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- White: That I think you hit.
- H.M.Jr: But Harry, I say I welcome the bill in one part of it and in the same sentence, I say it is a protection for the American housewife.
- White: You can put in a caveat there, say "with the exception which I will point out later."
- H.M.Jr: Well, something.
- Klotz: Yes.
- Kuhn: Because you don't oppose the bill entirely. You are for price control.
- H.M.Jr: What I would like to say is, "the bill is a step in the right direction, but it doesn't go far enough."
- Ware: It doesn't.
- H.M.Jr: It doesn't go far enough. I mean, you are trying to put a tent over all prices but the tent isn't big enough. You need a bigger tent. I mean, I said on the tax bill that the tax bill wouldn't be adequate before it even passed. Now I can say -- you know.
- White: The exception of agriculture, which you can except here and criticize more severely if you wish to later. The statement that the bill doesn't go far enough carries with it the thought that you are in favor of price fixing over the whole economy.
- H.M.Jr: Well, it is the agricultural part. Is that the part that you ladies feel - at least that is where I feel --
- Elliott: I just thought perhaps that sentence could be changed so you wouldn't be maneuvered

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into the position of saying - of them immediately thinking that you were endorsing this bill.

H.M. Jr: Incidentally, I forgot to tell you gentlemen I took on a very difficult assignment. I told Mrs. Roosevelt I would have this at her table at Hyde Park at seven o'clock tonight.

White: That is not difficult.

H.M. Jr: We can teletype it to New York. I spoke to Joe Murphy and Joe Murphy will have a man run it from New York up there. She is going to make her criticisms and the man will bring it back. I told Joe Murphy it would be between you (Klotz), him and I. He is on notice. If we could have something to sort of indicate even that it was rough or leave the figures blank, what we were going to do about this budget thing. Do you think we could have something written by three o'clock this afternoon, leaving the figures blank but just showing the trend?

Elliott: Yes, we can do that.

H.M. Jr: You can leave the figures blank but just give her the idea.

"Memories are so short that I suppose many housewives have forgotten what happened the last time inflation struck us 25 years ago. In 1916, the cost of living began to rise sharply, but there were few who saw its significance and nothing was done about it."

It is in here that I want Miss Elliott or Miss Ware to write the thing for us, Harry. I mean, it is here that I thought the thing was a little short.

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"It was not until April, 1917 that the first real tocsin of alarm was sounded against inflation. It was not until prices had risen by over 70 percent that the President recommended" --

I think you had better say "President Wilson".

White: Yes.

H.M.Jr: "....recommended any steps to prevent inflation. In fact, so little aware were they of the dangers of inflation that in June, 1917 Congress reduced the reserve requirements for member banks of the Federal Reserve System."

Who dug that up?

White: We had the boys go over - well, no, my man Bernstein read that but they also went through it - some of the current literature and some of the official papers and all the Treasury reports - several men went through them during the early years to see whether there was any statement or cognizance taken of the increase in prices and the only thing that approached it was rather an amusing statement by McAdoo to the effect that we were merging in - in 1917 - in late 1916, he said we were going into a period of prosperity which differed from previous periods and that this had a sound and permanent basis.

H.M.Jr: If you don't mind my saying one other thing on this thing, because I have been doing a lot of thinking about it - I wrote this out. "If the farmer wants to start with having a repetition of 1920 to 1932, in which period he was in a continuous depression and never came out of it, don't let" -- I have written this down -- "...Humpty Dumpty climb up on the wall," high prices, "because if he doesn't

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climb up on the wall he is not going to fall off the wall." Then I say, "Am I right that the purchasing power never recovered from the 1920 crash of foreign prices?"

I think I am right. Now, the point is, what I am trying to say to the farmer is, "You are cutting off your nose now. You are going to let Humpty Dumpty get 'way up on this high wall of high prices and then he is going to fall down the way he did in '20 and you will have twelve or thirteen years of depressed prices just the way you did from '20 to '33." We have got all of that and if they don't go up, keep within reason now, they are not going to have that collapse again.

Elliott: Wouldn't it be practical in connection with that - I don't know whether it can be done in a condensed way - to use the figures there and show what the farmer who might get this much in increased prices for himself but this is what would happen with the things he ought to buy?

H.M.Jr: Oh yes, Haas is doing that. George, you --

Haas: A parity case. The way the bill is fixed now the parity takes care of that.

M.H.Jr: Does it?

Haas: Yes. The parity by definition takes care of that.

H.M.Jr: But George, I am right if you took - after the 1920 crash the farmer never recovered until 1933.

Haas: That is right.

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H.M.Jr: I think if I simply go after the farmer and say, "You mustn't have these high prices" - but if I say, "Now I am doing you a kindness, because you went through one twelve year depression and don't let's do the same thing over again" --

Haas: Then they lost their farms when the land speculation boom was over.

H.M.Jr: That gives them a friendly warning so they don't go through another twelve years of depression.

Kuhn: That is stated on page fourteen. You say there are too many people who are looking at farm prices and so forth, and have they forgotten the experiences of 1920 and '21, and so forth.

H.M.Jr: But it ran through until '33.

Kuhn: But the thought is in there.

H.M.Jr: That is right, but they ran through a continuous state of depression. Could something be done on that? George, you are elected to do that.

"By 1918 the process was in full swing. In 1920, a ten-pound bag of sugar cost \$2.67, a dozen eggs cost 92 cents, a ten-pound bag of flour cost 88 cents, a pound of butter cost 76 cents, and a pound of pork chops cost 50 cents. The same amount of money brought fewer and fewer things home in the market basket. Then came the reaction, with tumbling prices and bankrupt farms and millions out of work."

I would like it, gentlemen, if Miss Elliott and Miss Ware would do this thing for me, all

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of this, the way we have been talking about it this morning, rather than doing it this way. "In many respects".....because I just don't think it sinks in enough, you see. I mean, you can say well that may have been so, but if you get the whole movement, the whole market basket idea --

Elliott: Mr. Secretary, would you like a chart - when are you giving this?

H.M., Jr: I am supposed to give it Wednesday or Thursday but there is some talk and they are finding out this morning so that I know that they may not want me at all this week. Mr. O'Connell represents us with Mr. Henderson. He is up on the Hill now. And it is then they are going to just stop these hearings and not go on until after Labor Day, but I told them that if they wanted me, I didn't want to go away on a holiday with this hanging over my head. I would either do it Wednesday or Thursday or not at all.

Elliott: I was thinking, if we could get this done in time to have a large graphic chart made showing that.

H.M., Jr: And we have a really swell graphic section here. George Haas has a swell graphic section here so if you will give him what you want done, he will have it made and enlarged and everything else. He has a very good group here that can do it. You can tell them what you want. I think a chart would help because we might get it reproduced in the newspapers.

Ferdie, incidentally, get up a list of women editors of newspapers that have - editors of newspapers that write on food and so forth.

Ehns: To send this to?

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- H.M.Jr: After it is delivered, if it is good.
- Kuhn: I thought of having it printed as a pamphlet with the tax statement so that we could send it to labor unions and women's editors and pick out the best -
- H.M.Jr: Maybe these people have a list.
- Elliott: We could circulate it through our field staff, which we have all over the country.
- H.M.Jr: Fine.
- Kuhn: That would be good.
- H.M.Jr: I even thought we might send those two, if it turns out to be good, to our list of bond holders.
- Kuhn: Well, if you print it as a pamphlet you can do unlimited things with it.
- H.M.Jr: All right.

"In many respects our position today resembles that of the summer of 1916, when inflation was actually on the way. We have now, as we had then, a moderate rise in the cost of living, a great rise in wholesale prices, and a still greater rise in the prices of basic commodities, like wheat, hogs, cotton and lumber.

"It is the rise in the prices of basic commodities that constitutes our danger signal today. For they rise first, general wholesale prices always lag behind, while the cost of living does not show anything like the full effects of inflation until long after its seeds have taken root."

- Ware: That is a good sentence.

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H.M. Jr: "You see what has already happened to the cost of living. I am sure that --"

Kuhn: "Yet see".

H.M. Jr: I think we will after we get the stuff from Miss Elliott: It has to be more convincing.

"I am sure that the average housewife is disturbed when she finds that the prices she has to pay for a basket of groceries are distinctly higher now than a month ago and much higher than a year ago."

Now, all of this here, I would like to have it substituted by whatever Miss Elliott gives us. I would start the first paragraph on five, "The rise in prices is by no means confined to foodstuffs. I have before me the actual figures on the cost of constructing a standard six-room frame house in one of our typical cities. Materials needed to build this home now cost 17 per cent more than a year ago, and labor costs are 24 per cent higher. On top of that, contractors' profits and overhead costs are 18 per cent higher. The home that could have been built a year ago for \$6,000 now costs \$7,140, an increase of nearly 20 per cent."

Couldn't we run a little chart in there?

Haas: We have one already made.

H.M. Jr: This is the St. Louis house. Have you seen that? It is done by the Real Estate Board of St. Louis. They have run it now for how long, George?

Haas: Oh, I don't know just exactly when they started. It was some time ago.

H.M. Jr: I don't know what is the matter with this,

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gentlemen, but there is something that just doesn't convince me in that paragraph.

Kuhn: About the house?

H.M.Jr: Yes.

Ware: I was puzzled about the twenty-four per cent increase in the labor costs when there haven't been increases in --

H.M.Jr: What is the answer, George?

Ware: I was puzzled by the twenty-four per cent increase in labor costs when there have not been marked increases in wage rates in the building trade.

Haas: I don't know. I would have to check up. There is detail published on it and I perhaps could find out. It is the Real Estate Analysts. They are a service for the real estate industry that puts this study out. I think I can find out. St. Louis is the area.

H.M.Jr: Miss Ware might give that question to a Congressman and then I would be stumped.

Ware: Somebody else might.

Bell: The answer probably is, it is only one area.

H.M.Jr: Well, it is a good question. I don't know why, but whoever - I don't want to know who did it, but it just doesn't - I know that I have seen the charts and the paragraph leaves me cold.

"How reminiscent all this is of prices in 1916! Unlike the situation in 1916, however, we are now aware of what is happening. We

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now know, or ought to know, that the time to do something about inflation is before it occurs, not after it has gathered momentum. We should profit by our greater knowledge, and take prompt and effective action now."

Do you want to wait a minute? I would like to read that one thing in the Fortune Magazine. Do you mind if I read this to you, because I think we could either give them the credit or just steal it. This is this paragraph I thought was so good. Have you read it?

Elliott: Yes.

H.M.Jr: "This is a war in which every man, woman and child must be alert, physically tough, strong in character. Planes, battleships, natural resources, industrial plants, mean little without human fitness to match, superb health geared up to its high potential by the right food. Courage and a cool head in battle, efficiency on the production line, civilian morale-- all hinge on food, not on just eating enough, but on eating enough of the best life-giving foods. The Nazis have even demonstrated that right and wrong diet can be used as a double-edged weapon, both to sustain the will to victory of their own people and to paralyze the will of the conquered. Never has it been so clear that food is power."

White: Why don't you take that paragraph right out and say, "Let me quote from -"

H.M.Jr: Yes. I think it is swell. Don't you think that is good, Harry?

White: Yes, I do, very much. I think you could --

H.M.Jr: It is the first paragraph of food is power.

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- Elliott: Mr. Secretary, did you see that Special Consumer's Diary that we put out last summer that had that thing boiled down in very striking sentences?
- H.M.Jr: I didn't.
- Elliott: I will send that over to you. It is on this whole question of nutrition, carrying out that idea.
- H.M.Jr: I would like that. But until I get this out of my system, I will just do nothing else but this.
- ".....The inflationary forces at work are plain to be seen. Our defense expenditures are rapidly increasing. During the fiscal year 1942 they will be at least two and a half times as much as in the fiscal year 1941, and probably much higher. They are being financed largely through government borrowing, which has the effect of increasing the total demand for goods."
- White: I think that sentence might come out. Although it is accurate and necessary, I don't think it will be missed and it kind of stops the other, the thought.
- Haas: It wouldn't be true if they all came out --
- Bell: Yes.
- White: That is right. That is why it is necessary but everybody knows we are borrowing.
- H.M.Jr: Well, you are mentioning it as one of the things I was going to ask you because I think it is too technical for the man on the street.

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- White: It shows up and everybody knows the government is borrowing.
- H.H.Jr: I would like to have it out. I am glad you say so.
- "....As the defense program grows we must expect further upward pressure on prices. The program gives many people more money to spend without increasing the supply of goods they can buy with it. It has been estimated that the American people will have ten billions more in their pockets this fiscal year than last. Unfortunately, instead of there being more goods to buy with that added money, there will be less."
- Elliott: In that connection, reading that last night, Mr. Secretary, I thought just as the layman listening to this, if you broke that down into the amount of money that will be spent per month, I think it startles people when you say that to a monthly basis - I am speaking now as a layman in this. It is more effective to me instead of ten billion to say it is three billion per month.
- H.H.Jr: How about saying each day we spend so much?
- Elliott: Yes, I think if we broke that down it would be more effective to the layman. It startled me the first time I heard the President say we will be spending so much per month until September.
- H.H.Jr: Following that, when you get into that idea, I would like to start off with that, right in the first sentence, however you do it.
- White: We really ought to deduct the taxes that you expect to take away from that and reduce it

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down. We can reduce it to a monthly basis. It still would sound substantial.

