

DIARY

Book 431

August 10 and 11, 1941

- B -

	Book	Page
Business Conditions		
Haas memorandum on situation for week ending August 9, 1941.....	431	25

- C -

Canada		
HMJr's trip discussed by Mackenzie King and HMJr - 8/11/41.....		216
"Claudia"		
See Financing, Government: Defense Savings Bonds		
Correspondence		
Mrs. Forbush's resume' - 8/11/41.....		251

- D -

Defense Savings Bonds		
See Financing, Government		

- F -

Financing, Government		
Defense Savings Bonds:		
"Claudia" staff given \$200 defense savings bonds by John Golden - 8/11/41.....		235
Comparative statement: June, July, and August, first eight business days - 8/11/41.....		249

- M -

Morgenthau, Henry, Jr.		
Trip to Canada discussed by Mackenzie King and HMJr - 8/11/41.....		216
Morgenthau, Robert		
Navy career: School of Communications discussed by HMJr and Admiral Nimitz - 8/11/41.....		211, 214

- S -

Switzerland		
See War Conditions: Foreign Funds Control		

- U -

Unemployment Relief		
Work Projects Administration report for week ending July 30, 1941.....		21
United Kingdom		
See War Conditions		

	Book	Page
War Conditions		
Airplanes:		
Shipments to United Kingdom and overseas commands - British Air Commission report - 8/11/41.....	431	269
Exchange market resume' - 8/11/41.....		20
Export Control:		
Exports of petroleum products, scrap iron, and scrap steel from United States to Japan, Russia, Spain, and Great Britain, week ending August 9, 1941.....		232
Foreign Funds Control:		
Swiss financial institutions in United States: HMJr orders check - 8/11/41.....		6
Military Planning:		
Report from London transmitted by Halifax - 8/11/41.....		289
Purchasing Mission:		
Federal Reserve Bank of New York statement showing dollar disbursements, week ending July 30, 1941.....		261
Vesting order sales - 8/11/41.....		266, 267
Work Projects Administration		
See Unemployment Relief		

C
O
P
Y

1

Address the Commandant, U. S. Coast Guard
and Refer to No.

TREASURY DEPARTMENT

Headquarters

United States Coast Guard
Washington

10 August, 1941.

SECRET

From: Spagent, Shanghai, China
To : Secretary of the Treasury.

Message from Mr. Nicholson.

Rogers has been appointed to be economic adviser to
government Hongkong on matters concerning currency and exchange
control. It remains to be seen what his attitude will be toward
the new stabilization fund.

Copy:lg 8/11/41

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2

Paraphrase of Code Cablegram
Received at the War Department
at 13:45, August 10, 1941.

London, filed 6:00, August 10, 1941.

1. British Air Activity over the Continent.

a. Night of August 8-9. On Kiel were dropped 104 tons of high explosive bombs and 4800 incendiaries. On Hamburg were dropped 24 tons of high explosive bombs and 4600 incendiaries.

b. Day of August 9. A total of 653 fighters, engaged principally in fighter sweeps over the Channel ports, were dispatched as follows: 64 on interception missions, 30 on special patrols, 195 in the protection of shipping, and 363 on offensive patrols. The secondary target near Graveline was attacked by 5 Blenheims with a fighter escort. These bombers had been dispatched to attack a gasoline refinery near Gosnay but had to abandon their mission because of unfavorable weather.

c. Night of August 9-10. All activity was cancelled because of bad weather.

2. German Air Activity over Britain.

a. Day of August 8. 15 reconnaissance aircraft and 10 long range bombers were used.

b. Night of August 8-9. 10 fighters and 5 long range bombers were used.

c. Day of August 9. Reconnaissance of weather and shipping were carried out. Defensive patrols of fighters were also maintained.

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3

d. Night of August 9-10. A few raids occurred over Peterhead and Aberdeen. Sea mining activity also took place off the coast between Cromer and the Thames.

3. Aircraft Losses Reported.

a. British losses. During the day of August 9, ten Spitfires and pilots were lost.

b. Axis losses. These were as follows for the day of August 9: 13 Me-109F's and 5 Me-109's shot down, 10 Me-109F's and 1 Me-109 probably destroyed, and 2 Me-109's damaged.

4. Axis Air Activity, Other Theaters.

a. Middle Eastern Theater. An attack on Alexandria by 22 Axis aircraft, the night of August 7-8, resulted in some damage to property and some civilian casualties. Enemy losses during this raid were 1 Ju-88 shot down, and 2 more probably destroyed. Slight damage was done the night of August 8-9 during an air raid on the Suez Canal Zone.

LEE

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 Chief of Staff, G-3
Air Corps

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DEFENSE SAVINGS STAFF

ADVANCE NOTICE RADIO PROGRAMS

SUNDAY - AUGUST 10, 1941

Time: 4:15 - 4:30 P.M.
Program: Olivio Santoro
Station: WMAL and NBC Blue Network

Time: 5:30 - 6:00 P.M.
Program: Dr. I. Q. Jr.
Station: WRC and NBC Red

Time: 6:30 - 7:00 P.M.
Program: Fitch Bank Wagon
Station: WRC and NEC Red Network

Time: 6:45 - 6:55 P.M.
Program: Guy T. Helvering, Comm. of Internal Revenue
Speaks on Treasury Department's Tax
Savings Plan.
Station: WADC - Washington, D. C.

Time: 7:00 - 7:30 P.M.
Program: Pause That Refreshes
Station: WJSV and CBS Network

Time: 7:30 - 7:55 P.M.
Program: Crime Doctor
Station: WJSV and CBS Network

Time: 8:30 - 9:00 P.M.
Program: American Album of Familiar Music
Station: WRC and NBC Red Network

Time: 9:00 - 9:30 P.M.
Program: Take It or Leave It
Station: WJSV and CBS Network

THESE PROGRAMS PROMOTE THE SALE OF DEFENSE BONDS AND STAMPS.

August 11, 1941
9:30 a.m.

GROUP MEETING

Present: Mr. Cochran
Mr. Blough
Mr. Haas
Mr. Bell
Mr. Gaston
Mr. Foley
Mr. Schwarz
Mr. Sullivan
Mr. Graves
Mr. White
Mr. Kuhn
Mr. Charles Bell
Mrs. Klotz

H.M.Jr: Well, we will go around on the high spots.

Gaston: I haven't anything.

H.M.Jr: Good. Ed?

Foley: Here are a couple of things. Here is a memorandum in response to that article in the newspaper about the judge's decision. There is a provision in the New York Civil Practice Act that money recovered for damages to an infant paid --

H.M.Jr: Have you got it in hand?

Foley: Yes, and they are going to introduce an amendmet in the New York State Legislature to take care of it.

Here is that Bernstein letter. You wanted me to bring this letter from Eccles to your attention.

- 2 -

H.M. Jr: Not today. Now, Ed, if you haven't already done so, I want the best group that Pehle has got to really put people into all Swiss financial institutions in the United States, and I want to know what they are doing. I am not asking anybody's permission. I mean, I know that there is leakage. I know that there is funny business going on, and I want the very best people that we have got to go in to the various financial institutions and let's find out what they are doing. I am ninety-nine per cent sure that they are just fronts.

Foley: Well, it --

H.M. Jr: And --

Foley: The Comptroller's people are watching the principal Swiss institutions in New York, but we will canvass the entire country and see that there is somebody in each one of them. Now, we put the question up to Dean Acheson about sending people to Switzerland and Sweden, and he was going to take it up in the State Department, but he hasn't reported back on that yet. I don't know whether you want to get into it or not.

H.M. Jr: No, I would like to do this suggestion first. When I get back after Labor Day we will take it up again. But do what I am asking first, will you please?

Foley: Sure.

H.M. Jr: And I know you will find plenty of monkey business going on.

Foley: Apparently you are not going to get - there is a chance that you may not get reached on the hearing on the Price Stabilization Bill this week, in which case the whole thing may go over until after Labor Day.

- H.M.Jr: Oh, no. Let me do my testifying and - Henderson can stop for a half day and catch his breath. I will either testify this week or I won't testify at all. I am not going to have that hanging over me.
- Foley: Joe told me this morning there is a possibility that Congress might recess Friday this week until after Labor Day, in which case Steagall may not hold any hearings.
- H.M.Jr: You can tell me if they want me - I am not going to get all steamed up the way I am now over this thing, and then have that hanging over my head. Now, I would like to go up either Wednesday or Thursday.
- Foley: Yes.
- H.M.Jr: What is his name, Henderson, can stop for half a day. I am not going to have that hanging over my head.
- Foley: Joe said originally they were just going to have you and Henderson and Eccles, and apparently now they are going to add Jones and Patterson and Don Nelson.
- H.M.Jr: But get that word to them. I am not going to go away with that hanging over my head. I am all steamed up over it and I would like to go to town on it.
- Bell: You might go on before Eccles.
- H.M.Jr: Well, Eccles is going away.
- Foley: Joe thought they might keep Leon on all week and nobody would get on.
- Bell: He isn't past Wolcott yet, and he is the second man. He has got the whole Committee to go yet, both sides.

- 4 -

- H.M.Jr: You can put it up to them and let's find out, because I have done nothing but think about it and work on it over the weekend. If they don't want me, that is all right with me, but if they don't want me Wednesday or Thursday I am not going away with this hanging over me. Do you want to tell O'Connell that before he goes on the Hill?
- Foley: Well, I will have a chance to talk with him before he goes.
- Sullivan: They are starting public hearings this morning in the Senate. I think they planned to move rather fast.
- H.M.Jr: Good. Did you get your train Friday?
- Sullivan: Oh, sure, it wasn't even moving when I got on.
(Laughter)
- H.M.Jr: All right.
- Sullivan: Was I right on the publicity on your tax bill?
- H.M.Jr: What do you mean?
- Sullivan: Don't you remember I told you I thought you were going to get more publicity?
- H.M.Jr: Yes.
- Sullivan: Just to show you, the telegram I received this morning from Las Vegas, Nevada, "Where you get that crazy idea civilian citizens so enthusiastic for war they are cheerfully and complacently happy to be taxed to death and afterward. Citizen Ed Von Tobel and family."
- H.M.Jr: I missed the Lowell Thomas thing. He gave us the horse laugh about people wanting to be taxed.

- 5 -

Sullivan: It is still true.

H.M.Jr: All right?

Cochran: The Bank of Iceland opened an account with the Federal on Saturday. That is their first account with them. The Chinese yuan has been weakening in the last few days. It is a little below five cents. Here is that Mrs. Barstow letter.

H.M.Jr: The expenses are down on the Stabilization, aren't they?

Cochran: Cablegrams are down, and that is the principal thing.

H.M.Jr: That is nice business. Anything else?

Cochran: No, sir.

H.M.Jr: Ferdie?

Kuhn: I have nothing.

H.M.Jr: We start at ten o'clock on that price thing. I spoke last night to - I might as well put it on the record. I called up Miss Elliott myself because I wasn't satisfied with what was in the statement, and I asked her if she could do this for me, addressing myself to the housewives, if she could have approximately what a budget of a family, say somewhere between a thousand and two thousand dollars' income would be, and what they could buy, say in '14, and what they could buy in '16, and then take the same thing, what could they buy in '39 and what they can buy today, and then take the '16 family budget and say "this is what they were able to do in '28 and this is what happened to them in '20." And then say that if we follow the same thing which we seem to do, that

- 6 -

if bread and eggs and porkchops cost so much today and we followed the trend of the last World War, by forty-three we would be paying so much and so much.

She said it had never been done, but she had her people - what pleased me very much, she said if they were available she would get them together last night. I called her at six. In any event, she would have them there early this morning and while she couldn't promise it at ten, she would have it today.

But she said it hadn't been done and she thought it was along the right way. So we will see what she has.

I am glad you people didn't have to come up, for your sake and mine.

Did you take advantage of the time off to rest, Harry?

White:

Oh, yes, I had a very lovely day.

- 7 -

H.M.Jr: Roy?

