate of exchange and to issue an official rate for sterling and U.S. dollars in terms of Chinese Yuan. It has been recommended that this rate should approximate closely to the current rates of exchange in Shanghai with some small adjustment to meet the official sterling/U.S. dollar rate of 4.03.

Yours sincerely,

W. Ritchie.

Copy:lg 8/11/41

C  
O  
P  
YDEPARTMENT OF STATE  
WASHINGTON

August 9, 1941.

In reply refer to  
EA 893.5151/864

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses two copies of telegram No. 1023, dated August 6, 1941, from the American Consulate General, Shanghai, China, in regard to the sharp decline in Shanghai rates.

## Enclosure:

From Consulate General,  
Shanghai, No. 1023,  
August 6, 1941. (2).

DES

PLAIN

SHANGHAI VIA N.R.

Dated August 6, 1941

Rec'd 7:30 p.m. 8th

Secretary of State,  
Washington.  
1023, Sixth.  
Special Financial.

Shanghai rates declined sharply yesterday due to larger merchant demand including petroleum import cover. Rates opened yesterday morning at five seven thirty seconds cents and three seven sixty fourths pence but declined to five cents in afternoon firming before closing to five one eight cents and three one sixteenth pence. Rates this morning opening at five one eight cents and three one sixteenth pence, August and September deliveries same as spot. Other quotations this morning: paper gold bars higher at six seven seven naught, physical gold bars off approximately ten troy ounces of nine nine naught fineness reached record high of yuan eight six hundred, Shanghai free sterling parity nominal at United States dollars four point naught three. British banks have already received instructions from London for individual personal requirements up to sterling one hundred pounds British banks in Shanghai are authorized to buy and sell against Chinese currency provided the drafts or travellers checks are to be used in sterling areas. Merchant demands are given full cover but all other accounts blocked. Central Reserve Bank note nine issue August second announced at CRB yuan eight one point nine million.

INFORM TREASURY.

Sent to Department, repeated to Chungking.

GW

LOCKHART

Copy:bj:8-11-41

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consulate General, Shanghai.

DATE: August 9, 1941.

NO. : 1003.

During the week exchange rates have declined sharply and the licensing banks, and other banks, feel that this is due to the fact that much of the export business is carried on by the Japanese, and the export bills have not yet begun to come to the licensing banks. They also feel that the freezing order has caused this decline. The existing supply of exchange is insufficient because licensing has stopped the repatriation of funds and remittances from abroad. The problem is a critical one and unless remedial measures are adopted it is likely that this adverse trend will continue. If the Treasury Department wishes closely to follow the extremely complicated situation at Shanghai it is recommended that consideration be given by that Department to the placing here of an expert who can keep in touch with the situation which is constantly changing. Certain quarters appear disposed to criticize the freezing order and the administration of the order by licensing banks. However, these matters are extremely controversial and before this Consulate General can draw definite conclusions much clarification is needed.

This telegram is being transmitted to the Department and is being repeated to Chungking.

LOCKHART

EE

EA:VCL

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consulate, Dairen, Manchuria

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

NO.: 13

SECTION ONE.

The local manager of the National City Bank of New York has supplied, in substance, the following information:

The bank is still, after eleven days, unable to conduct any operations whatsoever even though the local finance authorities gave early assurances to the bank that they would provide modus operandi which would enable it to resume modified operations. These modified operations especially include the repayment of deposits of 'non-specified'—approved—nationals, the use of clearinghouse facilities, the collection of outstanding loans, the payment of salaries and other current operating expenses, and the making of necessary bookkeeping entries.

However trivial, separate permits for both the bank and the client are required for every transaction; and (9) the application for permits has been impossible because of the irrational application of the regulations, endless red tape and complications. The funds of the bank as well as of its clients—irrespective of nationality—are completely frozen as a result of such. The bank's former clients have been refused the privilege of opening accounts in Japanese banks.

A friendly disposition to help has been manifested by the finance authorities. However, they appear utterly incapable

-2-

incapable of applying the regulations in a rational and workable manner. Instead of improving, the situation is becoming more chaotic every day. A similar predicament is being experienced by the Hong Kong Shanghai Bank.