H.M.Jr: Do you mind if I say this? The first couple of pages, the thing which I thought had the real punch and swing --

Whites: I think the answer is simple to that. Ferdie Kuhn wrote the first couple of pages by himself.

Kuhn: We are trying two things here, to give it a punch and then to state a very grave economic problem and it is hard to do both.

H.M.Jr: Well, could I say this? It is no fault of anybody but myself. As I get into the thing, I would much rather do it in a popular way rather than in the - for even members of Congress or for economists. What I am trying to grope for, and I haven't got the answer yet, if I didn't reach any other group than the women, if I could just make it so they would understand it, I would be very, very happy.

Elliott: In other words, you are trying to get women on the warpath.

H.M.Jr: I am trying to do - if I could be half as successful as Herbert Hoover was at that time to get the women interested in food, but for a different reason, but if I could get them interested and explain to them what is happening to their market basket - if I did nothing else and left the talk about bank balances and currency and all the other things to the many other people who could do it - but if I could do one thing simply and well, I would be very happy, Harry. Because we have got to get somebody - I don't know any other group -

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if you can get the women really excited about this thing, they would have power enough to override the agricultural bloc, but unless we get the women really excited, this agricultural bloc is so powerful that they will get their hundred and ten per cent.

White: There has been a struggle within our own group and I think that it is reflected in the statement. We all have - it hasn't been a difference among us. I mean a struggle between the two ideas, an attempt to make something that sounds dramatic and yet make it sufficiently appropriate and dignified for the occasion. Now, I don't know whether we can find a happy medium or whether we - and still keep what we think is that balance or whether it will be necessary to merely concentrate on scaring the housewives on the danger of inflation and working them up to the pitch where they will bring pressure to bear. I think if we concentrate on that we can get a more dramatic statement.

H.M. Jr: I will ask the biased witness, Miss Elliott. What do you think, as an economist?

White: It is the Secretary of the Treasury making a statement.

Elliott: I appreciate the situation and that these are words that are being put into the mouth of the Secretary of the Treasury --

White: He has put them all there himself.

Elliott: ...for the dignity of the occasion, but I do think the Congressmen or somebody with authority and somebody who will not be considered a propagandist - we here in the Consumer Division, for example, are constantly looked upon, as much as we have tried to avoid

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it, as propagandists, you see, and I think if this can be said with authority by a high official of the Government in a dignified way and yet bring about that reaction from the housewife of the country, that it will be a great contribution. It is extremely important and much more effective. In other words, we have been saying this, Mr. Morgenthau, since last January, this whole question, but it is a vastly different thing, you see, for those of us who are supposed to be shopping for this on the Consumer end, you see, to say it to somebody who is analyzing it in the broad national sense.

Kuhn:

Mr. Secretary, don't you also have to do that, though, in a statement? Don't you have to do more than produce your impact? You have to back it up with facts and if you don't back it up --

H.V. Jr:

Well, you can - no, you can do that but I don't think - I think that this field is so tremendous and coming back again to the fact that there is this tremendous loophole in farm prices, which is food - what I usually think of as cost of living, but I realize there are seven or eight hundred items which go into it; that is left as a loophole. Now, let's say the bill is passed, has passed in its present form. Henderson has an impossible job. He can't make good on it and I don't see how I can do him a better service than by really concentrating on that one segment. Now, we can back it up with facts but in order - the way Harry White has explained - trying to do two things here, we are kind of falling between the horses, trying to ride two horses at the same time, and I would like to go on just one horse and that horse is the appeal to the housewife and what we could do at the end if we wanted to pick up - now, of course, there

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are six or seven other things, and just list them, which have to be watched, just at the end if you want to, just one sentence. Say, "of course I realize perfectly that there are other things", and then you could list them, but ninety per cent could be on this front.

Gaston: On food, agriculture.

H.M.Jr: It isn't only food, it is clothing and rent. Food, clothing and rent.

Elliott: You see, in the rents they have simply put it on the defense area and left out completely the whole problem of rents in the nation as a whole.

White: You might justify that approach, possibly - I mean within the statement by beginning right away with saying that you are going to concentrate on what you regard as the most important thing to be brought to the attention of the public and the one that is possibly - that has been the least often stressed and leaving out of this statement a lot of things that you ordinarily would take up as Secretary of the Treasury.

H.M.Jr: Or do it my way. Simply say, "I am going to talk about the thing which is closest to my heart, as the housewife" (laughter) and then at the end say, "I also as Secretary of the Treasury realize that there are these other problems."

Kahn: You regard this as the major defect of the bill, don't you?

H.M.Jr: I do.

Kahn: Well, that is one way of getting into this form of discussion. You can say, "because I

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regard this as a major defect of the bill I am going to concentrate on this."

White: "It is because I am in favor of the bill and I am so concerned about the one element in it which does most to destroy its effectiveness."

Kuhn: That can be done.

White: Something of that character.

H.M.Jr: I can also say that in '33 Mr. Roosevelt gave me the job of stopping the downward spiral for the farmer, that I know very much about it because I lived through the days of the shotgun and the courthouse and the foreclosure and so on. I lived through that. I had seventy-five farmers come from the doorstep of a courthouse of Illinois to my office after having held up a foreclosure. I have been all through that. I have seen a man who one day was worth fifty thousand dollars and had twenty-five thousand bushels of corn worth twenty-five cents in his farm and couldn't use it. I have met with the - what were those fellows? I have sat down with the Farm Holiday Association of Sioux City, Iowa. I know that. I want to keep that from happening again.

Ware: Mr. Secretary, if you said exactly what you said now, you couldn't put anything more effective in your speech.

H.M.Jr: I feel this, you see. I actually sat down with the men at Sioux City, Iowa - a man who was the member of the Farmers' Holiday group who had twenty-five thousand bushels of corn in his bins and his place was being foreclosed and five years before he was worth fifty thousand dollars, a college graduate, and I have seen the thing. Now they are heading exactly the same way, through the leadership of one or two

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selfish, stupid people who are hooked up with the speculators. It is for that reason I want to say it. I have been all through this thing. I was given the job of stopping - you can tell the story about Floyd Olson, who invited me to come up to Minnesota and said, "Morgenthau, I will give you a farm and you buy yourself a shotgun and you will never have to worry about paying a cent of taxes for it as long as you live."

Kuhn: Then you will be speaking as Farm Credit Administrator rather than Secretary of the Treasury.

H.M.Jr: Well, from the experiences that I had --

White: I think that is very excellent, that material, provided it is in the questioning. We can plant questions, give you an opportunity to make statements of that kind, but to include it in the statement - well, I am a little bit dubious about it but I also think, Mr. Secretary, that you will get closest to what you want. I make this as a practical suggestion, to let Ferdie Kuhn do the whole writing of this and then we can come in on it later, so that I hope he is paying particular attention to what you are saying, because he comes much closer to that type of emphatic statement. We are constantly pulling away from it because of what we regard as economic pictures.

H.M.Jr: Well, I would - I very much like to tackle this one angle. I don't know whether you want to say at the beginning that there are five or six points but I want to tackle only one point because I was through this thing for six - I was Governor of the Farm Board and I don't want to see the same mistakes of the Farm Board repeated by Mr. Roosevelt's administration and I got the hundred million dollars worth

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of groceries and I was fortunate enough to sell them on the rise of the spring of '33, and we are just exactly repeating the same mistakes that Mr. Hoover's Farm Board made. Aren't we ever going to learn anything? I speak as having once been for three weeks Governor of Mr. Hoover's Farm Board. I confess that I was and are we going to go through exactly the same mistakes we made then? Are we going to go through exactly the same mistakes of choking the person - the white collar worker on the fixed salary? I feel that I would much rather do it on this, Harry, --

White: All right.

H.M.Jr: ...than go down that path.

Hass: I think one thing, Mr. Secretary - I haven't been in on this until the moment - that at the beginning of the statement, if we very briefly outlined the problem of inflation because of the fact you are Secretary of the Treasury, because I think this is true, that if the farm group played ball perfectly, it still has a tremendous problem and I am afraid some of the financial writers outside will say the Secretary of the Treasury is making such a fight on this farm thing - I think you should make that fight but at the same time have the other in so as to indicate that you are taking complete cognizance of it.

H.M.Jr: I think we ought to have the other things. Now, what do you think, Miss Elliott?

Elliott: I think it is the right approach for what you want to accomplish in this particular - at this particular moment.

H.M.Jr: Would you list at the beginning or the end all

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the things as the Secretary of the Treasury I am interested in and then go ahead and talk on one thing?

Elliott: I would list it at the beginning so they couldn't carry that question in their minds as they were reading it. Put that in at once and explain why you were approaching it this way.

Kuhn: And be perfectly frank as to saying that you are just going to concentrate on one for the moment.

Elliott: Yes, not only for the actual news reports that will go out from this testimony but also, I think, in terms of people who will read it. If they read it with this question in mind it will be gone instantly. If you put this in a pamphlet form, Mr. Secretary, and if you scatter it over the country as a whole, the people who are reading this will have that question settled instantly and they will know what this means and why it is being done.

H.M. Jr: You see, if we do it this way, Harry, we do it this way - I won't only be talking to the housewives. I would be talking to the farmers of America, as one farmer to another. I can't talk as one housewife to another but I can talk as one farmer to another and then you can also bring in labor because it is their cost of living but I, as a farmer, know what happened. I know what happened from '20 to '32 or '33 and all I have got to do is to read and I can see what is going to happen to the housewife with the money that she gets each week, and I am going to be so brash as to forecast where we will be two years from now unless Congress gives Mr. Henderson the over-all authority to do the job right. Now, Harry, is that all right?

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- White: I think it can be worked out in such a way that you could appropriately say it. I am not sure that there may not be another possibility which would display itself in the mere writing, that you could go to town along the lines that you have suggested, and when you have covered that subject, it may take ten or twelve or fifteen minutes, then there is nothing to prevent you from devoting an extra five or ten minutes on other matters which come under your purview, but they shouldn't be mixed.
- Kuhn: I think what Harry suggested would be much more logical and much easier writing. The other letter overlooked the beginning with a lot of things which you are bound to deal with inadequately at the beginning. Make a perfectly frank admission to begin with, that you are going to concentrate on the farm thing and then afterward say, "Well, now, I want to talk also about things that occur to me as Secretary of the Treasury."
- H.M.Jr: I think that is the best way.
- Kuhn: That can be done.
- H.M.Jr: I think that is the best yet.
- Kuhn: Rather than the other way.
- H.M.Jr: All right.
- White: Then you will have no apologies to make for the speech.
- H.M.Jr: And then what won't happen is that you two gentlemen will try to give me the same thing in each sentence. I mean, the first part will be one kind of thing and the second part will be an economic document.

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- Kuhn: I really think it would be better.
- H.M. Jr: All right, Harry?
- White: It might take a little longer.
- H.M. Jr: That is all right. If they give Mr. Henderson a week they can give me half a day. I think that is good. Herbert, are you satisfied with that?
- Gaston: I think that will be all right. I think it can be handled in that way so long as you make it plain in the introduction that you are just concentrating for the moment on one thing because you think it is an especially serious case.
- H.M. Jr: Dan?
- Bell: Well, I don't know but I think that you have got to cover the whole subject pretty well with this bill and then if you want to say, "Well, now I would like to discuss one particular phase of the bill, and that is the agricultural part," I think it is all right. I don't see how you can just pick out one subject as Secretary of the Treasury and concentrate on it.
- H.M. Jr: Well, if you don't mind, I differ with you and I would like to put my whole heart into this whole first thing because this thing I feel and I think it can be done in a very graphic, concrete form so that when the woman back on the farm reads the thing she will realize that - I think I have got enough friends left back on the farms that if they say, "Well, Morgenthau went all through this thing, he helped us save our farms" - there are thousands of people that still remember that - "if he says this thing,

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he was our friend in '33 and we will remember him." That means something. And after - it is a very small, selfish group.

White: I am wondering whether we can meet Dan's fears by - and I take it that you are not really intending that - by not saying you are concentrating on the agricultural provision but you begin by concentrating on the cost of living and what is apt to happen to the purchasing power, etc., then bringing in the agriculture along with that, so that it wouldn't be as narrow as might appear, but you are concentrating all your remarks --

Gaston: I should think in the first place you would want to demonstrate the pertinence of this talk about farm prices pretty briefly and then after you have got this off your mind, you can go into the other thing. I think there is a danger, though, that you - if you were to make it appear that this excessive rise in farm prices during the last war period was the sole cause of everything that has happened to agriculture since, I think that would be dangerous because it would give repudiation of the whole agricultural program.

H.M.Jr: Well --

White: Well, you could say you are doing somewhat the same.

Gaston: You can talk about the evil of undue increases that contributed to this great disaster but I don't see that it was solely responsible.

H.M.Jr: I wouldn't say solely, but let's write it the way we think and send it to Claude Wickard and see if he finds anything the matter with it. We will send it to Claude and see if he objects

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to anything. I will let him edit it. I am not going to say something if he says, "Please don't say that." I am certainly going to give Claude Wickard a chance to read it.