Blough: Nothing.

H.M.Jr: I again congratulate you on the help you gave me and the statement you gave me. It was swell. George?

Haas: I have --

H.M.Jr: You sit in on this ten o'clock meeting, will you?

Haas: All right, thanks. Here are the reports this morning.

H.M.Jr: It is all right.

On this thing, Harry, have we got anything showing what proportion of money in the United States is being spent for wages, what proportion is armament, a comparison of last year and this year, how much goes into the hands of the worker, that he can not find an outlet to spend because the goods aren't there to buy?

White: Is this something you are telling me now?

H.M.Jr: It is dated August 5th.

Klotz: It didn't go to Harry White.

H.M.Jr: Well, anyway, have we got anything like that?

White: We can make something up, I am quite sure.

H.M.Jr: Do you want a copy of this?

White: Yes, that was the first I had heard of it.

- 8 -

- H.M.Jr: Is the ten billion dollar figure, is that the figure to use?
- White: The ten billion dollar figure is the figure of additional national income. Now, some of it will be taken away in taxes. Some of it will be going into savings bonds. We can make an estimate or a guess as to what we think would go into consuming purchasing power. We can also make an estimate of what the decrease in goods available for consumption is and get you something on that.
- H.M.Jr: Did I finish with you, George?
- Haas: Yes, sir.
- H.M.Jr: Chick?
- Schwarz: The American Banker this afternoon will check with you on their request about that 1933 Arkansas loan record.
- H.M.Jr: Oh. Well, I gave that to Herbert Gaston. I walked in personally to Herbert Gaston and told him he should handle it. He was in Farm Credit at the time.
- Schwarz: I can give it direct to them and save them asking about it.
- H.M.Jr: I gave it to Herbert. I don't know what he did with it. Herbert said the very figures showing that the amount of decrease of the loan - it showed they weren't lending their money. It dropped off about ten million dollars.
- Schwarz: I can take the facts.
- H.M.Jr: Anything else?

- 9 -

Schwarz: That is all.

H.M.Jr: Harry?

White: I have here a copy of the letter which Mr. Bell raised last week. Mr. Brown called me up Saturday and said he hoped to get your approval on it today. It is signed by Burns and it was to Mr. Purvis and it gives the conditions of the sale of Lend-Lease projects. Now, I don't think it will take you more than five minutes to go over it and I am quite sure you will be entirely approving of it.

H.M.Jr: Harry, if we get any time after we get through with the ten o'clock meeting, I will do it, but I don't want to take up anything new until then.

White: That is all.

Bell: I had a copy of it. I just thought maybe you might take it sometime and want to read it at your leisure.

H.M.Jr: What is that?

Bell: That letter he is talking about. Read it at your leisure or maybe tonight at home you might get a chance. It will only take a few minutes to read it. That is the same letter he is talking about.

White: I guess we are talking about the same thing.

Bell: Yes, we are.

H.M.Jr: Well, why don't you hang on to it, Harry? Have you got the same thing?

White: I have got a carbon of it, yes.

H.M.Jr: And then if there is any time after the other

meeting I will do it. Do you want it cleared today?

White: Yes. I think we can't reasonably delay it longer because they have been a week waiting.

H.M.Jr: All right. I can clear it. Harold?

Graves: You remember that tomorrow we are meeting with the executives of the Retail Associations.

H.M.Jr: Yes.

Graves: I wondered if you were now in a position to fix a time when --

H.M.Jr: Well, it depends upon whether I go on the Hill or not.

Graves: May we do this: Suppose we start our session in the big conference room downstairs and it seemed to me that perhaps you might better walk down there and into that room.

H.M.Jr: I agree.

Graves: Then you can pick your own time.

H.M.Jr: Well, would you mind doing this, telling Fitzgerald the first thing tomorrow morning to remind me. Now, if I find I don't have to go on the Hill, I can relax and have a good time this week and so can everybody else. If I have got to go on the Hill, I want to concentrate until that statement is out of the way.

Graves: Fine. Mr. Haas' people have been working on that statement about the freezing of cotton and wheat.

H.M.Jr: Pardon? Freezing of what?

- 11 -

- Graves: Cotton and wheat, with a view to our having our Mr. Hyatt, with Gardner Jackson, make some approach to the organized labor groups.
- H.M.Jr: Yes.
- Graves: I think possibly that ought to have some consideration here by, say, Mr. Haas and Mr. White before those people start out on any such expedition.
- H.M.Jr: Have you got your doubts about it?
- Graves: Well, it is not in my line. I hate to accept responsibility for starting these people out with - on that kind of an errand without a review of this material that they are going to use.
- H.M.Jr: Well, in view of the fact that they are going to slow up on the bill, why not let these - Haas and White take a look at it and they can bring it up again tomorrow morning.
- Graves: Fine.
- H.M.Jr: And don't let your people go out until they have a chance to look at it.
- Graves: That is what I wanted.
- H.M.Jr: O.K.?
- Graves: O.K.
- H.M.Jr: Would you make a note on this, is there anything in the Procurement of the Treasury, any stipulation or anything, about not doing business with people who pay a commission to get the business from Procurement to the Treasury?
- Graves: I don't think there is anything but I will look it up.

- 12 -

- H.H.Jr: It started as an article in the New York Sunday Times by Russell Porter talking about Wallingford, Connecticut, a civil concern that pays a man a five percent commission on all the business he gets here from Washington.
- Graves: There is nothing like that, is there, Ed?
- H.H.Jr: I just wondered if before we did business with a man, whether we made him sign a statement and simply said, "Have you paid anybody a commission to get this business?"
- Foley: No, we don't have anything like that but I think it would be a good thing to do. I remember early in '33 when that same thing was going on here in town. Ickes had a requirement such as that and he also said that certain individuals were persona non grata in the Public Works Administration who held themselves out to be able to get contracts and get allotments out of PWA.
- H.H.Jr: Well, I also say, "You always get three warnings in Washington before something drops on you," and I just wondered whether in Procurement the man before he gets a contract - "Have you paid anybody a commission to get this business?" - and make him sign yes or no.
- Graves: Well, unless there would be authority somewhere in the statutes, such a provision could not be included now, could it, Ed?
- Foley: Oh certainly, Harold. You wouldn't have to have statutory authority to ask a man whether or not he paid a commission to get a contract.
- Graves: But you would have to have statutory authority, I think, to preclude a man's paying a commission.
- Foley: You would just withhold the contract and

- 13 -

re-advertise for bids if he won't sign the statement.

H.M.Jr: Let's put it this way. Let's find a legal way to do it, not a legal objection not to do it.

Graves: Yes.

H.M.Jr: O.K., Harold.

Graves: If we can.

H.M.Jr: As a good lawyer, with license to practice before the Washington bar. All right?

Graves: All right.

H.M.Jr: What else?

Graves: That is all.

H.M.Jr: Daniel?

Bell: I have nothing.

H.M.Jr: How many of those notes did you sell through Saturday?

Bell: I didn't get Saturday's, but Friday New York sold thirty-eight million. That is ten million above any other day.

H.M.Jr: Has it gone to two fifty?

Bell: Over three hundred.

H.M.Jr: Got any other customers besides General Motors?

Bell: Oh yes, General Motors is finished now with five hundred and fifty million.

H.M.Jr: How about the country? We are having some today,

- 14 -

aren't we?

- Bell: No, we are not getting anything today. I think it will be Wednesday or the next day. New York has gotten, I think, a hundred and eighty million and the country has gotten two hundred twenty million - New York has got two hundred twenty million and the rest of the country has gotten over three hundred. I gave you some telegrams at the conference. Two hundred and fifty two million up to Thursday night.
- H.M.Jr: When do we get some telegrams?
- Bell: We will get them Wednesday, it is contemplated. We can get them earlier if you want them.
- H.M.Jr: No.
- What else do you have on your mind?
- Bell: That is all.
- H.M.Jr: Are you coming in at ten?
- Bell: If you want me.
- H.M.Jr: Very much. Let's see. You and White and Haas and Kuhn.
- Bell: Gaston has been in on it.
- White: And O'Connell.
- H.M.Jr: O'Connell?
- Foley: Yes.
- H.M.Jr: You (Foley) come if you feel like it. Herbert?

- 15 -

Gaston: All right.

Charles
Bell: Nothing, sir.

H.M.Jr: All right, that leaves me seven minutes.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE August 11, 1941.

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£28,000
Purchased from commercial concerns	£ 8,000

The Federal Reserve Bank of New York sold £20,000 registered sterling to the American Express Company.

Open market sterling was steady at 4.03-1/2, and the only reported transactions were sales totalling £1,000.

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

Canadian dollar	11-1/8% discount
Argentine peso (free)	.2389
Brazilian milreis (free)	.0505
Colombian peso	.5800
Mexican peso	.2070
Uruguayan peso (free)	.4380
Venezuelan bolivar	.2650
Cuban peso	1-1/16% discount

In Shanghai, the yuan was 4-25/32¢, off 1/32¢. Sterling was quoted at 4.03-1/2, off 1/2¢.

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

In London, both spot and forward silver were unchanged at 23-7/16d. The U. S. equivalent of this price is 42.55¢.

The 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 one purchase of inventory silver amounting to 175,000 ounces for spot delivery under the Silver Purchase Act.

We also purchased 225,000 ounces of silver from the Bank of Canada under the regular monthly agreement.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE August 11, 1941

TO Secretary Morgenthau
FROM Mr. Hagg

During the week ended July 30, 1941, the Work Projects Administration reported that the number of persons employed had increased 11,000 to 1,036,000 persons. This is 332,000 below employment at the end of June.

WORKS PROJECTS ADMINISTRATION
 Number of Workers Employed - Monthly
 United States

	Number of Workers (In thousands)
1939	
January	2,986
February	3,043
March	2,980
April	2,751
May	2,600
June	2,551
July	2,200
August	1,842
September	1,790
October	1,902
November	2,024
December	2,152
1940	
January	2,266
February	2,324
March	2,288
April	2,092
May	1,926
June	1,665
July	1,701
August	1,691
September	1,704
October	1,779
November	1,821
December	1,878
1941	
January	1,895
February	1,867
March	1,708
April	1,560
May	1,464
June	1,368
July	1,036

Source: Work Projects Administration.

Monthly figures are weekly figures for the latest week of the month.

They include certified and noncertified workers.