BUTRICK

EA:PAK

840,51 Frozen Credits/2945

MAY 15 1945

PARAPHRASE OF TELEGRAM RECEIVED

240

FROM: American Consulate General, Barcelona, Spain.

DATE: August 9, 1941, 10 a.m.

NO.: 87

Reference is made to the Department's telegram  
No. 65, 9 p.m., dated August 5, 1941.

Now in Madrid, Spain, is Oglu, Josif. Investigation  
is being made by the American Embassy.

FROST

KA:NCB

RECEIVED  
U.S. DEPARTMENT OF THE ARMY  
OFFICE OF THE

RECEIVED JUL 15 1941

RECEIVED DEPT. OF THE ARMY  
RECEIVED

PARAPHRASE OF TELEGRAM **SENT**

TO: American Embassy, Buenos Aires, Argentina

DATE: August 9, 1941, 7 p.m.

NO.: 818

Reference is made to the Embassy's telegram No. 788, dated July 23, 1941.

THE FOLLOWING IS FOR THE EMBASSY'S INFORMATION AND IS TO BE REGARDED AS CONFIDENTIAL.

The Treasury Department recognizes the importance of the problem. This Department has been informed of the following information.

Authorization has been given to the Federal Reserve Banks to approve applications for licenses for the payment of drafts which are drawn under letters of credit which are issued to persons whose names appear on the Proclaimed List by domestic banks provided the drafts were negotiated on or before the twentieth of July and that the license is necessary only for the reason that the name of the drawer is one of those which appear on the Proclaimed List.

In view of the facts which have been revealed in connection with the La Huseh transaction, it is not anticipated that the Trademmen's Bank will have any difficulty in obtaining the licenses which permit the payment of the drafts that were negotiated on or before July 20, 1941.

Payment of drafts which are drawn after July 20-- under this letter of credit--will be subject to the approval of the Treasury Department after the filing of the specific licenses applications. Action upon such will be taken in the

-2-

the light of the considerations that were discussed  
in the Embassy's telegram as well as other considerations  
of policy in regard thereto.

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(DA)

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EA:PAK

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## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Panama, via H.R.

DATE: August 9, 1941, noon

NO.: 221

Reference is made to telegram No. 177, dated August 8, 7 p.m., from the Department.

This morning I requested the Minister of Foreign Relations to withhold the issuance of the confirmation of the cancellation of Panamanian registry of the Santa Helena until information from the American Consulate General in Barcelona and the American Embassy in Madrid has been received. His reply was that he would for 'a few days' delay action in regard to this matter.

Yesterday, I discussed the plan outlined in the Department's telegram of July 31, 7 p.m., No. 161, with the Minister of Foreign Relations. These suggestions are now before the Minister of Finance.

The position of the Minister of Foreign Relations continues to be the same as that reported on August 5, 10 a.m., telegram No. 212 from the Embassy.

WILSON  
OFFICE OF THE  
ATTORNEY GENERAL

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RECEIVED DEPARTMENT OF THE TREASURY  
RECEIVED

KAI:PAK

819.852/42

PARAPHRASE OF A TELEGRAM RECEIVED  
FROM: American Embassy, Rio de Janeiro.

DATE: August 9, 1941, 9 p.m.

NO. 1 1080.

As I said in the course of our telephone conversation concerning Japanese dollar funds, after some discussion I succeeded in persuading the Bank of Brazil to reject further use by the Japanese of dollar credits for the purpose of purchasing strategic materials in the American marketplace.

There is quoted below a translation of the letter which is to be delivered on the 11th of August to the Rio de Janeiro branch of the Yokohama Specie Bank by the Director of Exchanges:

QUOTE Our records indicate that there is an account, in dollars, in the name of your head office, consisting of dollar deposits effected by that office with our New York bankers.

According to your wishes and the instructions we have received from you, transactions on the account have been effected in dollars which is only the equivalent of a transfer of funds within the United States.