Ed, you have been very quiet and very learned with those horned glasses.

Foley: Well, I think that last statement of yours is one of the things that is troubling me. I think you have to clear it with the Secretary of Agriculture because I think that what you are really doing is making pretty much of an attack on the farm prices and on agricultural policy.

H.M.Jr: But, Ed, the reason I am ninety per cent sure, is that Wickard has told me this at least three times privately, that this is the way he feels; he feels this way much more than Wallace does. In fact, Wallace doesn't feel that way at all. He doesn't feel as though this was his program. We are talking here in the room. I am ninety per cent sure that he will pat me on the back and say, "Go to it" because he has talked this way to me again and again, you see, but he feels quite different about - Wickard is quite different about production, for instance. He is for production. I don't know whether you know that or not, but he is afraid to say these things because he knows --

Elliott: He sat through that February meeting, Mr. Secretary, when we had these farm people in here and they had him up against the wall trying to make him come out against the higher increase. I know how he feels from that point.

H.M.Jr: Am I not right?

Elliott: I think so.

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- H.M.Jr: Wouldn't he be very glad to have me say it?
- Elliott: That is my impression. I would say so, from hearing him talk in these meetings we have had with him.
- H.M.Jr: I think so. I don't have to show it to Wallace, though.
- Foley: You wouldn't show it to Wallace?
- H.M.Jr: No, Wallace is Vice-President.
- Bell: He is Chairman of the Economic Committee.
- H.M.Jr: No, I am not going to show it to Wallace because I know that Wallace doesn't agree and never has. I have never agreed with him.
- White: I am not sure that even Wallace might not agree with what I think you are saying because you are directing your remarks, it appears to me, solely at the problem of not letting farm prices go higher, not pushing them down.
- Gaston: That is right.
- White: And I think Wallace would - there is nothing that Wallace has said, to my knowledge, that would seem to be contrary to that. In fact, I think several things he has said would seem to be in accord with that.
- H.M.Jr: Well, my conscience will rest easy if I clear it with Wickard. So would yours, Edward.
- Foley: Yes.
- H.M.Jr: O.K. Where were we? I think we have --
- Bell: Page seven. The paragraph on page seven.

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- H.M.Jr: I think we are getting somewhere.
- Ware: Mr. Secretary, before we go on with the next paragraph, on page seven there is a statement that there will be less. Is that categorical statement consistent with what you say later on urging the use of still available resources for increased production?
- H.M.Jr: Harry, Miss Ware is asking you a question.
- White: I am awfully sorry, I wasn't paying attention.
- H.M.Jr: Would you mind repeating?
- Ware: Yes. It was the statement at the top of page seven. "Unfortunately, instead of there being more goods to buy with that added money, there will be less", and then later in the document there is an urging of use of available resources for increased production.
- White: We may have to change that "will" to "may". I think that urging for increased production is just a pious shout in the wilderness, but I think you are right that we ought to make that "maybe" instead of "will".
- H.M.Jr: Anything else?
- "....There have been other influences at work to force prices up. Among them are a sharp expansion of bank credit, shortages of raw materials, absorption of idle capacity in many industries, and cutting off of normal foreign sources of supplies.
- "I feel strongly that unless we adopt a reasonable and moderate measure such as the Bill before you we shall be forced later to take much more drastic steps."

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"To take more drastic steps", I think I would leave that out because they might ask what I mean.

White: We can leave it out.

H.M.Jr: "...But we shall be making a very serious mistake, I think, if we regard this bill as the complete answer to the inflation problem. It can only be a part of a program to get the result we want. We know from the experiences of other countries as well as our own that any attempt to legislate prices is bound to fail unless it is accompanied by measures to increase the supply and reduce the demand for goods.

"The situation in our economy today resembles an over-loaded steam boiler. The fire under the boiler is being fed by 10 billions of additional purchasing power in the hands of the public. The fire is growing hotter and is generating more steam than the boiler can safely hold. If we are to prevent a disastrous explosion, we must damp down the fires by withdrawing purchasing power, and strengthen the boiler by increasing supplies of goods."

Foley: Why don't we say, "If we are to prevent the boiler from bursting"? Instead of a disastrous explosion why don't we say, "prevent the boiler from bursting"?

H.M.Jr: I said "from blowing up".

Foley: "Bursting" or "blowing up" instead of "disastrous explosion. It's too fancy.

White: We had this boiler doing everything. (Laughter).

Kuhn: Mr. Secretary, you should have been in at the meeting on Saturday. The time we spent trying

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to figure out what this boiler was doing.

- Bell: Expanding?
- White: We put on valves and took them off.
- H.M.Jr: I gave them this thing and ruined their Saturday. You did give me my boa-constrictor.
- White: I said we should have had it in and taken it out when you saw it. (Laughter). We finally took it out before.
- Foley: We put that around the boiler. (Laughter).
- H.M.Jr: That is wonderful. That is perfect. You don't like my boa-constrictor?
- White: No. We couldn't get enough votes for it to pass.
- H.M.Jr: All right. "....We are making every effort to damp down the fires by withdrawing purchasing power by means of taxes and sales of savings bonds and stamps.
- "But more effort is needed than we are now making to increase the supply of goods available to the consumer. I believe that we have failed to push our production of goods to the full capacity of our enormous productive resources. Millions are still unemployed, and there are also millions who, though not classified as unemployed, could be added to the working force if jobs were easily available. In many plants there is unused available capacity, and the sources of necessary raw materials have not been fully used. We should make every attempt to bring in more supplies from other countries, particularly those supplies in which shortages are already appearing."
- White: Well, shortages are appearing here.

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H.M.Jr: Yes. Well now, would somebody get in touch with Nelson Rockefeller and ask him if he has a list of surpluses in Central and South America?

White: I will do that.

H.M.Jr: Will you get in touch with Nelson? What has he got in the way of surpluses?

"....We should make every effort to supplement imports of those things which are scarce with identical or substitute products in this country. We should not hesitate to cut tariff rates wherever such rates operate to keep prices unduly high or the goods unduly scarce."

To the best of my memory, that is the only reference we make to tariff rates, and I think we ought to say more about it.

Elliott: Do you say here in this sentence of -- there is unused available capacity, and the sources of raw materials have not been fully used. Do you think we should spell that out a little more?

H.M.Jr: Yes.

Elliott: There has been so much discussion of steel and aluminum and so on, that if you spelled that out a little more, it would help tremendously in making people understand the other things that were necessary.

White: Our trouble was whether to include that sentence because when we began to name those raw materials which were available and which aren't fully exploited within the country, they are negligible. The difficulty has been, as you have indicated, that they haven't built plant capacity early enough, so that it is now necessary to curtail consumer's consumption in order to have enough

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of the basic materials necessary to increase plant capacity. But if we really gait this to the economic part of it - I don't mean to say the economic, but the double part of the statement, we can include an expansion of that.

Ware: And shouldn't you specify increased plant capacity, which doesn't appear at all?

White: Well, we also have a paragraph on that which we took out. We can put that back. If we do mix this with the other, then we can put some of the things back and expand on that. I don't know how it will read after it is over but we can try it.

Kuhn: Harry, does it mix with the other? That is, the whole question of agricultural surpluses is linked up with that?

White: You will have to find a way of segregating that, even at the expense of some repetition. That is how we get into agricultural surpluses, but you may be able to introduce it by just a few sentences and then pick it up later, so I think it is possible.

H.M.Jr: Do you say anywhere for instance, there is plenty of milk in the country but not enough cheese factories or powdered milk factories, that if we gave half as much thought to increasing the powdered milk and cheese factories as we do steel, there would be enough cheese to go around for us and England and the rest of the world?

Kuhn: We say that in effect, but not so specifically as that.

H.M.Jr: And the same thing is true for eggs. There are plenty of hens. If we just fed them a little

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bit more, they could increase their production.

Kuhn: It is on page twelve.

H.M.Jr: It is true.

Kuhn: The prospective shortage of dairy products is not being caused by shipments to England and so on.

H.M.Jr: But on the other thing, I would like to say, if just half as much thought would go into increasing the cheese factories, powdered milk factories and powdered eggs - is that one of the shortages --

Gaston: Yes, powdered eggs.

H.M.Jr: ...as there is to increasing steel, there would be enough to everybody. No?

Ware: No on two counts. The steel hasn't been produced.

H.M.Jr: I said "as much thought".

Ware: A little "no" on the second count, that is, if you really mean enough for everybody, there isn't enough milk and eggs.

H.M.Jr: Well, of course, you are talking about giving the one third enough milk. Let's put it this way, to give as much milk to everybody as they had last year.

Elliott: I don't know whether this is a practical approach --

H.M.Jr: Is that all right?

Elliott: ...Mr. Secretary, but wouldn't instead of saying "as much thought as has been given to steel", put it in the other way and say that we will be

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caught in the same situation that we are in steel. When the Gano Dunn report came out and we set - the Consumer Division set out their objections to it, our ears were slapped right back.

H.M.Jr: Do you know how the first Gano Dunn report was done?

Elliott: No.

H.M.Jr: George has written a report which I sent to the President, saying we were short ten million tons of steel, and as a result of that, he hired Dunn's report and sent him Haas' report and he said Haas' report was all wrong. Then we analyzed his first report and told him he was wrong and the President said, "Do me a second report." But the thing started on the first report which was written by Haas.

Elliott: Wouldn't it make your statement stronger if you put it the other way?

H.M.Jr: State it again.

Elliott: That the lack of thought and concentrated analysis of the steel situation brought us to this dilemma, and we are doing the same thing on the food?

H.M.Jr: If you don't mind my saying it, if they hire somebody, get somebody better than Gano Dunn.

Elliott: He did admit publicly several weeks ago that he made a mistake.

H.M.Jr: Well, it was a tragic mistake. You see, the trouble is, the Gano Dunns and the Folsoms of

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Rochester, who said we had enough aluminum, those people all disappear and they are not here. Nobody can hold them responsible. But those of us who are here out in front, they hold us responsible for every mistake.

- White: I think the initial mistake they make is in hiring people. All the good ones are already here.
- Gaston: Who represent the trade and not the people.
- H.M.Jr: I think the mistake was made by their mother and father.
- White: Unless you want to go further back. (Laughter)
- Klotz: Oh that is marvelous.
- H.M.Jr: I have got to stop long enough to tell this story - I told this story at supper to Mrs. Maynard Keynes. Did you meet her when she was here? I think everybody else has heard it. What did Hitler's mother say when Hitler was born? And the answer was, she wagged her tail. And Mrs. Maynard Keynes says, "Oh, his mother was a little monkey." (Laughter).

Where was I? "Above all, we must make full use of those supplies that are available, not only in defense production but in the civilian goods which do not compete with defense output.

"I wonder if the housewife knows, when she pays 20% more than she did a year ago for a bag of flour, that our supply of wheat is the largest on record, and that 450,000,000 bushels are stored in Canada and could be imported easily."

Did you check my figures? Check them, George,

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and make it out that that is last year's wheat crop and the year before. You see, it is at least two years' wheat crop.

White: "Twenty" should be "fifteen" but we will change those figures.

H.M. Jr: And also that would be a point for something about the tariff.

"I wonder if she knows, when she pays twice as much for a pound of sugar as she did a year ago" --

Ware: She doesn't.

White: Unfortunately it is only fifteen percent more, but it is still all right.

H.M. Jr: "...I wonder if she knows, when she pays twice as much for a pound of sugar as she did a year ago, that there are huge untouched reserves of sugar in Cuba. I wonder if she knows, when she pays 50 percent more for butter, that we have forty million more pounds of butter in storage than a year ago."

These figures seem to be new to you.

White: The butter is wrong, that is twenty-five percent.

Elliott: These figures are wrong, that is the reason it is new.

White: Which figures are wrong?

Elliott: That "twice as much".

White: Yes, I said that "twice as much" should be "fifteen percent more", and "fifty" percent should be "twenty-five". The difficulty was we

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were dictating, hoping that the facts would fit the spectacular statement but they didn't.

Elliott: You wanted to make it a real one?

Gaston: The statistics fell down, Harry.

White: Yes, but the forty million pounds of butter in storage a year ago is correct.

Elliott: I don't question that statement but I am just asking for my own information, is the Lend-Lease the dent - the dent that has been made in the butter by Lend-Lease - has that changed those figures at all?

White: No. We had better put something in. We had a statement in there saying that I know that the amount of goods going under Lend-Lease has not been a significant factor --

Elliott: Miss Ware whispered in my ear that butter had not been sent at all.

H.M.Jr: Well, we get the list each week of what they do send. George Haas has that, so we know the exact amount of what goes, you see. George has been sick, unfortunately, but he is back here now. Well, we can make it accurate if not dramatic.

"...We have in our own country large reserve stocks of farm products of all kinds which should be released for consumption as rapidly as is necessary to prevent unreasonable price rises."

I would put it this way, "to reverse prices." We have got the price rises. Not only to stop them but get them back.

White: That, I think, requires more thought before you

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are ready to do that, and I think it is rather doubtful - you are taking on a much stronger opposition and you are on the much less strong grounds when you demand a price reduction. You are on, it seems to me, unassailable grounds when you say that what you are concerned with is rising costs. You are talking about what has happened in 1920 and '21. Well, that hasn't happened yet.