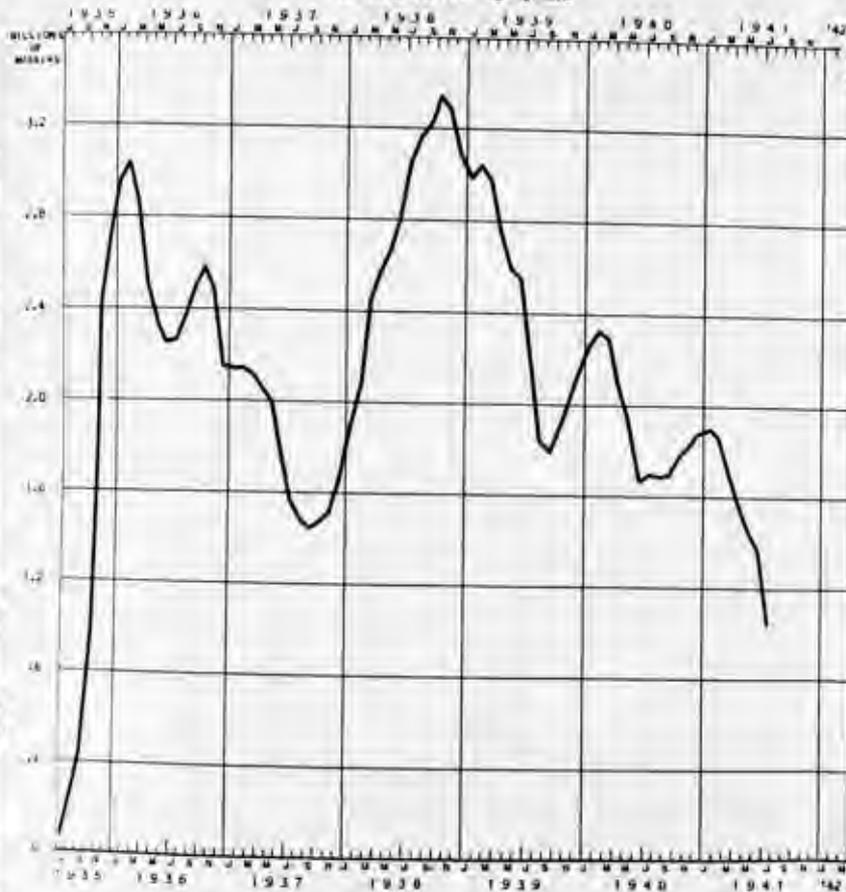
WORK PROJECTS ADMINISTRATION
 Number of Workers Employed - Weekly
 United States

Week ending	Number of Workers (In thousands)
1941	
January 1	1,880
January 8	1,887
January 15	1,894
January 22	1,895
January 29	1,895
February 5	1,892
February 12	1,893
February 19	1,885
February 26	1,867
March 5	1,806
March 12	1,764
March 19	1,736
March 26	1,708
April 2	1,662
April 9	1,634
April 16	1,607
April 23	1,586
April 30	1,560
May 7	1,519
May 14	1,497
May 21	1,474
May 28	1,464
June 4	1,442
June 11	1,423
June 18	1,410
June 25	1,368
July 2	1,172
July 9	1,030
July 16	1,016
July 23	1,025
July 30	1,036

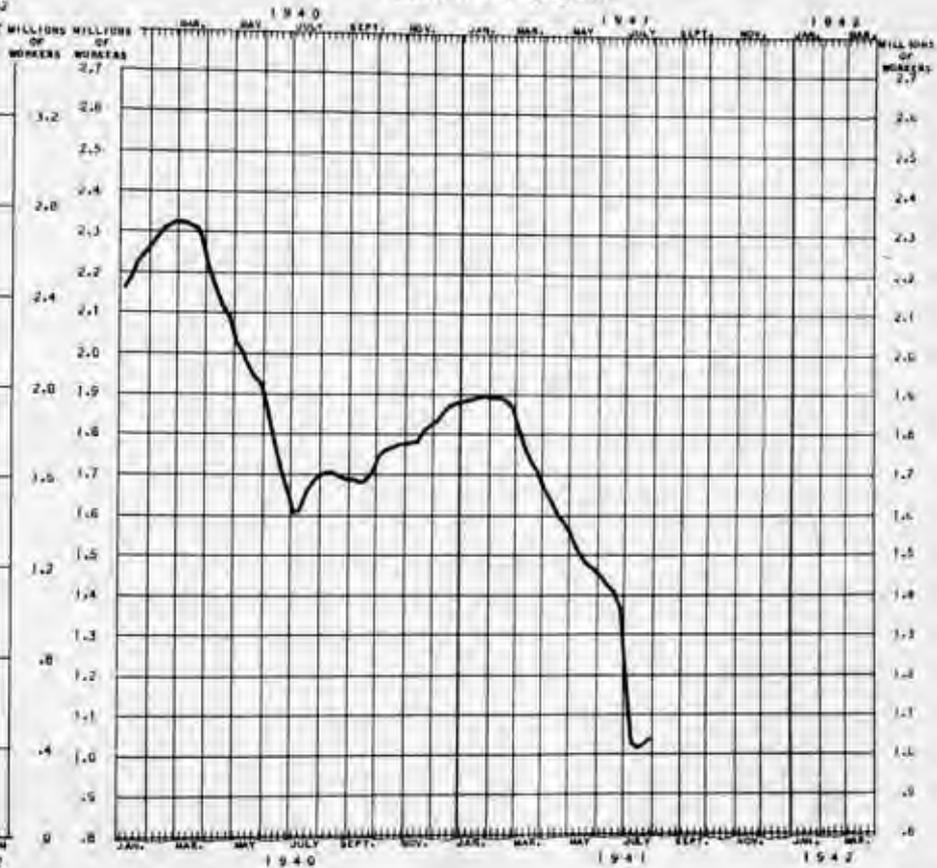
Source: Work Projects Administration.

WORK PROJECTS ADMINISTRATION
Number of Workers Employed
United States

Monthly W.P.A. Employment



Weekly W.P.A. Employment



SOURCE: WORK PROJECTS ADMINISTRATION

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE August 11, 1941

TO Secretary Morgenthau
FROM Mr. Haas
Subject: The Business Situation,
Week ending August 9, 1941.

Summary

(1) Industrial production has continued to gain. The FRB seasonally-adjusted index for July is estimated at 162, as compared with 157 in the previous month and only 111 in April 1940, the low point reached shortly before the inauguration of the defense program. However, seasonal factors and other influences may cause a levelling out this fall in the adjusted index.

(2) Commodity prices are steadily rising. The BLS all-commodity index rose 0.4 point in the week ended August 2 to 89.2. This is the highest level since April 1930, and compares with 75.0 in August 1939. The index of basic commodity prices has advanced 52 percent since the war began.

(3) The NICE cost of living index rose 0.5 percent in July to 85.2 (1926 = 100). The largest gain on a weighted basis occurred in the foodstuffs index which advanced 0.8 percent. The combined index has gained 3.0 percent in the past 4 months and 5.8 percent since the war began.

(4) Heavy construction contracts have been awarded in unusually heavy volume during the past two months, with awards last week reaching the third highest total on record. Defense work has been the dominant factor in the upswing, with numerous large awards being made for plants to manufacture arms, ammunition and explosives.

(5) The operating rate in the steel industry last month fell to 95.6 percent of capacity from 98.2 percent in June. This was the lowest monthly rate since last December, and was attributed to the increasing scarcity of steel scrap and the effects of the July 4 holiday. After declining 1.3 points last week, steel operating schedules for the current week show a further decline of 0.8 point to 97.5 percent of capacity.

Industrial production index at new high

Industrial production on a seasonally-adjusted basis moved up to a new high in July, with the preliminary FRB index for the month reported at 162. This figure compares with 157 in June and only 111 in April 1940, the low point just previous to the beginning of the defense program. However, seasonal factors and other influences may cause a levelling out this fall in the adjusted index. This results from the fact that seasonal factors call for a rise in actual production from this point into the fall, and the normal rise now threatens to be hampered by material shortages and dislocations caused by priorities and curtailment programs in various consumer goods industries.

Cost of living and commodity indexes higher

The cost of living, as measured by the NICE index, showed a further rise of 0.5 percent in July and reached 85.2 (1926 = 100). This figure is just 0.3 point under the 1937 high. (See Chart 1, upper section.) All major components of the index showed advances, but a rise of 0.8 percent in food prices was the major factor in the advance. The combined index has risen 5.8 percent since the war began, of which 3.0 percent has occurred in the past 4 months.

On the basis of preliminary data, the BLS all-commodity index for last month was noticeably higher than in June, and rose above the peak month of 1937. (Refer to Chart 1, upper section.) The trend of the weekly all-commodity index (nearly 900 commodities) was steadily higher throughout the month, advancing from 87.7 in the first week in July to 89.2 in the week ended August 2. (Refer to Chart 1, lower section.) This is the highest point reached by the index since April 1930, and compares with 75.0 in August 1939. The breadth of the rise in the index during the last week may be gauged from the fact that 25 subgroups showed advances and only 2 declined.

Basic commodity prices slightly higher

Basic commodity prices moved slightly higher last week, and the BLS index of 28 commodities now stands nearly 52 percent above the August 1939 level. (Refer to Chart 1, lower section.) The gain last week was due to a further rise in the foodstuffs group, since the index of raw industrial materials actually declined 1.0 percent. (See Chart 2, upper section.)

- 3 -

The largest gain in the foodstuffs group was shown by wheat. (Refer to Chart 2, lower section.) The rise in wheat prices was touched off initially by the revelation that price control legislation recently introduced in Congress would prohibit ceilings for farm commodities below 110 percent of parity. Further strength was lent to wheat prices by the progress of legislation designed to freeze Government loan stocks of wheat and cotton.

The dominant factor in the decline in industrial raw materials prices was a sharp drop in silk, resulting from the imposing of a ceiling price 14 percent below the quotation prevailing when trading in that commodity was halted. (Refer to Chart 2, lower section.)

Near the end of the week the Department of Agriculture's estimate of the 1941 cotton crop was made public. On the basis of August 1 condition, the crop is estimated at 10,817,000 bales, which is 14 percent below last year's production and the lowest August estimate since 1934. Following the publication of the estimate, futures prices rose somewhat and then dropped off moderately.

Rise in residential building costs

Bolstered by defense housing activities, residential construction in the first half of 1941 reached the highest level since the corresponding period of 1929. However, due to material shortages, priorities and higher costs, some letdown in private building construction is being viewed as a likely development. Mortgages selected for appraisal by the FHA, which had been running above year-earlier levels, showed a decline from comparable 1940 figures in the latest week available. Moreover, reference to Chart 3, which excludes defense housing financed under Title VI, will disclose that mortgages selected for appraisal have shown a somewhat greater decline from their spring peak this year than in 1940. Ordinarily, a substantial rise in residential construction could be expected in view of the expansion in consumer incomes.

Rising building costs undoubtedly have been a contributing factor recently in causing the deferment of some private residential construction. The estimated cost of constructing a standard 6-room frame residence in St. Louis, as computed by the Real Estate Analyst, in July had risen 19 percent above year-earlier levels. The rise since last December has amounted to 5 percent, most of this occurring in the latest month, with all important items except finished lumber and windows, doors, etc. showing increases. (See Chart 4.)

- 4 -

After rising steadily in the latter half of 1940, costs leveled off until near the middle of the current year, when another rise got under way. (See Chart 5, upper section.) It will be noted that a particularly sharp advance occurred in the July figures, which rose 3.7 percent above the previous month. All components contributed to this rise, with materials costs advancing most rapidly. (Refer to Chart 5, lower section.)

Heavy construction awards boosted by defense work

After showing a declining tendency in the spring, a strong upsurge in heavy construction contract awards got under way in June and reached a peak in July. (See Chart 6, top section.) Furthermore, contract lettings in the first week of the current month have continued at a very heavy pace. The total for the week amounted to nearly \$234,000,000, which is the third highest figure on record. In sharp contrast, awards in the corresponding week last year totalled only \$76,000,000.

Last week's large total was due primarily to the awarding of contracts for 5 large defense projects. These comprised 2 ordnance plants, a chemical warfare service arsenal and an ammonia plant aggregating \$111,000,000, together with an Army cantonment to be built in Missouri at a cost of \$23,000,000. Contracts for defense work likewise have been the dominant factor in the upswing of the previous two months, with lettings for plants to manufacture arms, ammunition and explosives figuring prominently in the totals.

The spurt in heavy construction awards in the past two months has not yet been reflected in any marked expansion in structural steel orders, although some increase has been shown since June. (See Chart 6, lower section.) Recently, however, projected orders have shown signs of picking up somewhat, which suggests that a higher level of actual orders is probably in the offing.

Pig iron and steel scrap shortages still to the fore

The steel industry continues to be seriously troubled over the actual or impending shortages of pig iron and iron and steel scrap. Before the recent order placing pig iron under full priority control, the OPM estimated that the shortage in pig iron supplies in 1941 would amount to 5,000,000 tons. This expected shortage comes in the face of a record level of pig iron output by the industry. Thus pig iron production in July reached a new monthly peak of nearly

- 5 -

4,800,000 tons -- an increase of 1.4 percent on a daily average basis over the previous month. At the same time, iron ore shipments down the Great Lakes also reached a new peak in July. For the season to date, shipments have run 45 percent above year-earlier levels.