Japanese funds in the United States were blocked on the 5th of July, and details have now been received concerning the manner in which American legal decisions are being effected.

Obviously, such measures would also affect the transactions

of

-3-

of the Banco de Brasil if these operations were carried out for your account and on your behalf regardless of whether or not such circumstances were mentioned.

Consequently, it is not possible for us to continue to operate our funds for your account because after your account was opened the legal status concerning the situation was changed.

For Brazil's exports to Japan, it is our intention to request permission of the American authorities to operate the account and we wish that you be reminded that the same can be done in the case of other countries.

Furthermore, in view of this circumstance your requests for letters of credit which appear in the list given here will be granted only <sup>if a</sup> license has been previously issued by appropriate American authorities, or if you should agree that these bankers which you appoint to effect liquidations will be told the character and details of the transactions.

Should you be in disagreement as to the need for the foregoing procedure it is requested that you grant the permission that orders be given for the delivery of the records of your dollar accounts to your branch in New York. END OF QUOTE

The foregoing is in conformity with my proposals to the Director of Exchange. It covers the 30 applications amounting

to



-4-

Argentine In favor of Mitsubishi Argentina Sociedad  
 Resp. Ltd, Buenos Aires, Buenos Aires Bancecode Provincia,  
 for 200 tons of borax, \$4,500. In favor of T. Kuru Katsu,  
 Buenos Aires Bancecode Provincia: for rice, \$12,074. In favor  
 of Harbei Compania Importacion and Exportacion, Buenos Aires  
 Bancecode Provincia: for 240 tons glycerine \$60,122 and for  
 22 tons of vasoline, \$9,480. In favor of Y. Takushi, Buenos  
 Aires Bancecode Provincia: for 65,300 hides, \$315,865.

CAFFERY

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RECEIVED  
 DEPARTMENT OF  
 THE TREASURY

## TREASURY DEPARTMENT

## INTER-OFFICE COMMUNICATION

DATE August 9, 1941

TO Secretary Morgenthau  
FROM Mr. Cochran

**CONFIDENTIAL**

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£ 6,000
Purchased from commercial concerns	£21,000

Open market sterling declined 1/4¢ to 4.03-1/2, and there were no reported transactions.

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

Canadian dollar	11-1/16% discount (off 1/16)
Argentine peso (free)	.2387 (off .0003)
Brazilian milreis (free)	.0505
Uruguayan peso (free)	.4380
Venezuelan bolivar	.2675 (up .0025)
Colombian peso	.5800
Cuban peso	1-1/8% discount (up 1/16)
Mexican peso	.2070

In Shanghai, the yuan remained unchanged at 4-13/16¢. Sterling was quoted at 4.01-3/4, unchanged.

There were no gold transactions consummated by us today.

The Federal Reserve Bank of New York reported that the following gold shipment had been consigned to it:

\$2,923,000 from Canada, to be shipped by the Bank of Canada for account of the Government of Canada, arriving New York August 12, for sale to the U. S. Assay Office.

The disposition of the \$2,223,000 shipment from Colombia (see report of August 2) is for sale to the New York Assay Office, for account of the Central Bank of Colombia.

The Bombay gold price was reported today to be \$33.99, off 5¢ from August 2. As a result of increasing freight rates, the New York bank now figures export parity to New York at \$33.75 instead of previous calculation of \$34.01 (see June 24 report).

BRITISH EMBASSY,  
WASHINGTON.

August 9th, 1941.

PERSONAL  
AND SECRET.

Dear Mr. secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

*Halifax*

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

TELEGRAM FROM LONDON DATED AUGUST 7th 1941Naval.