H.M.Jr: What you want me to be is a statesman.

Bell: How about saying "price fluctuations" instead of "rises"?

White: What?

Bell: "Releasing it as rapidly as necessary to prevent unreasonable price fluctuations" instead of "price rises".

Maas: You get fluctuations which are reasonable, Dan, you know.

Bell: But you don't want to disturb the market by releasing this.

White: Well, you don't disturb the market so long as you feed it out so that prices do not rise.

H.M.Jr: Well, you have got the idea and we can go on. You people are going to look at that, aren't you?

Elliott: Yes.

H.M.Jr: "...The Government, for example, now holds seven million bales of cotton. Cotton prices have risen from 9½ cents a pound on August 1, 1939, to over 16 cents a pound at the present time. Yet the Senate has passed a bill indefinitely prohibiting all sales of Government-held stocks of cotton. We ought not to withhold

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surpluses from the market in this manner. The housewife ought not to be made to pay in times like these a tribute to profiteers and speculators when she buys a cotton sheet for her home or a shirt for her husband or a suit for her child."

Do you mind instead of saying, "a sheet for her home", "a dress for her back"? I just like it a little bit better.

White: It is usually rayon or silk.

H.M.Jr: "Millions of our people still go without the milk, butter and eggs which nutrition experts have found necessary to good health and good morale."

And here will come in that Fortune statement.

White: Yes, that is exactly where it would come.

H.S.Jr: "...One would imagine that every effort would be made to put more dairy products on the market; yet we are withholding the largest reserves and the largest production of milk, butter, eggs and cheese in our history. We could easily expand our production of dairy products for our own use, and yet leave ample amounts to be sent overseas.

"The prospective shortage of dairy products for sale to the public is not being caused by shipments to England. The higher prices are the result of withholding surpluses from the market and of failing to take the most obvious and easy steps to increase production."

It is a little bit repetitious there. Do you like it?

Klots: I do.

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H.M. Jr: Do you want to say something, Miss Ware?

Ware: This is the place where something from Mr. Wickard might help --

H.M. Jr: Oh yes.

Ware: ...because they are about to push very hard on this expansion of dairy products.

H.M. Jr: They are?

Ware: Yes.

H.M. Jr: But this can all be pulled together so that this would flow consistently with the market basket thing and the whole business. I mean, the whole thing ought to flow together.

"...I know from experience on my own farm that within two months we could increase our supply of milk by feeding some of our huge surpluses of corn to the cows. That is the practical way of getting more milk for our people. I know that we could use some of our surplus grains as feed for chickens, and get more eggs; yet the price of a standard poultry ration has increased 60 percent since the war began. We could feed our surplus grain to hogs and get more pork at prices which the American housewife could pay. Yet the government is withholding 200 million bushels of wheat and 300 million bushels of corn.

"This has been historically a land of milk and honey. There is still plenty of milk and honey, but too much of it is in the warehouses. If we were to let it flow to the public we should not only help in keeping prices stable, but we should be doing something even more important; we should be helping to make our people healthier and happier."

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Did you have so much trouble with this too?

Kuhn: Oh no.

H.M.Jr: Then don't say, "the land of milk and honey."
"Let's make it flow."

Kuhn: We had it in and we took it out.

H.M.Jr: "Let's make it flow."

White: Put it back.

Kuhn: We will put it right back in there. "Too much of it is in the warehouses. Let's make it flow. If we were to let it flow to the public, we could not only help in keeping prices down," and so forth.

H.M.Jr: "Let's make it flow."

"....There are too many people who are looking at farm prices purely from a short-run point of view without any discernible regard for the inevitable after-effects of inflation. Have they forgotten the experience of 1920 and 1921 when farm prices dropped more than fifty percent within twelve months? I want to see a healthy development of agricultural prosperity, and with that objective I helped to initiate" -- and so forth and so on. That is all in again.

"....It would, of course, be ideal if we could solve our problem" --

You know, George and Herbert know all this farm credit stuff and what we did to stop the thing. They could feed that.

White: They could write a couple of paragraphs.

H.M.Jr: Herbert, you and George could feed that stuff.

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You went all through that with me.

Gaston: Well, I will write a memorandum on it.

H.M.Jr: "...It would, of course, be ideal if we could solve our problem of inflation solely by increasing supplies for the consumer. Unfortunately so much of our total output today must go into the defense effort that civilian demand cannot be fully met."

Anything, Miss Elliott?

Elliott: I think right there - reading it last night, "Unfortunately, so much of our total output must go into the defense effort that civilian supply cannot be fully met." I wish that it could be changed to indicate that we all have to change civilian consumption to other things rather than create the idea of rationing, and so on. I don't know whether it will go to that or not, but I am afraid that it might. What do you think, Miss Ware?

Ware: Well, civilian demands being fully met is subject to so many interpretations. Is it in terms of the money in their pockets or nutrition standards? I think if it could be made more explicit than just the general phrase.

H.M.Jr: Well, if you ladies will think it over and decide which way it is better for me to do it, I will do it that way.

"....If we are to prevent prices from shooting upward we must also do something to cut down the demand for goods. In seeking a reduction in the total expenditure for civilian purposes, every effort should be made for economy in the expenditures of the Federal, state and

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local governments. There are many projects not vital for defense nor for the well-being of the people, which can and should be postponed.

"Even the greatest possible savings from public spending would be entirely inadequate."

Elliott: Excuse me, Mr. Secretary. They are certainly going to come back and say, "What can be postponed?" That is where you are going to stop? There has been a good deal of discussion on that.

White: Building of highways, where you don't need them for defense.

Elliott: Yes. Total expenditures for civilian expenses, though, of the average person, don't go to highways. We think in terms of the relief and WPA and NYA and that sort of thing.

White: I am sure that is a question they will ask, and I take it the Secretary will have some views on that and one will not be cutting down the relief. He has made that statement many times, and I don't imagine he will hesitate to make it again.

Elliott: I am not thinking of the questions that will be asked there, but the people who will read this after it goes out in the country. And it will be interpreted, I am afraid, by some people who are fighting NYA and relief, and so on, as endorsing in general. There is a possibility of that.

(Telephone conversation with Secretary Wickard follows).

August 11, 1941
11:30 a.m.

Claude
Wickard: Hello, Henry.

HMJr: Claude.....

W: Yes.

HMJr:I'm working on a statement which I may have to give Wednesday before the Banking and Currency in the House.

W: That's on the price fixing?

HMJr: Yeah. And I - about half of it is going to be on agriculture and agricultural production.

W: Yes.

HMJr: Now, who could you lend-lease to me who could know what's going on and could know what's in your mind, and so that I won't be doing too much or anything that - or too much, if possible - that you don't want me to do.

W: Well.....

HMJr: I'm going way out on this farm price stuff and everything.

W: You're going to hit it pretty hard, are you?

HMJr: I'm going to hit it just as hard as I can.

W: I'm making a speech in Athens, Georgia, tomorrow, in which I'm stepping out on it too, some. I think perhaps you're in a better position to do it than I. I can't get too mean about these things. I've got to live with some of these people, you know, but.....

HMJr: I know.

W:I'm going out on that thing - going out on the inflationary angle, and I'm going way

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out on the freezing of stock thing.

HMJr: Well, you might send me a copy of your speech.

W: I'll - yeah, I'll get - I tell you. I think I'd better have Mr. Bledsoe.....

HMJr: Bledsoe?

W:who is - helped me on this speech and who knows most of the angles in connection with this thing, and - when would you like to see him?

HMJr: Is he an economist?

W: What?

HMJr: Is he an economist?

W: No, he isn't.

HMJr: But he's the fellow you think of.

W: Yes, he's the fellow I think of right now.

HMJr: All right. I want somebody.....

W: Well, he can - we can have an economist go with him - come with him - if you want them to come over and see you or your people.

HMJr: I think if you could have some - well then, let him come over - supposing he contacts - come over - could he come - I'd appreciate.....

W: I can have Mr. Ezekiel come along. I think that would be very well, if Mr. Bledsoe and Mr. Ezekiel both would come, and.....

HMJr: Two o'clock?

W: What?

HMJr: Two o'clock?

W: Two o'clock tomorrow?

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HMJr: Today.

W: Today. All right, two o'clock today.

HMJr: Yeah. Could they go to Harry White's office?

W: Harry White's office at two o'clock today.

HMJr: Yes.

W: All right. All right, I'll have them come over at two o'clock today.

HMJr: Thank you.

W: You bet.

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- H.M.Jr: He is sending Bledsoe and Sieck.
- Gaston: Oh.
- H.M.Jr: Bledsoe is a former Associated Press man who covered the Department of Agriculture. He is sending Bledsoe and Sieck. I know we might as well get in early because there is no use of spending a lot of time on this stuff. He is making a speech tomorrow. He will bring that over. It is on the freezing of cotton.
- White: Coming out against it?
- H.M.Jr: Yes. But he says he can't do much of this but it is just what he would like me to do.
- Gaston: Bledsoe is probably the boy who is writing his speeches.
- H.M.Jr: Yes. He is good.
- "...Even the greatest possible savings from public spending would be entirely inadequate. The amount of non-defense public spending is less than 10 percent" -- I think that is a good point in there.
- "...We must depend largely upon reducing expenditures from private sources."
- Ware: Do you think it is necessary to make this statement about cutting down on defense expenditures in view of the way in which it is likely to be picked up?
- H.M.Jr: Well, I have said it before Ways and Means and I have said it in Senate Finance. I don't have to say it again.
- White: I don't think it will be missed.

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- Gaston: I think what Miss Elliott says is particularly important --
- H.M.Jr: Excuse me. Harry White always insists that I say it (laughter), and Bell always wants to take it out. But maybe we can get them together and this time leave it out.
- White: We will compromise and have it the Secretary's way, as we always do.
- H.M.Jr: I am sorry, Herbert.
- Gaston: If you don't specify what you mean, and that is going to be a little difficult, your views will be associated with the views of the people who are hammering on that particular thing and most of them are - want to cut WPA and cut National Youth and cut the very things you don't want to cut.
- H.M.Jr: Well, I am on record, so we can leave it out.
- Kuhn: Why can't you specify, Mr. Secretary, even with what you have got?
- H.M.Jr: No, I could be up there for a week. I would leave it out. If they want to ask me, all right. We have said it now twice. All right, what else, ladies?
- Elliott: That is all right.
- H.M.Jr: "...The most powerful instrument which the Federal Government has for the reduction of private expenditures is taxation. The tax bill which has just passed the House of Representatives is a forward step. But as I indicated to the Finance Committee of the Senate last Friday, we must have still heavier general taxation next year if we are to help dampen the inflationary fires under the boiler to

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maintain successfully the balance between supply and demand."

I think that is all right.

Kuhn: The boiler is in there, Mr. Secretary, again in that sentence.

H.M. Jr: All right.

".....Government borrowing from current consumer incomes serves the same purpose" -- now, that thing is very lovely but not one person in a hundred will understand it unless somebody feels it awfully strongly, and I would leave it out.

White: Let's try to put it in more simple terms.

H.M. Jr: But the way it is now, nobody but a member of the American Economists' League would know what it is.

Ball: Well, the sale of government securities directed to the public --

Gaston: But it is the basis of our whole Defense Savings campaign, so I think you ought to pay some attention to it.

H.M. Jr: No one would guess that, Herbert, from that sentence.

Kuhn: You say it in the next sentence, Mr. Secretary. "The Treasury Department wishes to obtain as large a portion of its borrowing as possible --"

H.M. Jr: That is all right.

Ware: But if you can put that idea as an "if" in the sentence before it, then I think it will be clear.

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H.M. Jr: Well, it has to be made simpler. I repeat myself and I want to address myself to the cop on the corner.

Ware: The cop can understand that if the money he was going to pay for a pair of shoes goes into a savings bank, it won't go into a pair of shoes.

H.M. Jr: Something like that.

Ware: But if the money that was going into the savings bank goes into the savings bank, he will still go and buy the pair of shoes with the money he intended to buy a pair of shoes with.

H.M. Jr: Something like that so the cop and I can understand it.

"....The Treasury Department wishes to obtain as large a portion of its borrowing as possible from current consumer incomes. In order to do this, we are looking particularly to the sale of defense savings bonds and stamps. We are directing our major effort to placing these securities where they will do the most good in checking inflation. We are also, through the sale of tax" -- and so forth and so on. That is our standard. What did you do, take that out of a bulletin?

White: Pulled it out of a pigeon hole.

H.M. Jr: "...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," --

Now there you are getting into the thing where I was just going to list a whole flock of things the way we did in that price thing to the President.

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White: One, two, three --

Kuhn: This is just a list.

H.M.Jr: But I listed that. I don't think you can improve on the way we did to the President a month ago, which has never been made public.

White: That is right.

H.M.Jr: That was a good job and a lot of people sat in on that.

White: We tried to concentrate it, but it is better with the expansion that appeared in that document.

H.M.Jr: I would do it just the way it was done there. You might give Miss Elliott a copy of our price statement to the President, because that was - preceded the - the President read that and the next day saw Henderson and Henderson always thought it was very helpful.

Kuhn: I have a copy of that.