New developments in the steel scrap situation during the past week included an announcement that the scrap industry would be investigated by the Department of Justice for possible anti-trust law violation. Illustrative of the serious deficiency in steel scrap supplies was the revelation that the current inflow of scrap to the Lukens Steel Company (one of the smaller companies working almost exclusively on defense orders) is sufficient to maintain operations at only 50 percent of capacity, and that inventories soon will be completely exhausted. Likewise, it now appears that by the end of the month the company will be seriously troubled by a lack of pig iron supplies. At present the company is operating at 100 percent of capacity.

Steel placed under full priorities control

At the end of last week, an order was issued by OPM placing steel under full priorities control. As a result of this action, defense orders must be filled ahead of non-defense orders. Furthermore, with some exceptions, steel companies will have to accept defense orders even if this necessitates the deferment of non-defense orders already on the books. In issuing the general preference order, the OPM stated that within the past few weeks the delivery of steel products in the amounts and at the time necessary for defense purposes has been seriously hampered. Furthermore, it was revealed that the Bureau of Research and Statistics of the OPM has estimated that if civilian consumption were unrestricted the steel shortage this year would amount to 11,000,000 tons.

Steel industry's operating rate declines

The American Iron and Steel Institute production report for the month of July reveals that steel operations last month dropped to 95.6 percent of capacity from 98.2 percent in June. This decline in the operating rate to the lowest level since last December was attributed to the increasing shortage of steel scrap and the effects of the July 4 holiday. Steel operations last week dropped 1.3 points to 98.3 percent of capacity. Operations during the current week are scheduled at 97.5 percent of capacity.

New orders index lower

After reaching a record high in the fourth week in July, our index of new orders declined sharply in the following week. (See Chart 7.) All components of the index declined, with both steel and textile orders reacting sharply from the abnormally high levels which they had reached. New orders for steel dropped 42 percent to 119 percent of capacity. In view of the present abnormal situation caused by priorities, heavy backlogs, and other conditions, the weekly movements of the new orders index probably have no important significance.

Weekly business indexes lower

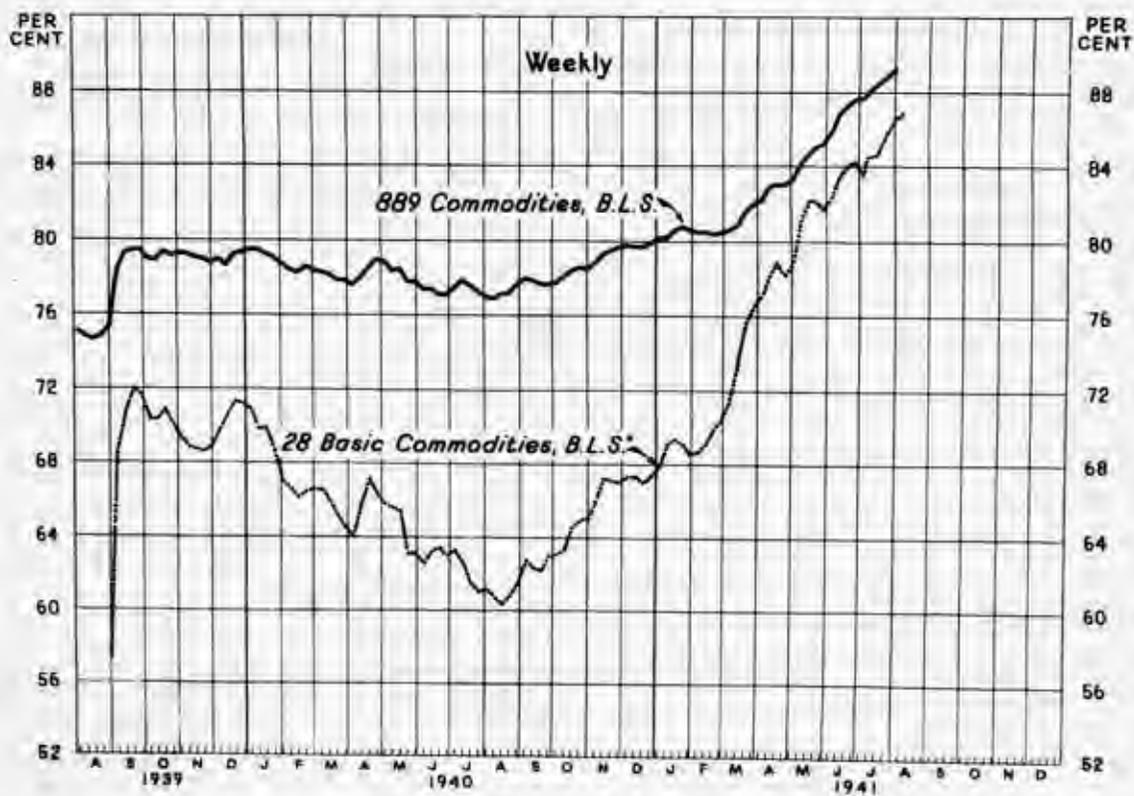
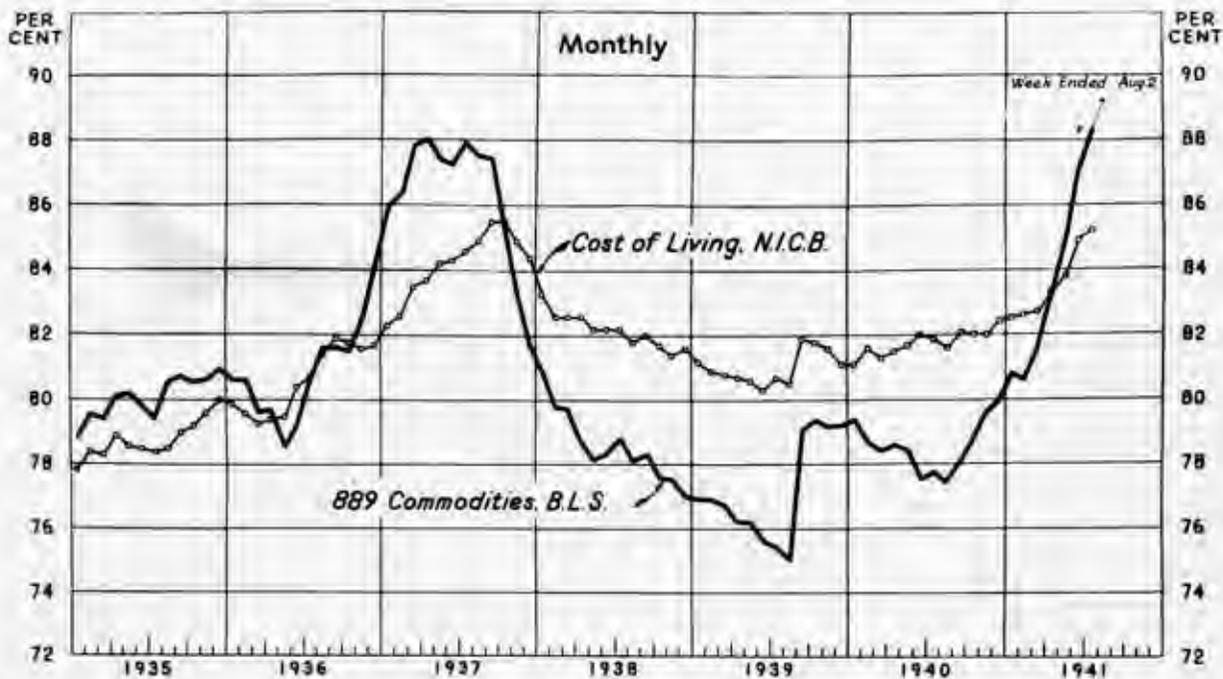
The New York Times index of business activity in the week ended August 2 declined to 132.1 from the record high of 133.3 in the previous week. This decline was confirmed by Barron's index of business activity, which fell to 140.2 from 141.0, also a record high, in the previous week.

The principal factor in the decline in the Times index was a sharp drop in the adjusted index of automobile production, as substantial tapering off in 1941 model output got under way. The index had reached unusually high levels in the previous week due to sustained unseasonally heavy automobile production.

The chief offsetting factor to the decline in the automobile index was a rise in electric power production to a new record high. The only other components to show gains were the adjusted indexes of lumber production and miscellaneous freight carloadings.

COMMODITY PRICES AND COST OF LIVING

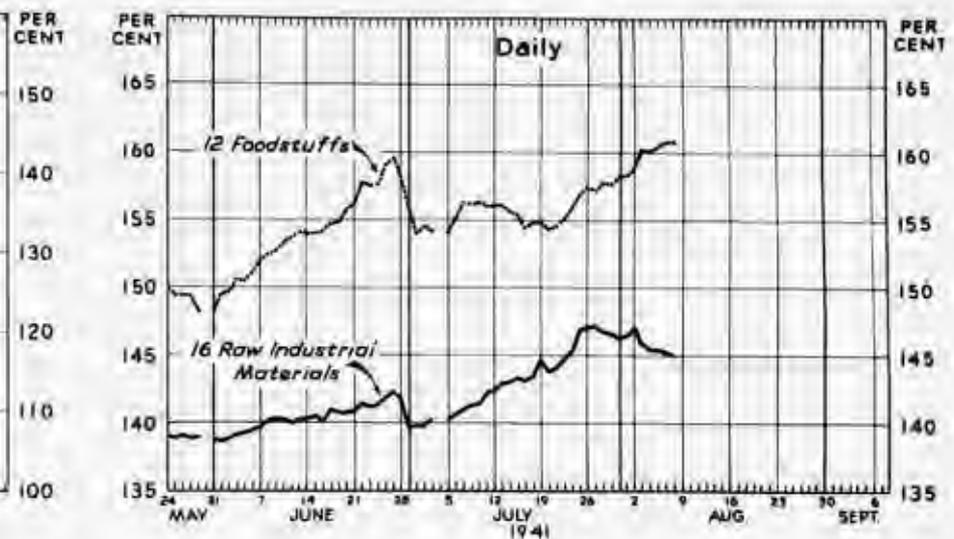
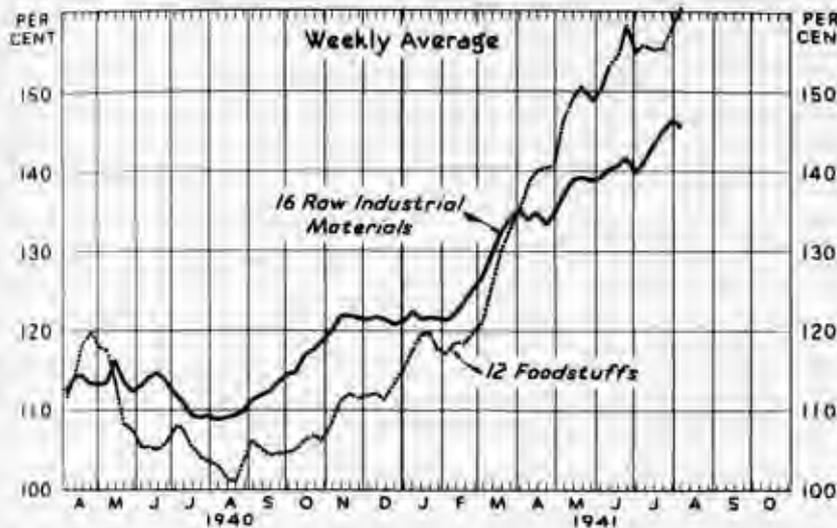
1925 = 100