- H.M. Submarine Cachalot now presumed lost.
2. Netherlands Submarine sank 4000 ton enemy merchant ship S.S.N. of Naples on 29th and probably badly damaged enemy anti-submarine Steamships South of Sardinia on the 3rd.
  3. Thirty aircraft raided the area night of 4th/5th, main effort being on Ismailia. No damage to service property.
  4. In heavy weather on the 6th/7th small merchant ships in convoy ran ashore off Happisborough together with an anti-submarine trawler. Six ships totalling 8757 tons believed total losses.
  5. Royal Air Force P.M. on the 5th a Beaufort aircraft dropped 6 Bombs from 800 feet on 10,000 ton merchant ship at Nantes. All considered hits as fires and explosions observed from the bow to the stern of the ship.
  6. On the 6th 3000 ton merchant ship was torpedoed by Beaufort off Norway.
  7. In Nord Fjord at 1600/G Beaufort Aircraft near missed a merchant ship estimated at 5000 tons.
  8. On the 6th aircraft bombed a tanker over Cherbourg.
  9. On the 6th our fighters destroyed four, and damaged one, enemy aircraft without loss.
  10. Night of 6th/7th medium weight attacks on Frankfurt, Mannheim, Karlsruhe and Calais. 10 aircraft missing.
  11. Night of 5th/6th five Swordfish bombed submarine base at Augusta Sicily. Several fires started, big one at submarine jetty.

- 2 -

12. Malta attacked same night by 10 aircraft. Slight damage to dockyard no casualties. Hurricanes shot down three.

13. Military. Tobruk.

Third. We attacked two posts in Madavar Salinet. One attack completely successful, 28 of the enemy killed. Other attack also successful but fierce confused fighting developed and enemy counter attack was successful. We lost 28 killed, 104 wounded, 8 missing. Enemy losses unknown but undoubtedly heavy. German troops were engaged.

14. Russia.

German special communiques issued August 6th considered to give reasonably accurate survey of killed to date except in regard to Russian losses, of which no check possible.

# CONFIDENTIAL

252

Paraphrase of Code Cabling  
Received at the War Department  
at 18:05, August 9, 1941.

London, filed 15:55, August 9, 1941.

1. British Air Activity over the Continent.

a. Night of August 7-8. The numbers of tons of high explosive bombs and numbers of incendiaries dropped upon the objectives named were as follows: Essen, 108 and 5800, also 320 twenty-five pound incendiaries; Bonn, 45 and 2800; Dortmund, 44 and 5600; Boulogne, 5 and 360.

b. Day of August 8. A total of 411 fighters were dispatched as follows: 106 on interception patrols, 265 in the protection of shipping, 38 on special missions and 10 on offensive patrols. Unfavorable weather prevented the dispatch of bombers.

c. Night of August 8-9. A total of 140 bombers were dispatched as follows: 26 to the ship yards at Hamburg, 18 to the Hamburg railway center, 90 to the Brugg ship yards, and 6 on sea mining operations. Bad weather prevented observation of the results of the raid on Hamburg. The attack on Kiel was very successful.

2. German Air Activity over Britain.

a. Day of August 7. 15 reconnaissance aircraft and 10 long range bombers were employed.

b. Night of August 7-8. 10 fighters and 30 long range bombers were used.

c. Day of August 8. Four German aircraft appeared over Britain, one on each of the following places: Burscough, Hall, Mablethorpe and Swinge.

CONFIDENTIAL

# CONFIDENTIAL

4. Night of August 8-9. Operations were on a small scale and consisted mostly of night fighter activity over East Anglia and Lincolnshire.
5. Aircraft Losses Reported.
  - a. British losses. During the night of August 8-9, three bombers failed to return and one crashed at sea.
  - b. Axis losses. One Me-110 was shot down by a Whitley bomber the night of August 7-8. On August 8, fighters shot down one Me-110 and probably destroyed one Ju-88. Another Ju-88 was damaged.
  - c. Axis Air Activity. Other Theaters.
    1. Middle Eastern Theater. There were some civilian casualties but no damage to military or naval facilities or to shipping as a result of the German air raid on Suez the night of August 6-7.

LHM

**Distribution:**

State Department  
 Assistant Chief of Staff, G-2  
 War Plans Division  
 Office of Naval Intelligence  
 G. H. Q.  
 Chief of the Army Air Forces  
 Secretary of Treasury  
 Assistant Secretary of War for Air  
 Assistant Chief of Staff, G-3  
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