H.M.Jr: "....Each of these types of control would strike directly at a source of nondefense spending, and so would relieve the upward pressure on prices both generally and at points where it is particularly acute.

"I have so far suggested two important methods of preventing inflation, two ways of preventing the explosion -- one to strengthen the boiler, and the other to damp down the fires. The problem of inflation cannot, however, be completely solved by these two over-all methods. Even with the expanded output of consumption goods and the restriction on expenditures on such goods, there still will remain pressure on prices

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of specific commodities. This bill is especially designed to take care of those specific price rises which elude the over-all methods of control.

"We need all three methods if we are to succeed in controlling inflation. We must expand production -- we must restrict expenditure -- and we must have the power to control prices."

Ware: Wouldn't that be good up in the very beginning instead of on the middle of page eighteen?

H.M.Jr: Ferdie?

Kuhn: It would be complicated.

H.M.Jr: To get anything over to these people you have to say it three times and you have to raise your voice a little louder each time, and then they turn you down.

"....The Treasury proposes to do everything in its power to prevent inflation through its tax and borrowing policies. I hope that every citizen - every housewife" -- I have got two dashes but no dots. You left them off.

Kuhn: It should be a comma after "citizen" and comma after "housewife".

H.M.Jr: "....will insist that all appropriate measures be taken to increase the supply of goods on the market. And if Congress passes this bill, giving the President the authority to control prices where necessary, I am sure that we will avoid making the serious mistake that we made 25 years ago.

"As Secretary of the Treasury I must, of course, pay particular attention to the effect of inflation

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upon the government's finances. The government is itself concerned with the problem of inflation not only as a seller of defense bonds, but also as the nation's largest purchaser. As the nation's largest purchaser, we stand to be the nation's largest loser if prices continue to rise. We have a 50 billion defense program the bulk of which is to be spent on purchases of materials. If prices behave as they did during the World War, we will find that our defense program will cost us double without giving us a single additional gun or plane for that extra expenditure. If that happens, not only will we have to double taxes, but our outstanding debt, already high, will reach dangerous proportions."

Ware: where you talk about the cost of the government, you say, "prices double - without a single additional gun or plane", it would be well to enumerate things like shoes and food, that there is no - that is, the things which also fit with the civilian consumption that you have been talking about earlier.

H.M.Jr: It is a good point.

Ware: Home supplies as well as ordnance.

H.M.Jr: Yes.

"...Furthermore, as the nation's largest employer we are also concerned. Apart from the armed forces, the government employs more than one million people with a payroll now running at the rate of 2-1/2 billion a year."

You know, that was a surprise to me, two and a half billion.

"....A substantial rise in the cost of living will raise for us as an employer nothing but a

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choice of evils: to permit the real incomes of our employees to be unjustly reduced, or to increase still further the payroll that we must meet."

Now, I have got a thing in here, a little dirty, dirty. How about saying that the wives of everyone of you Congressmen are affected just as much as everybody else.

Klotz: Oh no.

H.M.Jr: No? Too dirty?

Klotz: Oh yes.

H.M.Jr: Don't like it? All right. Lubin was going to have me address the whole thing to the Congressmen's wives. What happened to that?

White: He gave us a statement from which this was extracted or rather, his statement was condensed into this. I didn't know that he was addressing it to the Congressmen. It was just an academic recital.

H.M.Jr: That is what he talked about, show the Congressmen what happened and what they did to take care of their own salaries last time and they will have to do the same thing now.

White: He didn't have that in there. We could put it in. I think it is always best to leave that implication rather than put them on any different plane than you put yourself.

H.M.Jr: Well, I would like to send - if this statement proves to be good I would like to send a copy of it - a letter from me to every Congressman's wife, including the statement.

Foley: That will be all right.

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- White: It is an interesting idea. I don't think the wife of a Congressman ever got any letter other than an invitation or a bill. I think it is a good idea.
- Bell: A little propaganda.
- H.M.Jr: Well, what is our business?
- Bell: Well, not that. I don't believe I would do that.
- H.M.Jr: Well, we will think about it.
- White: Maybe the Consumers' Division might do it.
- Elliott: I was going to say we would send it and underscore it with red ink.
- H.M.Jr: I wouldn't mind doing it. I would like her to take it up at the breakfast table with him.
- Klotz: She would.
- H.M.Jr: Say, "Dear Mrs. Cotton Ed Smith, after reading this letter, if you agree with me, won't you please discuss this at breakfast with Ed?"
- White: Are you sure she can read? (Laughter).
- H.M.Jr: Harry doubts whether she can read.
- "...Moreover, millions of people who are now responding to our pleas for cooperation in financing our defense effort have the right to demand that we prevent inflation. These people were asked to invest in defense savings bonds partly as a means of preventing inflation. They are entitled to the assurance that they will not now be sufferers from inflation.
- "Now, I ask you, can we give them that assurance

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in good faith, knowing the danger of inflation that confronts us, unless we take positive steps now to prevent that inflation from occurring? We must keep faith with those who have shown their patriotism and their faith in us."

Awfully risky stuff, but I know I suggested it.

Kuhn: I don't think it is risky in this way, Mr. Secretary. I think you could even put it on the cover of whatever pamphlet you send out.

H.M.Jr: I guess it is true.

"...Inflation does more than merely to rob the wage-earner of a portion of his earnings. It is more destructive of morale than any other single force. Inflation divides the country. It sets up producers against consumers, workers against employers, the people who owe money against the people to whom the money is owed. No group in the community profits from inflation except the Three Horsemen -- the speculator, the profiteer, and the hoarder."

I think that is swell.

Kuhn: It is Herbert's.

H.M.Jr: Is it Herbert's?

Kuhn: Sure.

Gaston: No, not me.

White: Don't rob me of the credit.

Kuhn: It must have been yours, then.

H.M.Jr: Are you the Three Musketeers, Harry? Is that yours? It is very good, excellent. I don't

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know whether that isn't so good that I would like to say it right in the beginning.

Kuhn: You have to have an ending, Mr. Secretary, with a smack in it.

H.M.Jr: They may have left the room by that time.
(Laughter).

Foley: They will be going out to vote.

H.M.Jr: "...There is no better single way of building American morale in the present emergency than to assure our people that the money they earn and the money they save will retain its full value in purchasing goods and services a month from now, a year from now, and 10 years from now."

In other words, Harry, you are coming out for a commodity dollar.

White: A rubber dollar.

H.M.Jr: "...At a time when we are calling upon the people for ever increasing sacrifice to strengthen our defenses, we must not deprive them of their just claim by decreasing the purchasing power of their wages, through a higher cost for food, for clothing and for shelter."

What you could say in there is that President Roosevelt said in August, 1933 in his letter to the Economic Conference in London is that - and then quote it. About the purchasing power of the dollar.

"...I favor the control of prices to prevent inflation. Price control, however, must now limit the flow of commodities available for expanded production. Furthermore, price

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control must be flexible to be successful. If the provision for a rigid minimum ceiling on farm products is retained in the bill before you, it is estimated by the Consumer Division of OPACS that the cost of food products may be expected to rise from 20 to 25 percent, and the cost of living will rise from 6 to 8" -- well, they are going to handle that for me, aren't you? Because six to eight percent doesn't sound terrible.

"For these reasons I believe it would be preferable to omit from the bill the minimum ceiling for agricultural commodities. 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."

Well, I think it is a good draft and I think if all these good people will continue to help me - when do you think, Miss Elliott, we could have something from you? I don't think I had better attempt to give Mrs. Roosevelt anything tonight. It won't be satisfactory. I think I will just say --

- Elliott: If you could give us a day on it I think we could get a better statement for you and you would have a better --
- H.M.Jr: What time would you like to start in the morning? What time could you start tomorrow morning?
- Elliott: As early as you choose in the morning because I think we can get what we can do today.

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H.M.Jr: Nine o'clock?

Elliott: Yes.

H.M.Jr: I think I will just tell Mrs. Roosevelt - and would you keep in touch with Harry White, back and forth?

Elliott: Yes.

H.M.Jr: Also we will have another crack at this tomorrow morning.

White: Was it your thought that you still wanted the Agricultural people to work with us on it this afternoon?

Bell: All but that part.

H.M.Jr: You mean - what?

White: Well, let's do what we can --

H.M.Jr: You would rather have them come in tomorrow morning?

White: I think it might be better for them to come in when we have got some kind of draft that incorporates --

H.M.Jr: You call up Sieck and tell him he and Bledsoe should come over tomorrow morning at nine o'clock.

Bell: Are you sure, Mr. Secretary, you will not be called tomorrow?

Foley: Yes.

White: Well, do you think it might be possible for you to have something by three or four?

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- Elliott: Yes. I think we could get --
- Kuhn: This afternoon?
- Elliott: But it will not be as complete as we would like to have it.
- White: Well, see what you can do for us by three, and send over whatever you have and we will continue to work on this, because we might get stuck if you don't.
- Elliott: There is one question I want to ask before we adjourn here just as a matter of information. You say in here it is estimated by the Consumer Division of OPACS that if this goes through Mr. Henderson is on a limb on that hundred and ten, as you know, and I wonder if it is a wise thing to say that, since we are a part of OPACS.
- White: What limb is he on? He is favoring it, you mean?
- Elliott: Well, I think it was rather a difficult situation he was placed in there to get this thing started and I believe it would be wiser not to say the Consumer Division of OPACS because some of those men might pick that up and make it difficult for Mr. Henderson in other ways.
- H.M.Jr: I can say that.
- White: It happens to be a fact we are not recommending it but we don't have to say it. Would the Bureau of Labor Statistics arrive at the same results? Did you get that from them?
- Elliott: Yes.
- Ware: We will have something on those figures.

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White: So we can quote the Bureau of Labor Statistics?

Elliott: Oh yes. I am just raising for expediency that question. They asked Mr. Henderson the other day why that hundred and ten and he dodged. He had to. I mean, there wasn't anything else he could do.

H.M. Jr: I don't want to set nine o'clock tomorrow to be unreasonable. I can make it any time tomorrow.

White: Judging from the past, if you could make it a little later in the morning, that would give us time to have a clean draft probably the first thing in the morning. Ten-thirty, probably. If you are going to appear Wednesday, then I think we have got to push it faster than that.

H.M. Jr: Well, let's have it at ten-thirty tomorrow morning and if we find I have got to go up Wednesday - well, what is an hour and a half? That gives you more time?

Kuhn: Well, you can have the typing done in the morning of a complete draft.

White: It is all right. If you want it at nine we can have it at nine.

H.M. Jr: No. Will you compromise with me and let's say - I will say ten-thirty. Is that all right? Am I asking too much?

Ware: No, no, it is all right.

Elliott: Ten-thirty is all right. We will be glad to do it.

H.M. Jr: Well, you get something over to us as soon as

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you can.

- Ware: We will get what we can this afternoon and then we will get a fuller document earlier in the morning.
- H.M.Jr: And can you give the material to Haas to do the pretty pictures with?
- Elliott: Tomorrow.
- H.M.Jr: Tomorrow. All right.
- Kuhn: It will be a great help to get something this afternoon because otherwise we couldn't do a new draft of this.
- Elliott: There may be some corrections in it.
- Kuhn: That doesn't matter.
- H.M.Jr: And Harry, I would tell those Agricultural fellows not to come until ten-thirty tomorrow.
- Elliott: To whom should this material go?
- H.M.Jr: Mr. White. I am ever so much obliged. It is terribly nice of you to come.

PRELIMINARY DRAFT

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. /

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. /

If we are timid -- we in the Executive departments and you in the halls of Congress -- the consequences 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

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of our country as a whole, and forget about special interests, we can prevent inflation from fastening its grip upon us. /

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. /

Memories are so short that I suppose many housewives have forgotten what happened the last time inflation struck us 25 years ago. In 1916, the cost of living began to rise sharply, but there were few who saw its significance and nothing was done about it. /

It was not until April 1917 that the first real tocsin of alarm was sounded against inflation. It was not until

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prices had risen by over 70 per cent that the President recommended any steps to prevent inflation. In fact, so little aware were they of the dangers of inflation that in June 1917 Congress reduced the reserve requirements for member banks of the Federal Reserve System. /

By 1918 the process was in full swing. In 1920, a ten-pound bag of sugar cost \$2.67, a dozen eggs cost 92 cents, a ten-pound bag of flour cost 88 cents, a pound of butter cost 76 cents, and a pound of pork chops cost 50 cents. The same amount of money brought fewer and fewer things home in the market basket. Then came the reaction, with tumbling prices and bankrupt farms and millions out of work. /

In many respects our position today resembles that of the summer of 1916, when inflation was actually on the way. We have now, as we had then, a moderate rise in the cost of living, a great rise in wholesale prices, and a still greater rise in the prices of basic commodities, like wheat, hogs, cotton and lumber.

It is the rise in the prices of basic commodities that constitutes our danger signal today. For they rise first, general wholesale prices always lag behind, while the cost of living does not show anything like the full effects of inflation

until long after its seeds have taken root. /

Yet see what has already happened to the cost of living. I am sure that the average housewife is disturbed when she finds that the prices she has to pay for a basket of groceries are distinctly higher now than a month ago and much higher than a year ago. / She must now dip deeper into her household budget to pay 5¢ more for a 10-pound bag of flour, 8¢ more for a 10-pound bag of sugar, 6¢ more for a pound of pork chops, 9¢ more for a pound of butter, and 9¢ more for a dozen eggs. These are increases of 15 to 30 per cent in the cost of staple foods in a single year.