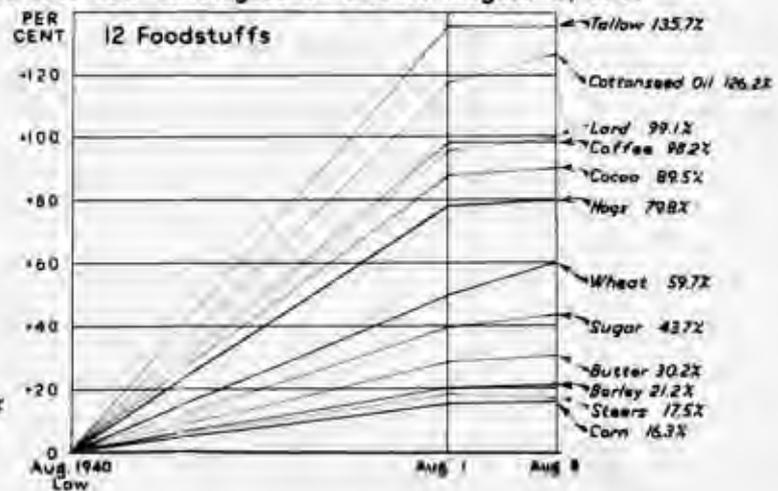
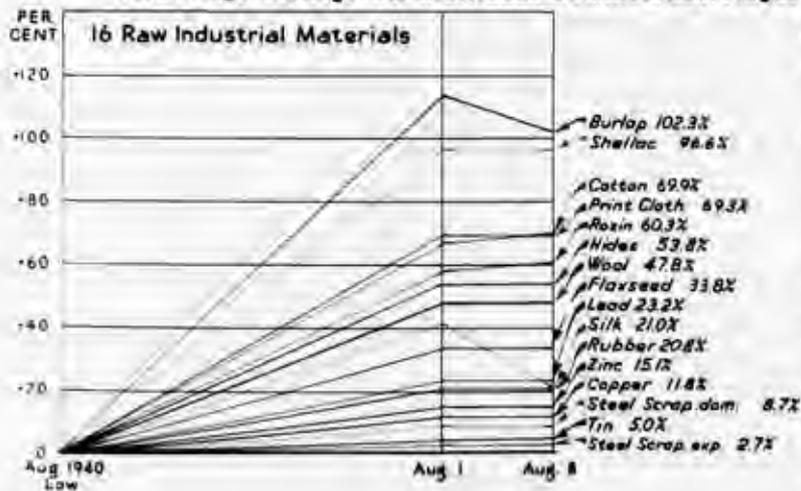
*30 Commodities Prior to January, 1940.

MOVEMENT OF BASIC COMMODITY PRICES

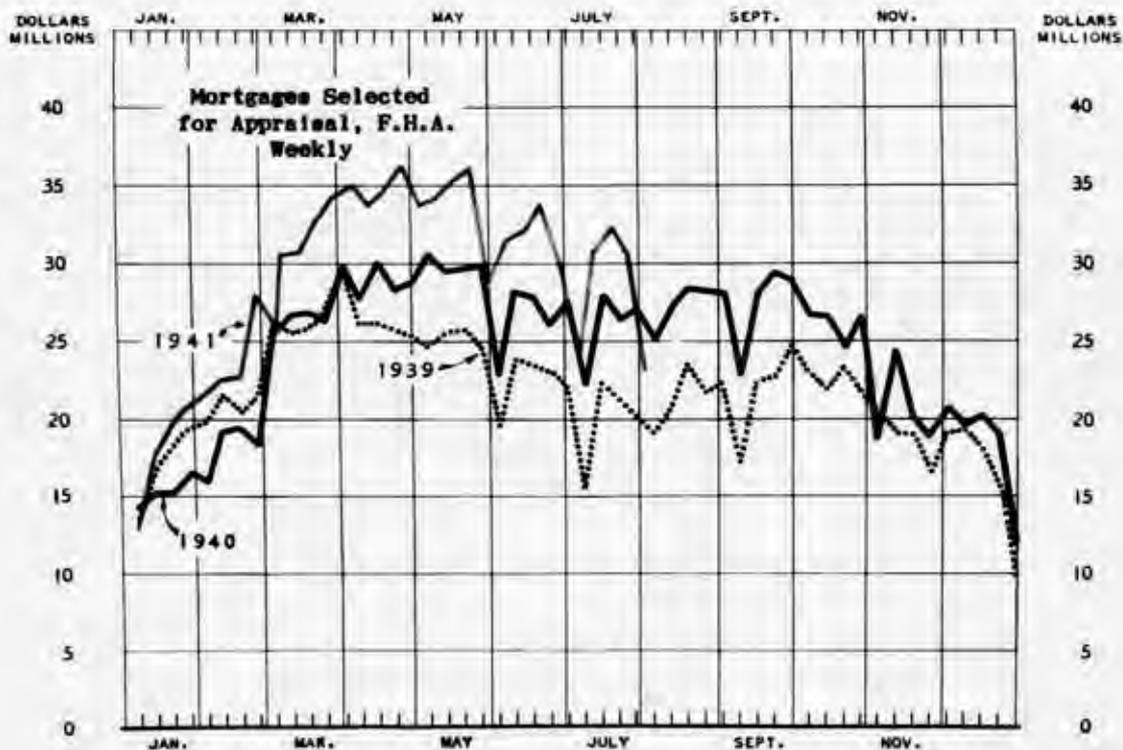
AUGUST 1939 = 100



Percentage Change for Individual Commodities, August 1940 Low to August 1 and to August 8, 1941



MORTGAGES SELECTED FOR APPRAISAL, F.H.A.
Weekly



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

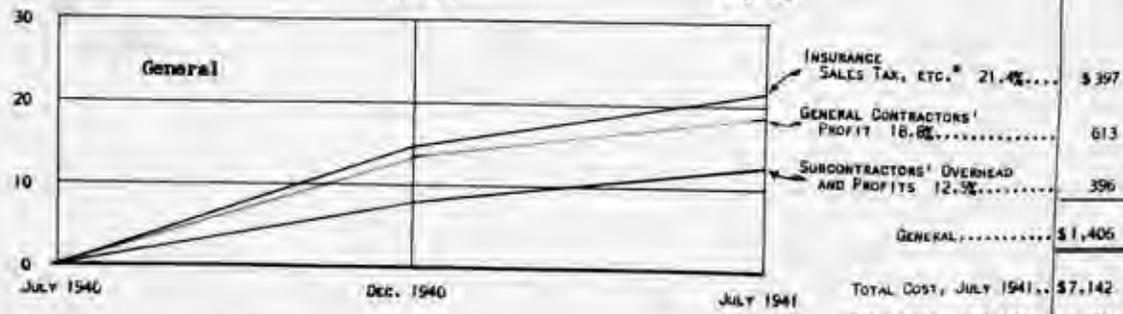
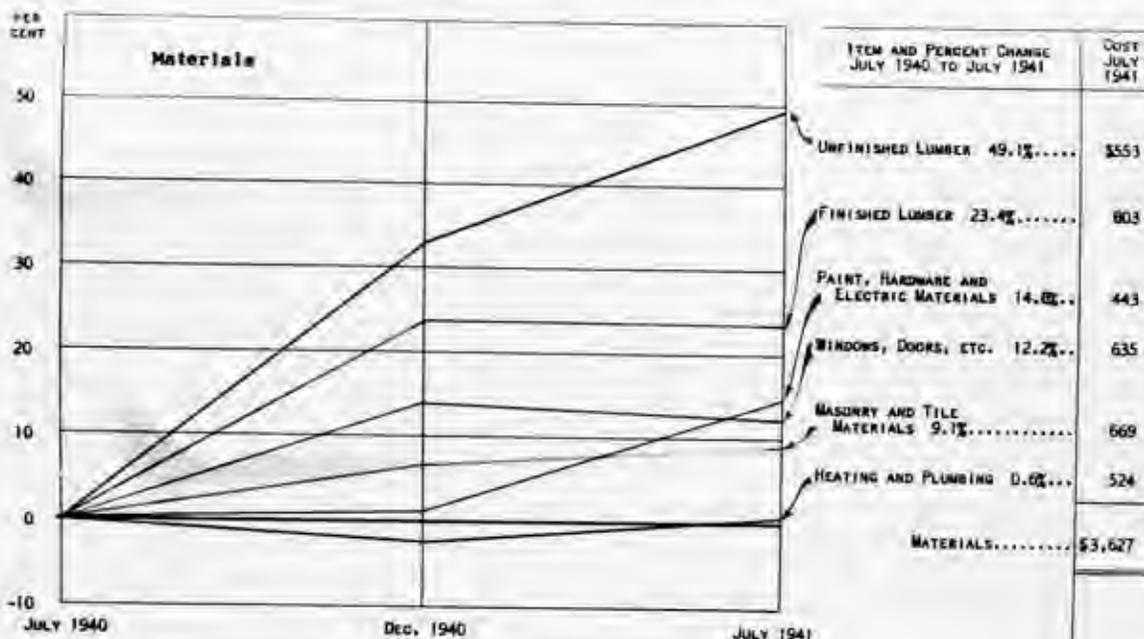
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Chart 3

Regraded Unclassified

CHANGES IN COST OF CONSTRUCTION OF STANDARD
8-ROOM FRAME HOUSE, ST. LOUIS

Percentage Change, December 1940 and July 1941 over July 1940

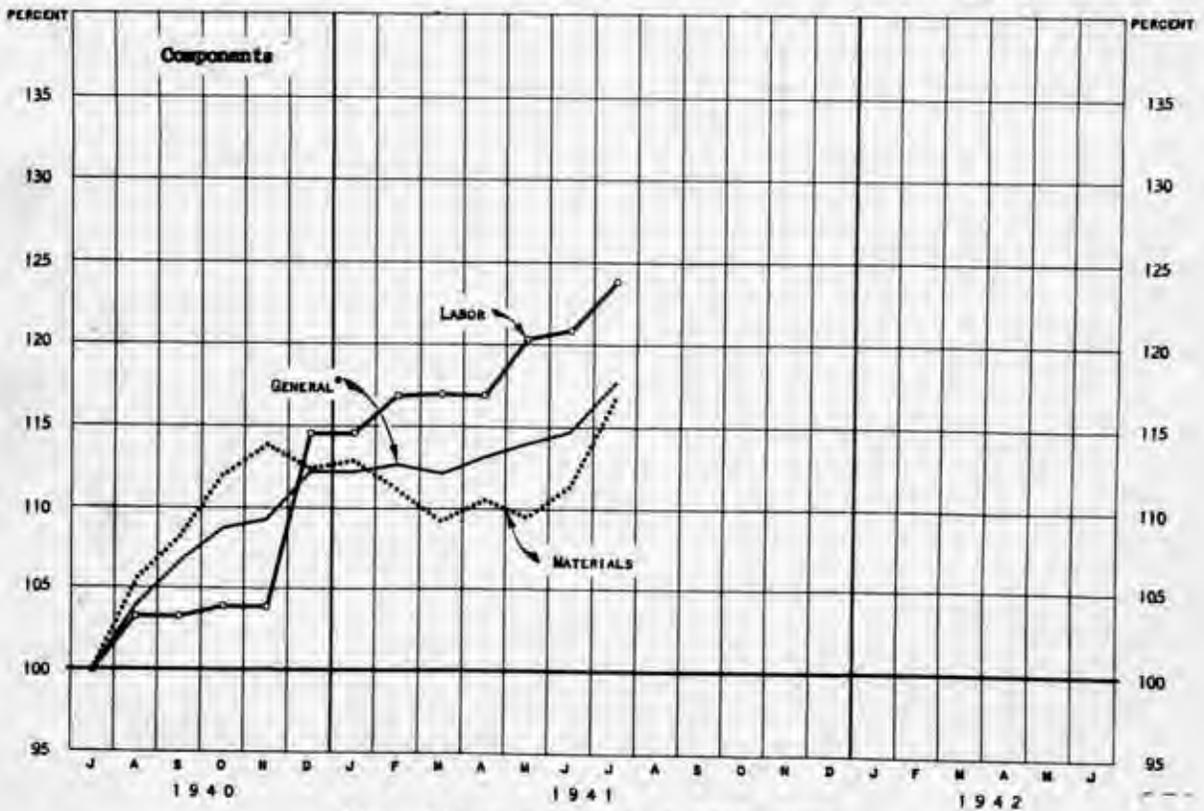
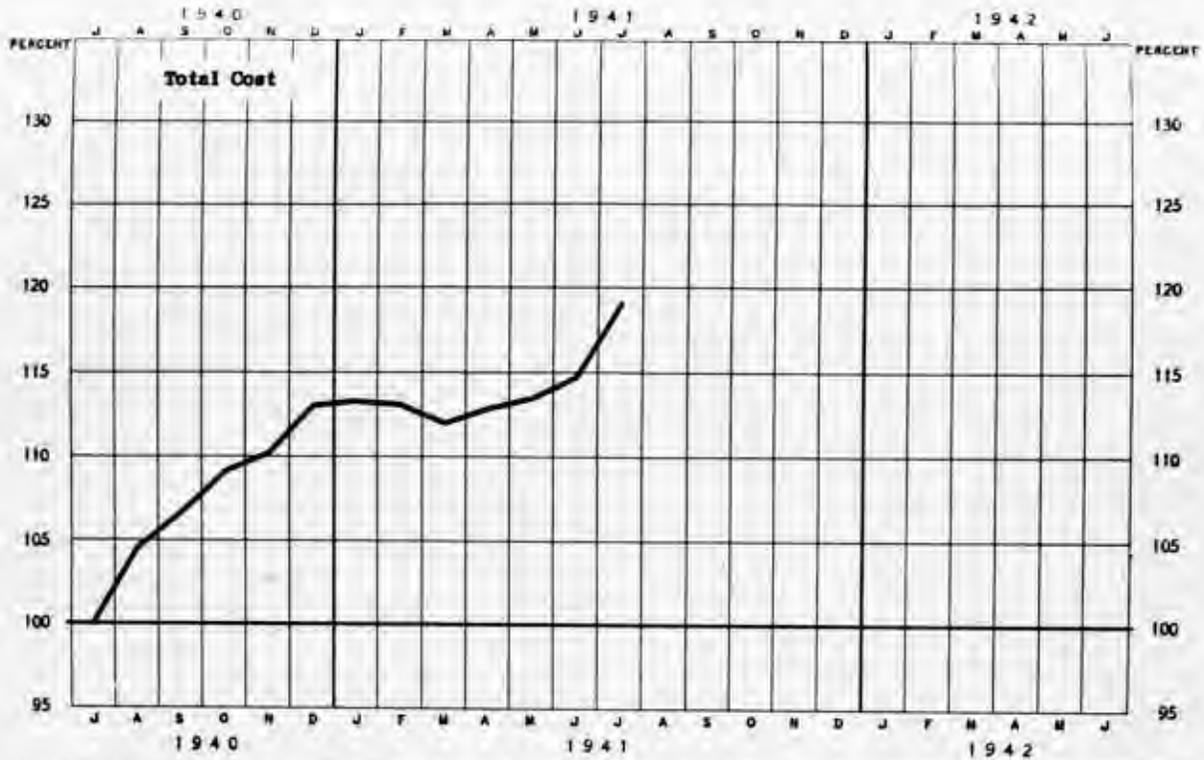


MISSOURI SALES TAX (NOW 2 PER CENT ON MATERIALS), OLD AGE AND UNEMPLOYMENT TAX (FEDERAL AND STATE), LIABILITY AND EMPLOYEES' COMPENSATION INSURANCE, FIRE AND TORNADO INSURANCE, COMPLETION BOND.

SOURCE: REAL ESTATE ANALYST.

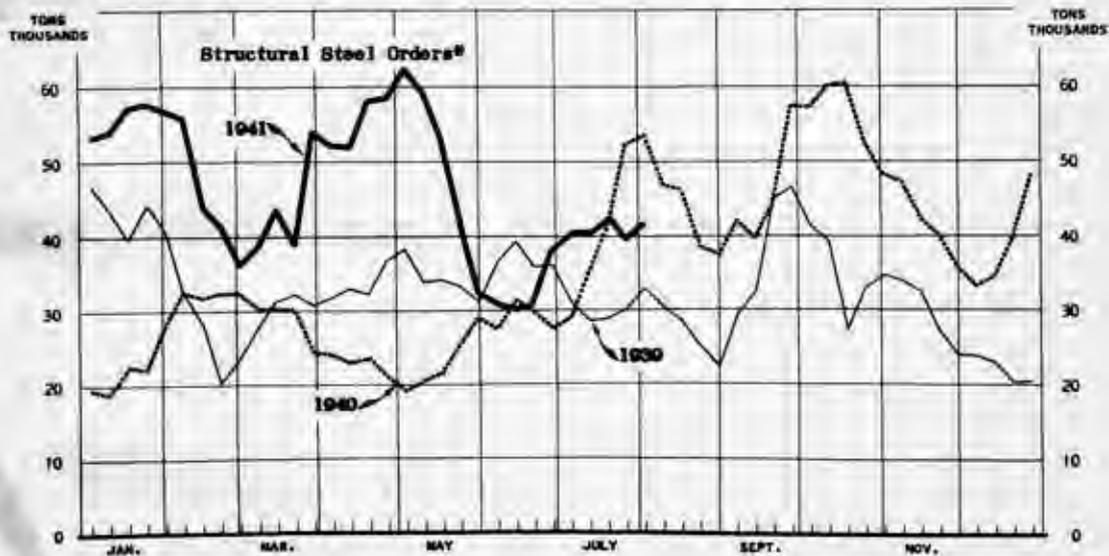
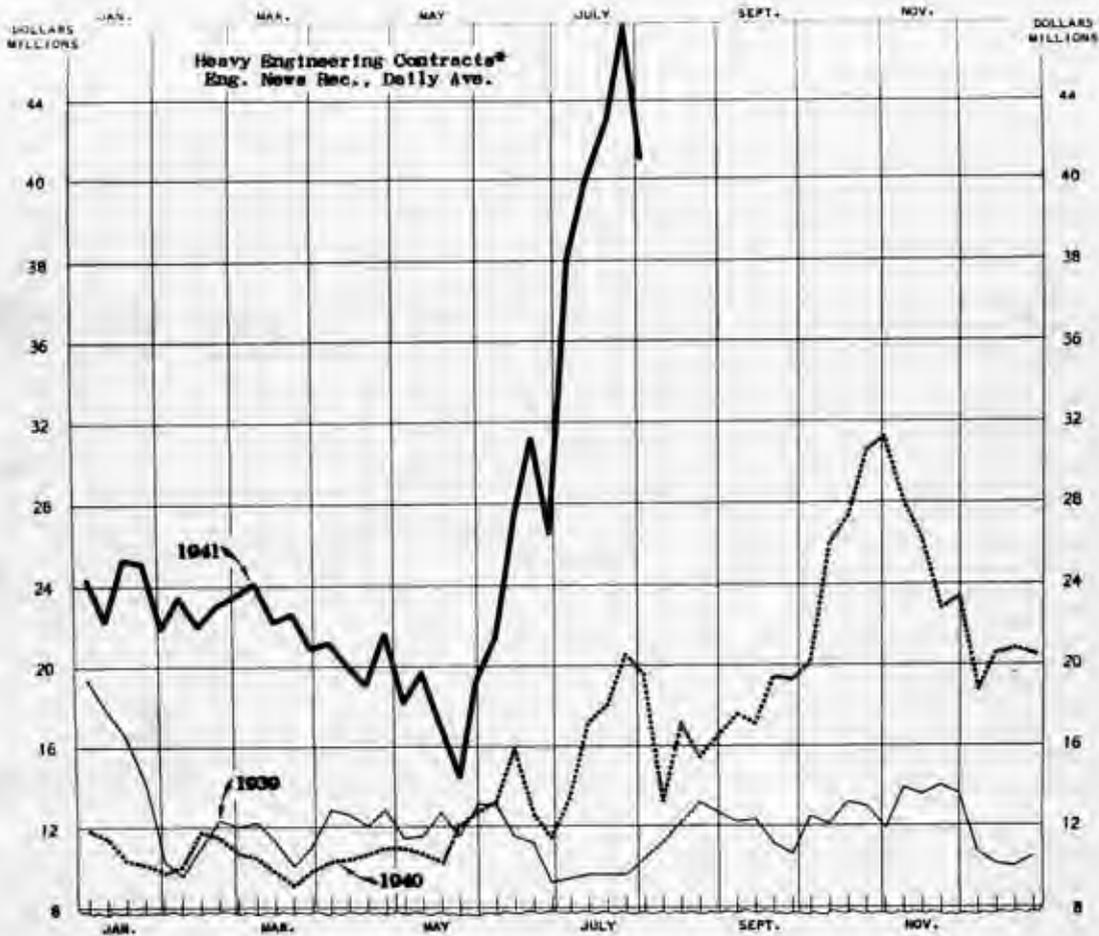
CONSTRUCTION COSTS OF STANDARD 6-ROOM FRAME HOUSE, ST. LOUIS

July 1940 = 100



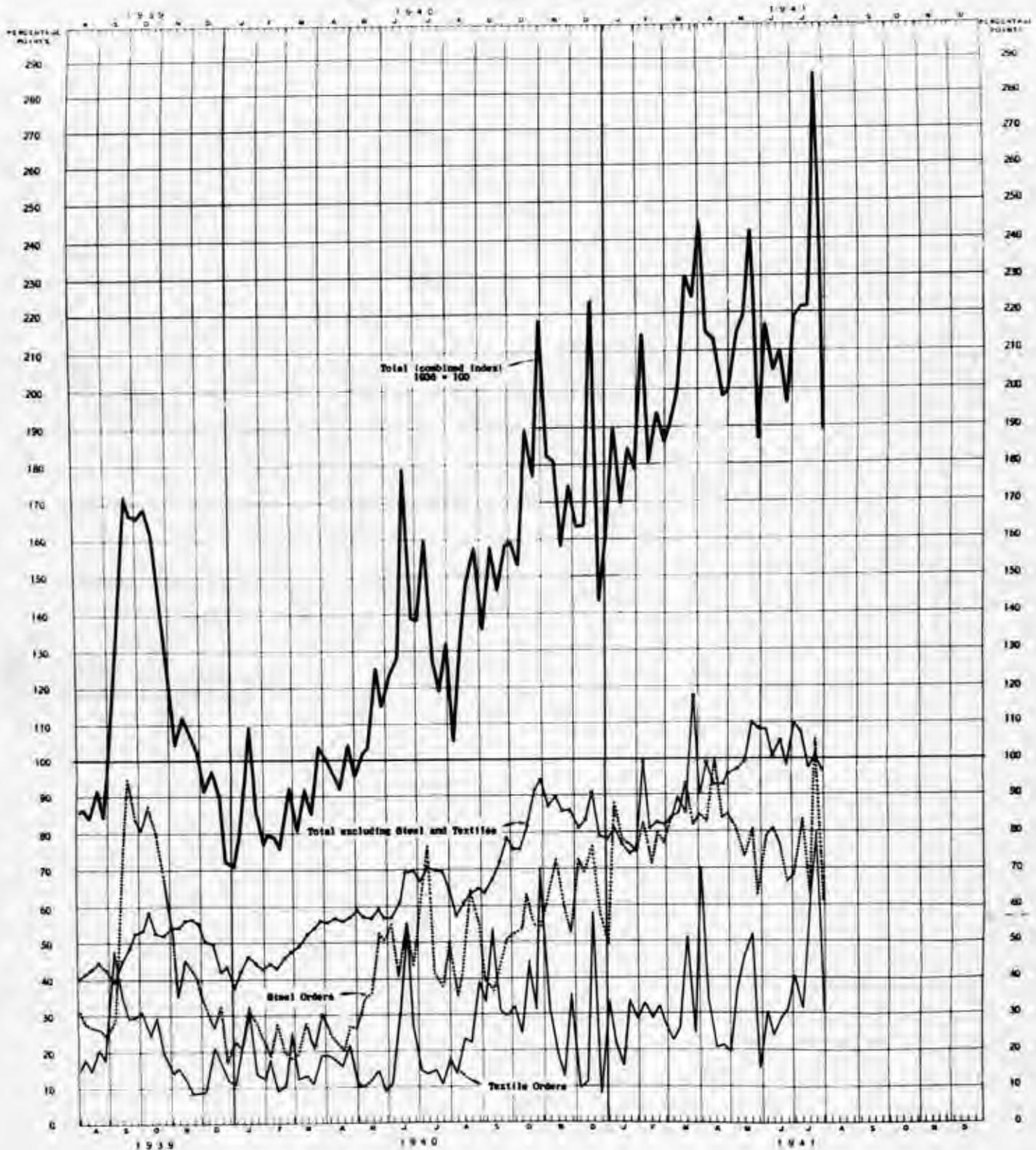
* INCLUDES GENERAL CONTRACTORS' PROFIT, SUB-CONTRACTORS' OVERHEAD AND PROFITS, AND INSURANCE, SALES TAX, ETC.