The rise in prices is by no means confined to foodstuffs. I have before me the actual figures on the cost of constructing a standard six-room frame house in one of our typical cities. Materials needed to build this home now cost 17 per cent more than a year ago, and labor costs are 24 per cent higher. On top of that, contractors' profits and overhead costs are 18 per cent higher. The home that could have been built a year ago for \$8,000, now costs \$7,140, an increase of nearly 20 per cent. /

How reminiscent all this is of prices in 1918! Unlike the situation in 1918, however, we are now aware of what is happening. We now know, or ought to know, that the time to do

something about inflation is before it occurs, not after it has gathered momentum. We should profit by our greater knowledge, and take prompt and effective action now. /

The inflationary forces at work are plain to be seen. Our defense expenditures are rapidly increasing. During the fiscal year 1942 they will be at least two and a half times as much as in the fiscal year 1941, and probably much higher. They are being financed largely through government borrowing, which has the effect of increasing the total demand for goods. /

As the defense program grows we must expect further upward pressure on prices. The program gives many people more money to spend without increasing the supply of goods they can buy with it. It has been estimated that the American people will have ten billions more in their pockets this fiscal year than last. Unfortunately, instead of there being more goods to buy with that added money, there will be less. /

There have been other influences at work to force prices up. Among them are a sharp expansion of bank credit, shortages of raw materials, absorption of idle capacity in many industries, and cutting off of normal foreign sources of supplies.

I feel strongly that unless we adopt a reasonable and moderate measure such as the Bill before you we shall be forced later to take much more drastic steps.

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But we shall be making a very serious mistake, I think, if we regard this bill as the complete answer to the inflation problem. It can only be a part of a program to get the result we want. We know from the experiences of other countries as well as our own that any attempt to legislate prices is bound to fail unless it is accompanied by measures to increase the supply and reduce the demand for goods.

The situation in our economy today resembles an overloaded steam boiler. The fire under the boiler is being fed by \$10 billions of additional purchasing power in the hands of the public. The fire is growing hotter and is generating more steam than the boiler can safely hold. If we are to prevent a disastrous explosion, we must damp down the fires

by withdrawing purchasing power, and strengthen the boiler by increasing supplies of goods./

We are making every effort to damp down the fires by withdrawing purchasing power by means of taxes and sales of savings bonds and stamps.

But more effort is needed than we are now making to increase the supply of goods available to the consumer. I believe that we have failed to push our production of goods to the full capacity of our enormous productive resources. Millions are still unemployed, and there are also millions who, though not classified as unemployed, could be added to the working force if jobs were easily available. In many plants there is unused available capacity, and the sources of necessary raw materials have not been fully used. We should make every attempt to bring in more supplies from other countries, particularly those supplies in which shortages are already appearing./ We should

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make every effort to supplement imports of those things which are scarce with identical or substitute products in this country. We should not hesitate to cut tariff rates wherever such rates operate to keep prices unduly high or the goods unduly scarce. /

Above all, we must make full use of those supplies that are available, not only in defense production but in the civilian goods which do not compete with defense output.

I wonder if the housewife knows, when she pays 20% more than she did a year ago for a bag of flour, that our supply of wheat is the largest on record, and that 450,000,000 bushels are stored in Canada and could be imported easily. /
I wonder if she knows, when she pays twice as much for a pound of sugar as a year ago, / that there are huge untouched reserves of sugar in Cuba. I wonder if she knows, when she

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pays 50 percent more for butter, that we have forty million more pounds of butter in storage than a year ago./ We have in our own country large reserve stocks of farm products of all kinds which should be released for consumption as rapidly as is necessary to prevent unreasonable price rises. /

The Government, for example, now holds seven million bales of cotton. Cotton prices have risen from 9½ cents a pound on August 1, 1939, to over 16 cents a pound at the present time. Yet the Senate has passed a bill indefinitely prohibiting all sales of Government-held stocks of cotton. We ought not to withhold surpluses from the market in this manner. The housewife ought not to be made to pay in times like these a tribute to profiteers and speculators when she buys a cotton sheet for her home or a shirt for her husband or a suit for her child./

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Millions of our people still go without the milk, butter and eggs which nutrition experts have found necessary to good health and good morale. / One would imagine that every effort would be made to put more dairy products on the market; yet we are withholding the largest reserves and the largest production of milk, butter, eggs and cheese in our history. We could easily expand our production of dairy products for our own use, and yet leave ample amounts to be sent overseas.

The prospective shortage of dairy products for sale to the public is not being caused by shipments to England. The higher prices are the result of withholding surpluses from the market and of failing to take the most obvious and easy steps to increase production. /

I know from experience on my own farm that within two months we could increase our supply of milk by feeding some

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of our huge surpluses of corn to the cows. That is the practical way of getting more milk for our people. I know that we could use some of our surplus grains as feed for chickens, and get more eggs; yet the price of a standard poultry ration has increased 60 percent since the war began. We could feed our surplus grain to hogs and get more pork at prices which the American housewife could pay. Yet the government is withholding 200 million bushels of wheat and 300 million bushels of corn.

This has been historically a land of milk and honey. There is still plenty of milk and honey, but too much of it is in the warehouses. If we were to let it flow to the public we should not only help in keeping prices stable, but we should be doing something even more important; we should be helping to make our people healthier and happier.

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There are too many people who are looking at farm prices purely from a short-run point of view without any discernible regard for the inevitable after-effects of inflation. Have they forgotten the experience of 1920 and 1921 when farm prices dropped more than fifty percent within twelve months? 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. Holding fast to that objective, I am convinced that we must not ignore the danger signals ahead.

It would, of course, be ideal if we could solve our problem of inflation solely by increasing supplies for the consumer. Unfortunately so much of our total output today must go into the defense effort that civilian demand cannot be fully met.

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If we are to prevent prices from shooting upward we must also do something to cut down the demand for goods. In seeking a reduction in the total expenditure for civilian purposes, every effort should be made for economy in the expenditures of the Federal, state and local governments. There are many projects not vital for defense nor for the well-being of the people, which can and should be postponed.

Even the greatest possible savings from public spending would be entirely inadequate. The amount of non-defense public spending is less than 10 percent of the total non-defense spending by public and private sources. We must depend largely upon reducing expenditures from private sources.

The most powerful instrument which the Federal Government has for the reduction of private expenditures is taxation. The tax bill which has just passed the House of Representatives is a forward step. But as I indicated to the Finance Committee of the Senate last Friday, we must have still heavier general taxation next year if we are to help dampen the inflationary fires under the boiler to maintain successfully the balance between supply and demand.

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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.

The Treasury Department wishes to obtain as large a portion of its borrowing as possible from current consumer incomes. In order to do this, we are looking particularly to the sale of defense savings bonds and stamps. We are directing our major effort to placing these securities where they will do the most good in checking inflation. We are also, through the sale of tax anticipation notes, using the borrowing power as a means of reducing the lag between the accrual and payment of the income tax -- thus increasing the effectiveness of that tax as an instrument to combat inflation.

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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, control 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 nondefense spending, and so would relieve the upward pressure on prices both generally and at points where it is particularly acute.

I have so far suggested two important methods of preventing inflation, two ways of preventing the explosion -- one to strengthen the boiler, and the other to damp down the fires. The problem of inflation cannot, however, be completely solved by these two over-all methods. Even with the expanded output

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of consumption goods and the restriction on expenditures on such goods, there still will remain pressure on prices of specific commodities. This bill is especially designed to take care of those specific price rises which elude the over-all methods of control.

We need all three methods if we are to succeed in controlling inflation. We must expand production -- we must restrict expenditure -- and we must have the power to control prices. /

The Treasury proposes to do everything in its power to prevent inflation through its tax and borrowing policies. I hope that every citizen - every housewife will insist that all appropriate measures be taken to increase the supply of goods on the market. And if Congress passes this bill, giving the President the authority to control prices where necessary,

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I am sure that we will avoid making the serious mistake that we made 25 years ago.

As Secretary of the Treasury I must, of course, pay particular attention to the effect of inflation upon the government's finances. The government is itself concerned with the problem of inflation not only as a seller of defense bonds, but also as the nation's largest purchaser. As the nation's largest purchaser, we stand to be the nation's largest loser if prices continue to rise. We have a \$90 billion defense program the bulk of which is to be spent on purchases of materials. If prices behave as they did during the World War, we will find that our defense program will cost us double without giving us a single additional gun or plane for that extra expenditure. If that happens, not only will we have to double taxes, but our outstanding debt, already high, will reach dangerous proportions.

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Furthermore, as the Nation's largest employer we are also concerned. Apart from the armed forces, the government employs more than one million people with a payroll now running at the rate of \$2-1/2 billion a year. / A substantial rise in the cost of living will raise for us as an employer nothing but a choice of evils: to permit the real incomes of our employees to be unjustly reduced, or to increase still further the payroll that we must meet. /

Moreover, millions of people who are now responding to our pleas for cooperation in financing our defense effort have the right to demand that we prevent inflation. These people were asked to invest in defense savings bonds partly as a means of preventing inflation. They are entitled to the assurance that they will not now be sufferers from inflation.

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Now, I ask you, can we give them that assurance in good faith, knowing the danger of inflation that confronts us, unless we take positive steps now to prevent that inflation from occurring? We must keep faith with those who have shown their patriotism and their faith in us. /

Inflation does more than merely to rob the wage-earner of a portion of his earnings. It is more destructive of morale than any other single force. Inflation divides the country. It sets up producers against consumers, workers against employers, the people who owe money against the people to whom the money is owed. No group in the community profits from inflation except the Three Horsemen -- the speculator, the profiteer, and the hoarder.

There is no better single way of building American morale in the present emergency than to assure our people that the

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money they earn and the money they save will retain its full value in purchasing goods and services a month from now, a year from now, and 10 years from now. /

At a time when we are calling upon the people for ever increasing sacrifice to strengthen our defenses, we must not deprive them of their just claim by decreasing the purchasing power of their wages, through a higher cost for food, for clothing, and for shelter.

I favor the control of prices to prevent inflation. Price control, however, must not limit the flow of commodities available for expanded production. Furthermore price control must be flexible to be successful. If the provision for a rigid minimum ceiling on farm products is retained in the bill before you, it is estimated by the Consumer Division of OPA&S

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that the cost of food products may be expected to rise from 20 to 25 percent, and the cost of living will rise from 6 to 8 percent, even if clothing, shelter and other items remain at their present price level. For these reasons I believe it would be preferable to omit from the bill the minimum ceiling for agricultural commodities. 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.

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Treasury Department
Division of Monetary Research

Date.....19

To: Mr. Dennis

From: L. Shanahan

This is a copy of the draft state-
ment taken to meeting in the Secretary's
office August 11, at 10:00 a.m.

PRELIMINARY DRAFT

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.

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.

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

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Back to meeting in his office at 10:00 8/9/41

of our country as a whole, and forget about special interests, we can prevent inflation from fastening its grip upon us.

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 ^{we cannot wait longer to take} _{the} American housewife, farmer, workingman, and business man, from a danger that threatens them all.

Memories are so short that I suppose many ^{of us} ~~housewives~~ have forgotten what happened the last time inflation struck us 25 years ago. In 1916, the cost of living began to rise sharply, but there were few who saw its significance and nothing was done about it.

It was not until April 1917 that the first real tossin of alarm was sounded against inflation. It was not until

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prices had risen by over 70 percent that the President recommended any steps to prevent inflation. In fact, so little aware were they of the dangers of inflation that in June 1917 Congress reduced the reserve requirements for member banks of the Federal Reserve System.

By 1918 the process was in full swing. In 1920, a ten-pound bag of sugar cost \$2.67, a dozen eggs cost 92 cents, a ten-pound bag of flour cost 88 cents, a pound of butter cost 76 cents, and a pound of pork chops cost 50 cents. The ~~same~~ ^{dollar} amount of ~~money~~ brought fewer and fewer things ~~home in the~~ market basket. *But that was not quite* Then came the reaction, with tumbling prices and bankrupt farms and millions out of work.

In many respects our position today resembles that of the summer of 1918, when inflation was actually on the way. We have now, as we had then, a moderate rise in the cost of living,

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a great rise in wholesale prices, and a still greater rise in the prices of basic commodities, like wheat, hogs, cotton and lumber.

It is the rise in the prices of basic commodities that constitutes our danger signal today. For they rise first, general wholesale prices always lag behind, while the cost of living does not show anything like the full effects of inflation until long after its seeds have taken root.

Yet see what has already happened to the cost of living. I am sure that the average housewife is disturbed when she finds that the prices she has to pay for a basket of groceries are distinctly higher now than a month ago and much higher than a year ago. She must now dip deeper into her household budget to pay 5¢ more for a 10-pound bag of flour, 6¢ more for a 10-pound bag of sugar, 6¢ more for a pound of pork chops,

*forces
market
for rise*

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9¢ more for a pound of butter, and 9¢ more for a dozen eggs. These are increases of 15 to 30 percent in the cost of staple foods in a single year.

The rise in prices is by no means confined to foodstuffs. I have before me the actual figures on the cost of constructing a standard six-room frame house in one of our typical cities. Materials needed to build this home now cost 17 percent more than a year ago, and labor costs are 24 percent higher. On top of that, contractors' profits and overhead costs are 18 percent higher. The ^{house} home that could have been built a year ago for \$6,000, now costs \$7,140, an increase of nearly 20 percent.

How reminiscent all this is of prices in 1918! Unlike the situation in 1918, however, we are now aware of what is happening. We now know, or ought to know, that the time to do something about inflation is before it occurs, not after it

- 6 -

has gathered momentum. We should profit by our greater knowledge, and take prompt and effective action now.

The inflationary forces at work are plain to be seen. Our defense expenditures are rapidly increasing. During the fiscal year 1942 they will be at least two and a half times as much as in the fiscal year 1941, and probably much higher. They are being financed largely through government borrowing, which has the effect of increasing the total demand for goods.

As the defense program grows we must expect further upward pressure on prices. The program gives many people more money to spend without increasing the supply of goods they can buy with it. It has been estimated that the American people will have ten billions ^{dollars} more in their pockets this fiscal year than last. Unfortunately, instead

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of there being more goods to buy with that added money,
there will be less.

Expanded defense program
There have been other influences at work to force
prices up. Among them are a sharp expansion of bank
credit, shortages of ^{many} raw materials, absorption of idle
capacity in many industries, and ^{loss of many} cutting off of normal
foreign sources of supplies.

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I feel strongly that unless we adopt a reasonable and moderate measure, such as the Bill before you we shall be forced later to take much more drastic steps.

But we shall be making a very serious mistake, I think, if we regard this bill as the complete answer to the inflation problem. It can only be ^{one} a part of a program to get the result we want. We know from the experiences of other countries as well as our own that any attempt to legislate prices is bound to fail unless it is accompanied by measures ^{designed to} to increase the supply and reduce the demand for goods.

The situation in our economy today resembles an over-loaded steam boiler. The fire under the boiler is being fed by \$10 billions of additional purchasing power in the hands of the public. The fire is growing hotter and is generating more steam than the boiler can safely hold. If we are to prevent a disastrous explosion, we must damp down the fires

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by withdrawing purchasing power, and strengthen the boiler by increasing supplies of goods.

We are making every effort to damp down the fires by withdrawing purchasing power by means of taxes and sales of savings bonds and stamps.

But more effort is needed than we are now making to increase the supply of goods available to the consumer. I believe that we have failed to push our production of goods to the full capacity of our enormous productive resources. Millions are still unemployed, and there are also millions who, though not classified as unemployed, could be added to the working force if jobs were easily available. In many plants there is unused available capacity, and the sources of necessary raw materials have not been fully used. We should make every attempt to bring in more supplies from other countries, particularly those supplies in which shortages are already appearing. We should

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make every effort to supplement imports of these things which are scarce with identical or substitute products in this country. We should not hesitate to cut tariff rates wherever such rates operate to keep prices unduly high or the goods unduly scarce.

Above all, we must make full use of those supplies that are available, not only in defense production but in the civilian goods which do not compete with defense output.

I wonder if the housewife knows, when she pays 20% more than she did a year ago for a bag of flour, that our supply of wheat is the largest on record, and that 450,000,000 bushels are stored in Canada and could be imported easily.

I wonder if she knows, when she pays twice as much for a pound of sugar as then a year ago, that there are huge untouched reserves of sugar in Cuba. I wonder if she knows, when she

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Comparing with figures
on page 4
sugar would have to
cost only 12¢ per pound
today, and butter
27¢ per pound
flour 34¢
lb.

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pays 50 percent more for butter, that we have forty million more pounds of butter in storage than a year ago. We have in our own country large reserve stocks of farm products of all kinds which should be released for consumption as rapidly as is necessary to prevent unreasonable price rises.

The Government, for example, now holds seven million bales of cotton. Cotton prices have risen from 9½ cents a pound on August 1, 1939, to over 16 cents a pound at the present time. Yet the Senate has passed a bill indefinitely prohibiting all sales of Government-held stocks of cotton. We ought not to withhold surpluses from the market in this manner. The housewife ought not to be made to pay in times like these a tribute to profiteers and speculators when she buys a cotton sheet for her home or a shirt for her husband or a suit for her child.

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Millions of our people still go without the milk, butter and eggs which nutrition experts have found necessary to good health and good morale. One would imagine that every effort would be made to put more dairy products on the market; yet we are withholding the largest reserves and the largest production of milk, butter, eggs and cheese in our history. We could easily expand our production of dairy products for our own use, and yet leave ample amounts to be sent overseas.

The prospective shortage of dairy products for sale to the public is not being caused by shipments to England. The higher prices are the result of withholding surpluses from the market and of failing to take the most obvious and easy steps to increase production.

I know from experience on my own farm that within two months we could increase our supply of milk by feeding some

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of our huge surpluses of corn to the cows. That is the practical way of getting more milk for our people. I know that we could use some of our surplus grains as feed for chickens, and get more eggs; yet the price of a standard poultry ration has increased 80 percent since the war began. We could feed our surplus grain to hogs and get more pork at prices which the American housewife could pay. Yet the government is withholding 200 million bushels of wheat and 300 million bushels of corn.

This has been historically a land of milk and honey. There is still plenty of milk and honey, but too much of it is in the warehouses. If we were to let it flow to the public we should not only help in keeping prices stable, but we should be doing something even more important; we should be helping to make our people healthier and happier.

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There are too many people who are looking at farm prices purely from a short-run point of view without any discernible regard for the inevitable after-effects of inflation. Have they forgotten the experience of 1920 and 1921 when farm prices dropped more than fifty percent within twelve months? 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. Holding fast to that objective, I am convinced that we must not ignore the danger signals ahead.

It would, of course, be ideal if we could solve our problem of inflation solely by increasing supplies for the consumer.

Unfortunately so much of our total output today must go into the defense effort that civilian demand cannot be fully met.

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If we are to prevent prices from shooting upward we must also do something to cut down the demand for goods. In seeking a reduction in the total expenditure for civilian purposes, every effort should be made for economy in the expenditures of the Federal, state and local governments. There are many projects not vital for defense nor for the well-being of the people, which can and should be postponed.

Even the greatest possible savings from public spending would be entirely inadequate. The amount of non-defense public spending is less than 10 percent of the total non-defense spending by public and private sources. We must depend largely upon reducing expenditures from private sources.

The most powerful instrument ^{which} the Federal Government has for the reduction of private expenditures is taxation. The tax bill which has just passed the House of Representatives is a forward step. But as I indicated to the Finance Committee of the Senate last Friday, we must have still heavier general taxation next year if we are to help dampen the inflationary fires under the boiler ^{used} to maintain successfully the balance between supply and demand.

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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.

The Treasury Department wishes to obtain as large a portion of its borrowing as possible from current consumer incomes. In order to do this, we are looking particularly to the sale of defense savings bonds and stamps. We are directing our major effort to placing these securities where they will do the most good in checking inflation. We are also, through the sale of tax anticipation notes, using the borrowing power as a means of reducing the lag between the accrual and payment of the income tax -- thus increasing the effectiveness of that tax as an instrument to combat inflation.

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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, control 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 have so far suggested two important methods of preventing inflation, two ways of preventing the explosion -- one to strengthen the boiler, and the other to dampen down the fires. The problem of inflation cannot, however, be completely solved by these two over-all methods. Even with the expanded output

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of consumption goods and the restriction on expenditures on such goods, there still will remain pressure on prices of specific commodities. This bill is especially designed to take care of those specific price rises which elude the over-all methods of control.

We need all three methods if we are to succeed in controlling inflation. We must expand production -- we must restrict expenditure -- and we must have the power to control prices.

The Treasury proposes to do everything in its power to prevent inflation through its tax and borrowing policies. I hope that every citizen - every housewife will insist that all appropriate measures be taken to increase the supply of goods on the market. And if Congress passes this bill, giving the President the authority to control prices where necessary,

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I am sure that we will avoid making the serious mistake that we made 25 years ago.

As Secretary of the Treasury I must, of course, pay particular attention to the effect of inflation upon the government's finances. The government is itself concerned with the problem of inflation not only as a seller of defense bonds, but also as the nation's largest purchaser. As the nation's largest purchaser, we stand to be the nation's largest loser if prices continue to rise. We have a \$50 billion defense program, the bulk of which is to be spent on purchases of materials. If prices behave as they did during the World War, we will find that our defense program will cost us double without giving us a single additional gun or plane for that extra expenditure. If that happens, not only will we have to double taxes, but our outstanding debt, already high, will reach dangerous proportions.

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Furthermore, as the nation's largest employer we are also concerned. Apart from the armed forces, the government employs more than one million people with a payroll now running at the rate of \$2-1/2 billion a year. A substantial rise in the cost of living will raise for us as an employer nothing but a choice of evils: to permit the real incomes of our employees to be unjustly reduced, or to increase still further the payroll that we must meet.

Moreover, millions of people who are now responding to our pleas for cooperation in financing ^{the} our defense effort have the right to demand that we prevent inflation. These people were asked to invest in defense savings bonds partly as a means of preventing inflation. They are entitled to the assurance that they will not now be sufferers from inflation.

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~~inflation~~ Now, I ask you, can we give them that assurance in good faith, knowing the danger of inflation that confronts us, unless we take positive steps now to prevent that inflation from occurring? We must keep faith with those who have shown their patriotism and their faith in us.

Inflation does more than merely ^{to} rob the wage-earner of a portion of his earnings. It is more destructive of morale than any other single force. Inflation divides the country. It sets up producers against consumers, workers against employers, the people who owe money against the people to whom the money is owed. No group in the community profits from inflation except the Three Horsemen -- the speculator, the profiteer, and the hoarder.

There is no better single way of building American morale in the present emergency than to assure our people that the

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money they earn and the money they save will retain its full value in purchasing goods and services a month from now, a year from now, and 10 years from now.

At a time when we are calling upon the people for ever increasing sacrifice to strengthen our defenses, we must not deprive them of their just claim by decreasing the purchasing power of their wages, through a higher cost for food, for clothing, and for shelter.

I favor the control of prices to prevent inflation. Price control, however, must not limit the flow of commodities available for expanded production. Furthermore price control must be flexible to be successful. If the provision for a rigid minimum ceiling on farm products is retained in the bill before you, it is estimated by the Consumer Division of OPACS

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that the cost of food products may be expected to rise from 20 to 25 percent, and the cost of living will rise from 6 to 8 percent, even if clothing, shelter and other items remain at their present price level. For these reasons I believe it would be preferable to omit from the bill the minimum ceiling for agricultural commodities. 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.

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This draft was sent to the Secretary at the farm via Lt. Sinton at 3:00 on Sunday afternoon, August 10th.

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Discussed at meeting held in HM Jr's office at 10:00 on August 11, 1941.

PRELIMINARY DRAFT
August 9, 1941

Second Draft

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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.

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.

If we are timid -- we in the Executive departments and you in the halls of Congress -- the consequences 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

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of our country as a whole, and forget about special interests, we can prevent inflation from fastening its grip upon us.

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.

Memories are so short that I suppose many housewives have forgotten what happened the last time inflation struck us 25 years ago. In 1916, the cost of living began to rise sharply, but there were few who saw its significance and nothing was done about it.

It was not until April 1917 that the first real tocsin of alarm was sounded against inflation. It was not until

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prices had risen by over 70 percent that the President recommended any steps to prevent inflation. In fact, so little aware were they of the dangers of inflation that in June 1917 Congress reduced the reserve requirements for member banks of the Federal Reserve System.

By 1918 the process was in full swing. In 1920, a ten-pound bag of sugar cost \$2.87, a dozen eggs cost 92 cents, a ten-pound bag of flour cost 88 cents, a pound of butter cost 75 cents, and a pound of pork chops cost 50 cents. The same amount of money brought fewer and fewer things home in the market basket. Then came the reaction, with tumbling prices and bankrupt farms and millions out of work.

In many respects our position today resembles that of the summer of 1916, when inflation was actually on the way. We have now, as we had then, a moderate rise in the cost of living,

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a great rise in wholesale prices, and a still greater rise in the prices of basic commodities, like wheat, hogs, cotton and lumber.

It is the rise in the prices of basic commodities that constitutes our danger signal today. For they rise first, general wholesale prices always lag behind, while the cost of living does not show anything like the full effects of inflation until long after its seeds have taken root.

Yet see what has already happened to the cost of living. I am sure that the average housewife is disturbed when she finds that the prices she has to pay for a basket of groceries are distinctly higher now than a month ago and much higher than a year ago. She must now dip deeper into her household budget to pay 5¢ more for a 10-pound bag of flour, 6¢ more for a 10-pound bag of sugar, 6¢ more for a pound of pork chops,

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8¢ more for a pound of butter, and 9¢ more for a dozen eggs. These are increases of 15 to 30 percent in the cost of staple foods in a single year.

The rise in prices is by no means confined to foodstuffs. I have before me the actual figures on the cost of constructing a standard six-room frame house in one of our typical cities. Materials needed to build this home now cost 17 percent more than a year ago, and labor costs are 24 percent higher. On top of that, contractors' profits and overhead costs are 18 percent higher. The home that could have been built a year ago for \$6,000, now costs \$7,140, an increase of nearly 20 percent.