CONSTRUCTION CONTRACTS AND STRUCTURAL STEEL ORDERS



* FOUR-WEEK MOVING AVERAGE PLACED ON FOURTH WEEK

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



37

RESTRICTED

MILITARY INTELLIGENCE DIVISION
WAR DEPARTMENT
Washington, August 11, 1941.

TENTATIVE LESSONS BULLETIN
No. 143
G-2/2657-235

NOTICE

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

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TANK ATTACK NEAR ALIENS, JUNE 5, 1940SOURCE

This bulletin is based upon a report submitted on June 7, 1941, by an American official observer in Berlin. Incorporated in the report was the account of the tank action which appears in this bulletin, and which was translated from an article published May 23, 1941 in Militär Wochenblatt, a German military weekly journal.

The translation, which recounts the experiences of a tank platoon commander, indicates that French antitank defenses were successful against an individual tank platoon in the foremost elements of the attack, but were unsuccessful against the tank regiment as a whole. In addition it illustrates the opportunities that a platoon commander has to assist in the attack, even after his platoon is disabled, if suitable automatic weapons and ammunition are available.

CONTENTS

1. THE ATTACK
2. COMMENT BY AN AMERICAN OFFICIAL OBSERVER

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RESTRICTEDTANK ATTACK NEAR AMIENS, JUNE 5, 19401. THE ATTACK

"In the early morning hours of June 5, 1940, we were at a halt in the southern outskirts of Amiens, excitedly anticipating the coming day on which we were to break through the Weygand Line, south of the Somme. It was almost 4 A.M. Enlisted personnel remained in the tanks because hostile artillery fire was so intense that care had to be taken. Only the officers were outside, gathered around the commander, talking things over. The march order came at 5 A.M. I got my platoon in hand immediately, and we started off in the best of spirits, confident of victory. For the first time I had the great fortune to be at the head of the battalion with my platoon.

"We advanced just to the left of the Amiens-Paris road. Artillery shells exploded on all sides. After we had proceeded about two kilometers, we received antitank fire from a small woods. We could see the muzzle blasts from the antitank guns, but we could not actually see the guns themselves. The return bursts of fire from the weapons of my platoon looked like a wedge thrust into the antitank gun position; we silenced this resistance without even making a stop. I took a quick glance out of my turret and then closed it down; it looked to me as if the battle were about to begin. With my platoon following in good order, my tank rolled down a slope and across level terrain where hostile mines were thought to be. My driver proceeded carefully, and the rest of the tanks moved in a narrow wedge behind me, separated by equal intervals. We crossed a roadway and stopped at the foot of a slope; to the left, a long woods extended up this slope. Suspecting that the enemy was waiting for us there, we fired several bursts of machine gun fire into the edge of the woods, but received no reply. Then we moved rapidly up the slope. A tank behind me was firing into the woods. I noticed the trajectory of its tracers and aimed my weapon in the same direction. Suddenly, we saw muzzle blasts from innumerable hostile weapons. We halted and fired, drove on, and halted again in a small hollow, and fired once more.

"We could not determine who was firing at us from the woods; only the cracking and booming of the weapons could be heard, drowning out the noise of our motors. Finally someone saw an enemy target, and his fire gave the direction of aim to the others. In this way we helped one another and enabled the platoon to fight as one tank and one weapon.

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"Everything seemed to be going well, and I felt relieved when I heard the tank behind me gradually cease firing.

"After we had advanced about six kilometers, I began to think we had escaped from this trap. But suddenly the motor sputtered, and I saw my driver stagger back, covered with blood. The interior of the tank became light, as if there were a hole through the front of its hull. I fired all my ammunition at the small woods from which I had been attacked. Then I heard two knocking sounds - this time on the left. The tank was filled with powder smoke and flying sparks. The driver was dead, but our machine continued to move. My radio operator and I sprang out of the turret-top door and threw ourselves in the grass. A shower of bullets and artillery shell fragments rained down on all sides. We rolled into a ditch a short distance away and waited there for the following tanks. The first two vehicles approached quite slowly and halted about 100 meters from us. A man, whom I recognized as belonging to my platoon, crept into the ditch and told me that all the tanks were destroyed - those tanks which were still moving, were moving only because they had enough momentum to roll down the slight incline without drivers.

"This disaster occurred because the French had aimed only at the rearmost tanks; those in front continued to advance without knowing what had happened to those in the rear.

"A heavy tank passed us and then turned back, but it did not notice our signals. It traveled about 100 meters more; then a tongue of fire shot out of its stern.

"My radio operator, lying beside me, suddenly said, 'The French are attacking, Lieutenant!'

"I saw group after group advancing toward us in deployed formations. Each of us had a pistol, but we could not take up the fight with such weapons. We decided to put some distance between us and the enemy, so we dashed fifty meters in one bound and threw ourselves into the sand. Machine guns and rifles rattled behind us. Creeping, crawling, and leaping, we pushed on, with bullets striking the sand close to our heads. I looked around, only to see my radio operator turn off, for some unknown reason, and disappear into the tall grain. Cautiously, I moved over a rise in the ground and across a depression into a grain field, through which I slunk like a weasel. Constantly under fire, I finally reached a small woods about one kilometer away, where I assumed I would have sufficient protection to enable me to make contact with friendly troops in short order.

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"Presently I heard the clattering of ammunition boxes. To my astonishment I discovered that the approaching troops were Frenchmen, not Germans. I was furious at myself for not having a machine gun with me, since I was in such an unusually fine position that I could have made it impossible for the enemy to advance. As it was, I could only crouch low, hide in the bushes, and wait.

"Something certainly was wrong; but I had no doubts or worries because I was confident of the ultimate success of my regiment. I remained at this point between the lines from morning until late in the afternoon. Artillery thundered unceasingly, and machine guns clattered without interruption. Dive bombers attacked, and the battle raged around the woods which had been so fatal for me and my platoon that morning.

"About five o'clock in the afternoon I came out of my daze, startled by violent firing quite close to me. I could distinguish clearly the clatter of our machine guns and the slow tak - tak of the French guns. Bullets whistled through the leaves, and I hugged the ground.

"Suddenly, everything was still; I heard a Berlin accent. When I came out of my hiding place I learned that the troops I had heard belonged to our rifle - schmetzen - brigade and were moving into a nearby position. They showed me the quickest way to Amiens, and exactly one hour later I rejoined my battalion motorcycle detachment, which was still there.

"At Amiens my suspicions were confirmed. My regiment had not been able, from the front, to break through the mine fields and the enemy's wonderfully organized antitank defense. Accordingly it had attacked the position from the flank and had achieved success late in the afternoon; the sacrifices made by my platoon in the morning had not been in vain."

2. COMMENT BY AN AMERICAN OFFICIAL OBSERVER

a. It should be noted in the operation described that some German tank units were in a position of readiness, exposed to hostile artillery fire, at least one hour before the hour of attack. Crews sought protection from this fire by remaining in their tanks.

b. In the published article, as well as in others dealing with the operation of German tank units, it appears that muzzle blasts from French antitank guns revealed the positions of these weapons to attacking German tank crews.

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c. The tanks attacked in a wedge formation. This formation, which may be employed by a platoon, company, battalion, or even a regiment, is relatively easy to control; it provides fire power to the front and flanks; it exposes the minimum number of tanks simultaneously to hostile antitank measures.

d. Tracer ammunition is valuable in indicating targets to the crews of attacking tanks, or to the crews of any weapons supporting the tank attack.

e. The cited article, and other articles on tank combat experience, indicate that German tank crews halt momentarily to fire their large caliber weapons, then move to another position - preferably one affording cover - and fire again. German tanks will also open fire on suspected hostile positions without waiting to receive fire therefrom. The result is that their concealed adversaries, including antitank gun crews, withhold their fire too long, and have to open fire while under fire themselves.

f. It is observed that French antitank gunners first disabled the rearmost tanks of this German platoon and then worked forward. The attention of attacking tank crews is usually directed towards the front; in this case, the tanks ahead continued to advance without taking special measures against the antitank gun. The advisability of such antitank gun technique depends upon many factors, including the nature of the gun position, the terrain, the nature of the tank attack, and the formation and characteristics of the hostile tanks, especially their speed and armor.

g. As the platoon led the battalion in the attack, the attack of this battalion must have been initially organized in depth over a relatively narrow front. Although the tanks of the leading platoon were all disabled, the tank regiment apparently succeeded by eventually outflanking the strong antitank defensive measures. This indicates that a static antitank defense, even though strong, is at a disadvantage against a tank attack in mass. To cope with such an attack, antitank weapons should also be employed in mass. These weapons should not only have adequate armor-penetrating characteristics, but they should also have at least the same mobility as the attacking tanks, and their crews should be protected, at least from small arms fire and shell fragments.

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August 11, 1941
10:00 a.m.

REFRIGERATION CONTROL

Present: Mr. Haas
Mr. White
Mr. Gaston
Mr. Kuhn
Mrs. Klotz
Mr. Bell
Miss Elliott
Miss Ware

H.H.Jr: Have you gentlemen read this month's Fortune, particularly the article on food, nutrition?

White: I have not.

H.H.Jr: Well, I recommend that you get it.

Wahm: It was in Life, wasn't it?

H.H.Jr: No, Fortune, the one I refer to, on nutrition. It is very interesting. The one in life I read - the one in Fortune, that first opening paragraph, the one on nutrition, is grand, and the one in Life where it said, "Unless the housewives begin to shout about the high cost of living, nothing would happen," that is the paragraph in Life. But the first opening paragraph in the August Fortune Magazine on nutrition.

Wahm: I have it in my room.

(Mrs. Klotz and Mr. Bell entered the conference).

Bell: Miss Elliott is here, I think.

H.H.Jr: She is supposed to come in.

- 2 -

(Miss Elliott and Miss Ware entered the conference).

- H.M.Jr: Miss Elliott, I know I asked you in no time whatsoever to give us something that I don't suppose you have got.
- Elliott: We called the Bureau of Labor Statistics and presented the problem to them and they are working on it and I think can have the basis of 1918, that is, the shift from '14 to '16. Then in to '17. They can project that in to '21 and then take the present prices, going back, I think, a year, would be the best way to do and project it in to the next year and in to the next on the basis of the rise of the last three months, which I think is the best comparison to make.
- H.M.Jr: Well, I don't know, but - and then --
- Elliott: And that, Mr. Secretary, would be on rents, on the major items in food, and the major items in clothing. Now, I have not talked with them about the question of doing it, as you stated last night, on the basis of the individual items. I don't know, Miss Ware, whether you think that could be done.
- Ware: What we are getting together right now is taking an average income of sixteen fifty in 1915.
- H.M.Jr: How did you arrive at that figure?
- Ware: On an out-of-the-hat basis. That is, if any other average would be preferable, they can run it for, I suggested, approximately fifteen hundred as a reasonable figure to take and they took the mid-point in that, fifteen to eighteen, and they would be glad to run it for

- 3 -

either a lower or a higher figure.

- H.M.Jr: No, I said from a thousand to two thousand. I didn't know what --
- Elliott: I thought it would probably be more effective if you take the lower - I think if you take the lower for the public side of the thing that they would say that we deliberately picked one that would show a tremendous exaggeration. I think they took an average in there and it would probably have a better effect.
- Ware: You could well take a lower figure than that, I think.
- H.M.Jr: But let's start there and see how it looks.
- Ware: But, for instance, if you take an income of sixteen fifty in 1915 it comes out to be the equivalent of - in 1920 it would be an income of eight hundred and twenty-two dollars.
- H.M.Jr: I see.
- Ware: ...Which it seems accounts for the increase in the cost of living.
- H.M.Jr: You mean the purchasing power of the dollar?
- Ware: The purchasing power of that sixteen fifty income in 1920 was the equivalent of an eight hundred twenty-two dollar income in 1915.
- H.M.Jr: Now let me just ask you this: Have you got plenty of time?
- Elliott: Yes, indeed, because I think it is going to help tremendously for this to be said. I am awfully glad you are going to do it.

- 4 -

- H.M. Jr: I asked Miss Elliott one thing, which I don't know whether you can do, but I go back to my Farm Credit days. Were you down here in '33, Miss Ware?
- Ware: I was with the Consumers' Advisory Board in NRA.
- H.M. Jr: We talked about interest rates in terms of number of bushels of corn.
- Ware: Yes.
- H.M. Jr: Now, what I was saying was, if you could, say - I don't know, I would like to try it both ways, but if you could say, for instance, that a year ago a family ought to have seven loaves of bread a week and now you can only buy six and if the thing continues at the rate it is, two years from now you are only going to be able to buy five, rather than talk about a loaf going up a cent or two cents. I don't know whether that would be the same thing with the cotton dress. You have got to buy so many cotton dresses. I don't know whether it can be done.
- Ware: It can.
- H.M. Jr: Remember, Herbert, it was much more effective when you talked in terms of the number of bushels of corn it took to pay for your interest than it was to talk in terms of dollars. I just wondered if you couldn't approach it and then say, "Well, this is the more effective way but if you say that out of the budget so much has to go for rent and so much for food and so much - this time it will have to be so much for taxes," and then talk in terms of so many pork chops and so many loaves of bread and so many quarts of milk, and rather than talk about the price going up, the

- 5 -

quantity decreasing, and then talk about nutrition in terms of what it means for morale. I wonder if we haven't got something. You ladies know much better than I do.

Ware:

Yes, I think we can do that and I think the way that we will be able to do it is to take the gross change in the cost of living and instead of figuring things up, figure them down, that is, figure the subtraction in dollars, and then distribute that in terms of the proportion of the dollars in the budget which go for food and for clothing and so forth, and then within those categories pick out a few illustrative items.

You couldn't, of course, use an enumeration of all the items but by setting a framework in dollars reduced, rather than prices increased, and then pick out some items quantitatively.

H.M.Jr:

Yes.

Ware:

In both the earlier period and the present period. I think we can have it in that form.

H.M.Jr:

I think if you talk to the family whose wages are going to stay constant, I mean the white collar worker, and simply say that this is what is going to happen to what you can buy - again I know I am repeating myself, that you are going to be able to buy so much less of certain things, it would strike home to me more than - I don't know how it would to you.

Elliott:

I tried that in a general way up at Cornell the other day.

H.M.Jr:

Is that what Mrs. Morgenthau saw? She said

- 6 -

you had little pictures of baskets, market baskets. Was it you or the nutritionist?

Elliott: The nutritionist had that. I was speaking at that nutrition meeting.

W.C.Jr: Didn't they have it in terms of baskets?

Elliott: Yes. They had it in baskets, showing the relative amounts. Mr. Secretary, you spoke last night when we were talking over the phone, that you would like to have this also projected into '42 and '43. Would you like to have it --

W.C.Jr: Very much, because what I would like to say is this: Now, while it is very dangerous to forecast and I don't like to do it, but if this trend continues and if we follow the pattern of World War Number I, let's take a look, where are we going to be in '42 and '43, and this is where we are going to be; and as Time Magazine said this last week, unless the housewife gets up and shouts about this thing, in '42 and '43 this is where we are going to be, and I think, frankly, as one housewife to another, we have got to scare them a little bit, and I am willing to do it.

And then the other thing I want to talk about, is there anything we can do to control this other than by just turning down the valve and the answer is that - we will read what we have got - is that there is all this wheat in storage in this country, four hundred fifty million bushels of wheat in Canada which is available if you drop the tariff, the sugar in Cuba, coffee in Brazil, the corn in the bins, and seven million bales of cotton; all of those things, which could be released and go into consumption and put the people to work who are still idle. We here figure that

- 7 -

there are still twelve million people who could work if you gave them jobs.

Elliott: And with the increased production --

H.M.Jr: With the increased production that you could do a great deal other than just by clamping down on the thing.

Elliott: Of course, I think the great mistake made here in the last few months is not to push prices on increased production.

H.M.Jr: We feel that very strongly and I know you feel that way. Harry, before I start reading, do you want to say anything about this in any way that you are not in tune?

White: Not at all. I think one could get a very graphic presentation of what the rise in the cost of living means to the housewife in some such way.

H.M.Jr: Any suggestions?

White: No.

H.M.Jr: George?

Haas: I have nothing. I think that is excellent.

H.M.Jr: Now, if you could bear with us, the way I do is, I read this - have you seen it?

Elliott: Yes, I have a copy.

H.M.Jr: Then if you have seen it, supposing I read a paragraph at a time and we will stop and then you people go at me and we will go at each other and we will act as though we were in your office instead of mine. Don't hesitate to go after me.

Elliott: School room process.

- 8 -

H.M.Jr: Yes. I have a lot of teachers here and they try to - that is the way we get a thing out. We go over it and over it. This is just the second draft. And one other thing, before I start, Miss Elliott. I don't think - what we are trying to say, has it been said by Mr. Henderson so far?

Elliott: No, he has made some general statements about the effect of this, but he has made none of these specific illustrations that we are talking about here and of course - I think in his testimony on - two or three days ago he brought out the problem, mentioned in a passing way there - I think that was not in his set speech but in the question, the effect on the consumers.

H.M.Jr: But it hasn't been driven home?

Elliott: No.

H.M.Jr: One other thing before we get started, which I don't understand, this thing, government purchasing. "The President is authorized to buy, store or use or sell at public or private sale any commodity upon such terms as he shall deem necessary to get production from marginal or high cost producers or to prevent price increase. The produce of this sale will remain as a revolving fund to carry out this provision."

What have they got in mind, do you know? I don't.

White: One of the things they have in mind is the privilege of being able to set more than one price, a different price for a high cost producer and another one for a low cost producer, so that they will not be paying the low cost producer - permit him to obtain

- 9 -

the high price necessary to induce the high cost producer to continue to do business.

- Elliott: But this is for purchasing, taking over, I thought.
- H.M.Jr: This is authority to buy, store, use or sell at public or private sale any commodity.
- Gaston: That is the technique for working out what Harry speaks about. Take copper, for instance. They set a price for copper. The maximum price for copper, say it is twelve cents. Now, there are a lot of high cost copper producers that can't produce copper at twelve cents. Instead of raising the price from twelve to fifteen to bring those producers in, they make a contract to buy that production from those little producers, those high cost producers, at a higher price than twelve cents. The Government buys it and then feeds it back into the stream. That is what I understand. Is that correct, Harry?
- White: That is my understanding but it also is broad enough to do many other things. But that, I thought, was the --
- H.M.Jr: Well, now, does this cut across, for instance - where would this begin and strategic stock piles begin or stop? And agricultural commodities?
- White: This would give them authority over strategic stock piles? I don't know whether it would or not.
- H.M.Jr: Would that apply to agricultural --
- White: It would except I think there is a limiting factor elsewhere in the bill.
- H.M.Jr: Would you ask Joe O'Connell to find out what

- 10 -

this means?

Foley: Yes.

H.M.Jr: If you don't mind my saying it, I think the bill is terrible.

"I am glad that you have asked me to testify today because you and I are faced with serious decisions of policy, very serious decisions, if we are to avoid bringing the calamity of inflation upon the American people."

Bell: Do you want to say, "I am glad that you have asked me to testify"?

H.M.Jr: "Pleased"?

Bell: The Government is faced with a serious decision.

H.M.Jr: Do you want to say, "because you and I" --

Bell: I wouldn't say that "I am glad that you have asked me to testify because you and I" - put it like, "the Government is faced with serious decisions of policy. It is to avoid bringing the calamity of inflation" and so forth.

H.M.Jr: I don't get the point, Dan.

Bell: I think it is unusual for a person to go up before a committee and say, "I am glad that you have asked me to testify before you."

Kuhn: Any harm in it, Dan?

Bell: I suppose not, but maybe before we get through we won't be glad. (Laughter). We might be

- 11 -

there a week.

H.M.Jr: I will say it just as a greeting, "Mr. Chairman and members of the Committee, I am glad to be here today." Well, you don't like it anyway. All right, you can make a mark, Mr. Bell doesn't like it. What else?

Bell: It is not important.

H.M.Jr: "The word 'inflation' is cold and lifeless. But the thing it describes is treacherous and cruel. We have been talking about inflation for a long time as if it were a threat remote from our daily lives. It is a distant threat no longer. We are faced with the urgent, practical necessity of grappling with it now."

All right so far? I like the way it opens.

Klotz: Yes.

H.M.Jr: The first two or three pages are good.

"If we are timid -- we in the Executive departments and you in the halls of Congress -- the consequence may haunt us and our children for years. But if we are courageous, we can beat this thing. If we keep always in mind the best interests of our country as a whole, and forget about special interests, we can prevent inflation from fastening its grip upon us."

Klotz: That is wonderful.

H.M.Jr: Do you like that?

Elliott: Yes, because that is the trouble, of course, with this bill. It is hitting in so many different directions it is apt to come out nowhere.

- 12 -

H.M.Jr: You can't have an over-all price control and recognize a big leak right in the beginning.

"That is the choice that confronts us. The outcome depends upon the alertness and courage and mental toughness of every one of us here today. I welcome the bill before you, because I believe it is an essential step in the protection of the American housewife, farmer, workingman, and business man, from a danger that threatens them all."

Who said he had an August Fortune?

Kuhn: I have it in my room.

H.M.Jr: I will send for it. I want to read that first paragraph.

"Memories are so short that I suppose" --

Elliott: Mr. Secretary, excuse me a second. Knowing your point of view, are you getting yourself in the position - you say you welcome the bill before you. Would somebody take that to say you do endorse the bill?

White: He does endorse it.

Bell: The presence of the bill.

H.M.Jr: Well, I read the bill for the first time this morning and before we get through - I think I am going to have to tell Mr. Henderson or the committee that the way the bill is written I don't think it accomplishes the thing.

White: Well, I think if you have some specific important criticism or suggestions, I think this is the place to include it. The bill hasn't nearly the teeth in it that many would like to see in it but whether you want to say

- 13 -

so --

- H.M.Jr: This whole agricultural section, and I mean everything applies but excepts to agriculture. Here I am going to talk about the market basket, that you can put things up into a hundred and ten bracket or the July 29th price, whichever are higher, and we will just start right off with a tremendous handicap and I think I have got to say something. I should think Henderson would be very glad to have me say so because evidently for reasons of his own he wasn't able to say so.
- White: I think you criticise the agriculture provision here fairly strongly. You could increase it if you want, but that part, I think, is in here.
- H.M.Jr: Well, I think, Miss Elliott, I can't say "I welcome the bill before you" and in the next sentence say, "It is an essential step in the protection of the American housewife." It isn't.
- Gaston: Can't you just say, "It is timely to have legislation of this kind up for consideration now because we have got to act."
- H.M.Jr: Yes.
- Gaston: That is the substance of what you want to say.
- H.M.Jr: Yes.
- White: Well, I think you have got to - after some discussion or study or thought, make up your mind if you don't approve in the bill wherein you don't approve of it.
- H.M.Jr: The principal place I don't approve of it is in the exemption of agriculture.