How reminiscent all this is of prices in 1916! Unlike the situation in 1916, however, we are now aware of what is happening. We now know, or ought to know, that the time to do something about inflation is before it occurs, not after it

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has gathered momentum. We should profit by our greater knowledge, and take prompt and effective action now.

The inflationary forces at work are plain to be seen. Our defense expenditures are rapidly increasing. During the fiscal year 1942 they will be at least two and a half times as much as in the fiscal year 1941, and probably much higher. They are being financed largely through government borrowing, which has the effect of increasing the total demand for goods.

As the defense program grows we must expect further upward pressure on prices. The program gives many people more money to spend without increasing the supply of goods they can buy with it. It has been estimated that the American people will have ten billions more in their pockets this fiscal year than last. Unfortunately, instead

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of there being more goods to buy with that added money, there will be less.

There have been other influences at work to force prices up. Among them are a sharp expansion of bank credit, shortages of raw materials, absorption of idle capacity in many industries, and cutting off of normal foreign sources of supplies.

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I feel strongly that unless we adopt a reasonable and moderate measure such as the Bill before you we shall be forced later to take much more drastic steps.

But we shall be making a very serious mistake, I think, if we regard this bill as the complete answer to the inflation problem. It can only be a part of a program to get the result we want. We know from the experiences of other countries as well as our own that any attempt to legislate prices is bound to fail unless it is accompanied by measures to increase the supply and reduce the demand for goods.

The situation in our economy today resembles an overloaded steam boiler. The fire under the boiler is being fed by \$10 billions of additional purchasing power in the hands of the public. The fire is growing hotter and is generating more steam than the boiler can safely hold. If we are to prevent a disastrous explosion, we must damp down the fires

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by withdrawing purchasing power, and strengthen the boiler by increasing supplies of goods.

We are making every effort to damp down the fires by withdrawing purchasing power by means of taxes and sales of savings bonds and stamps.

But more effort is needed than we are now making to increase the supply of goods available to the consumer. I believe that we have failed to push our production of goods to the full capacity of our enormous productive resources. Millions are still unemployed, and there are also millions who, though not classified as unemployed, could be added to the working force if jobs were easily available. In many plants there is unused available capacity, and the sources of necessary raw materials have not been fully used. We should make every attempt to bring in more supplies from other countries, particularly those supplies in which shortages are already appearing. We should

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make every effort to supplement imports of those things which are scarce with identical or substitute products in this country. We should not hesitate to cut tariff rates wherever such rates operate to keep prices unduly high or the goods unduly scarce.

Above all, we must make full use of those supplies that are available, not only in defense production but in the civilian goods which do not compete with defense output.

I wonder if the housewife knows, when she pays 20% more than she did a year ago for a bag of flour, that our supply of wheat is the largest on record, and that 450,000,000 bushels are stored in Canada and could be imported easily. I wonder if she knows, when she pays twice as much for a pound of sugar ^{as} ~~than~~ a year ago, that there are huge untouched reserves of sugar in Cuba. I wonder if she knows, when she

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The Government, for example, now holds seven million bales of cotton. Cotton prices have risen from $9\frac{1}{2}$ cents a pound on August 1, 1939, to over 16 cents a pound at the present time. Yet the Senate has passed a bill indefinitely prohibiting all sales of Government-held stocks of cotton. We ought not to withhold surpluses from the market in this manner. The housewife ought not to be made to pay in times like these a tribute to profiteers and speculators when she buys a cotton sheet for her home or a shirt for her husband or a suit for her child.

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Millions of our people still go without the milk, butter and eggs which nutrition experts have found necessary to good health and good morale. One would imagine that every effort would be made to put more dairy products on the market; yet we are withholding the largest reserves and the largest production of milk, butter, eggs and cheese in our history. We could easily expand our production of dairy products for our own use, and yet leave ample amounts to be sent overseas.

The prospective shortage of dairy products for sale to the public is not being caused by shipments to England. The higher prices are the result of withholding surpluses from the market and of failing to take the most obvious and easy steps to increase production.

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of our huge surpluses of corn to the cows. That is the practical way of getting more milk for our people. I know that we could use some of our surplus grains as feed for chickens, and get more eggs; yet the price of a standard poultry ration has increased 60 percent since the war began. We could feed our surplus grain to hogs and get more pork at prices which the American housewife could pay. Yet the government is withholding 200 million bushels of wheat and 300 million bushels of corn.

This has been historically a land of milk and honey. There is still plenty of milk and honey, but too much of it is in the warehouses. If we were to let it flow to the public we should not only help in keeping prices stable, but we should be doing something even more important; we should be helping to make our people healthier and happier.

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If we are to prevent prices from shooting upward we must also do something to cut down the demand for goods. In seeking a reduction in the total expenditure for civilian purposes, every effort should be made for economy in the expenditures of the Federal, state and local governments. There are many projects not vital for defense nor for the well-being of the people, which can and should be postponed.

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of consumption goods and the restriction on expenditures on such goods, there still will remain pressure on prices of specific commodities. This bill is especially designed to take care of those specific price rises which elude the over-all methods of control.

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- 19 -

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As Secretary of the Treasury I must, of course, pay particular attention to the effect of inflation upon the government's finances. The government is itself concerned with the problem of inflation not only as a seller of defense bonds, but also as the nation's largest purchaser. As the nation's largest purchaser, we stand to be the nation's largest loser if prices continue to rise. We have a \$50 billion defense program, the bulk of which is to be spent on purchases of materials. If prices behave as they did during the World War, we will find that our defense program will cost us double without giving us a single additional gun or plane for that extra expenditure. If that happens, not only will we have to double taxes, but our outstanding debt, already high, will reach dangerous proportions.

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Furthermore, as the nation's largest employer we are also concerned. Apart from the armed forces, the government employs more than one million people with a payroll now running at the rate of \$2-1/2 billion a year. A substantial rise in the cost of living will raise for us as an employer nothing but a choice of evils: to permit the real incomes of our employees to be unjustly reduced, or to increase still further the payroll that we must meet.

Moreover, millions of people who are now responding to our pleas for cooperation in financing our defense effort have the right to demand that we prevent inflation. These people were asked to invest in defense savings bonds partly as a means of preventing inflation. They are entitled to the assurance that they will not now be sufferers from inflation.

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~~inflation.~~ How, I ask you, can we give them that assurance in good faith, knowing the danger of inflation that confronts us, unless we take positive steps now to prevent that inflation from occurring? We must keep faith with those who have shown their patriotism and their faith in us.

Inflation does more than merely to rob the wage-earner of a portion of his earnings. It is more destructive of morale than any other single force. Inflation divides the country. It sets up producers against consumers, workers against employers, the people who owe money against the people to whom the money is owed. No group in the community profits from inflation except the Three Horsemen -- the speculator, the profiteer, and the hoarder.

There is no better single way of building American morale in the present emergency than to assure our people that the

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money they earn and the money they save will retain its full value in purchasing goods and services a month from now, a year from now, and 10 years from now.

At a time when we are calling upon the people for ever increasing sacrifices to strengthen our defenses, we must not deprive them of their just claim by decreasing the purchasing power of their wages, through a higher cost for food, for clothing, and for shelter.

I favor the control of prices to prevent inflation. Price control, however, must not limit the flow of commodities available for expanded production. Furthermore price control must be flexible to be successful. If the provision for a rigid minimum ceiling on farm products is retained in the bill before you, it is estimated by the Consumer Division of OPACS

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that the cost of food products may be expected to rise from 20 to 25 percent, and the cost of living will rise from 6 to 8 percent, even if clothing, shelter and other items remain at their present price level. For these reasons I believe it would be preferable to omit from the bill the minimum ceiling for agricultural commodities. 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.

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PRELIMINARY DRAFT

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.

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.

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

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of our country as a whole, and forget about special interests, we can prevent inflation from fastening its grip upon us.

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.

Memories are so short that I suppose many housewives have forgotten what happened the last time inflation struck us 25 years ago. In 1916, the cost of living began to rise sharply, but there were few who saw its significance and nothing was done about it.

It was not until April 1917 that the first real tocsin of alarm was sounded against inflation. It was not until

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prices had risen by over 70 percent that the President recommended any steps to prevent inflation. In fact, so little aware were they of the dangers of inflation that in June 1917 Congress reduced the reserve requirements for member banks of the Federal Reserve System.

By 1918 the process was in full swing. In 1920, a ten-pound bag of sugar cost \$2.67, a dozen eggs cost 92 cents, a ten-pound bag of flour cost 88 cents, a pound of butter cost 76 cents, and a pound of pork chops cost 50 cents. The same amount of money brought fewer and fewer things home in the market basket. Then came the reaction, with tumbling prices and bankrupt farms and millions out of work.

In many respects our position today resembles that of the summer of 1916, when inflation was actually on the way. We have now, as we had then, a moderate rise in the cost of living.

a great rise in wholesale prices, and a still greater rise in the prices of basic commodities, like wheat, hogs, cotton and lumber.

It is the rise in the prices of basic commodities that constitutes our danger signal today. For they rise first, general wholesale prices always lag behind, while the cost of living does not show anything like the full effects of inflation until long after its seeds have taken root.

Yet see what has already happened to the cost of living.

I am sure that the average housewife is disturbed when she finds that the prices she has to pay for a basket of groceries are distinctly higher now than a month ago and much higher than a year ago. She must now dip deeper into her household budget to pay 5¢ more for a 10-pound bag of flour, 6¢ more for a 10-pound bag of sugar, 6¢ more for a pound of pork chops,

9¢ more for a pound of butter, and 9¢ more for a dozen eggs. These are increases of 15 to 30 percent in the cost of staple foods in a single year.

The rise in prices is by no means confined to feedstuffs. I have before me the actual figures on the cost of constructing a standard six-room frame house in one of our typical cities. Materials needed to build this home now cost 17 percent more than a year ago, and labor costs are 24 percent higher. On top of that, contractors' profits and overhead costs are 18 percent higher. The home that could have been built a year ago for \$6,000, now costs \$7,140, an increase of nearly 20 percent.

How reminiscent all this is of prices in 1916! Unlike the situation in 1916, however, we are now aware of what is happening. We now know, or ought to know, that the time to do something about inflation is before it occurs, not after it

has gathered momentum. We should profit by our greater knowledge, and take prompt and effective action now.

The inflationary forces at work are plain to be seen. Our defense expenditures are rapidly increasing. During the fiscal year 1942 they will be at least two and a half times as much as in the fiscal year 1941, and probably much higher. They are being financed largely through government borrowing, which has the effect of increasing the total demand for goods.

As the defense program grows we must expect further upward pressure on prices. The program gives many people more money to spend without increasing the supply of goods they can buy with it. It has been estimated that the American people will have ten billions more in their pockets this fiscal year than last. Unfortunately, instead

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of there being more goods to buy with that added money, there will be less.

There have been other influences at work to force prices up. Among them are a sharp expansion of bank credit, shortages of raw materials, absorption of idle capacity in many industries, and cutting off of normal foreign sources of supplies.

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I feel strongly that unless we adopt a reasonable and moderate measure such as the Bill before you we shall be forced later to take much more drastic steps.

But we shall be making a very serious mistake, I think, if we regard this bill as the complete answer to the inflation problem. It can only be a part of a program to get the result we want. We know from the experiences of other countries as well as our own that any attempt to legislate prices is bound to fail unless it is accompanied by measures to increase the supply and reduce the demand for goods.

The situation in our economy today resembles an overloaded steam boiler. The fire under the boiler is being fed by \$10 billions of additional purchasing power in the hands of the public. The fire is growing hotter and is generating more steam than the boiler can safely hold. If we are to prevent a disastrous explosion, we must damp down the fires

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by withdrawing purchasing power, and strengthen the boiler by increasing supplies of goods.

We are making every effort to damp down the fires by withdrawing purchasing power by means of taxes and sales of savings bonds and stamps.

But more effort is needed than we are now making to increase the supply of goods available to the consumer. I believe that we have failed to push our production of goods to the full capacity of our enormous productive resources. Millions are still unemployed, and there are also millions who, though not classified as unemployed, could be added to the working force if jobs were easily available. In many plants there is unused available capacity, and the sources of necessary raw materials have not been fully used. We should make every attempt to bring in more supplies from other countries, particularly those supplies in which shortages are already appearing. We should

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make every effort to supplement imports of those things which are scarce with identical or substitute products in this country. We should not hesitate to cut tariff rates wherever such rates operate to keep prices unduly high or the goods unduly scarce.

Above all, we must make full use of those supplies that are available, not only in defense production but in the civilian goods which do not compete with defense output.

I wonder if the housewife knows, when she pays 20% more than she did a year ago for a bag of flour, that our supply of wheat is the largest on record, and that \$450,000,000 bushels are stored in Canada and could be imported easily. I wonder if she knows, when she pays twice as much for a pound of sugar ^{as} ~~than~~ a year ago, that there are huge untouched reserves of sugar in Cuba. I wonder if she knows, when she

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pays 50 percent more for butter, that we have forty million more pounds of butter in storage than a year ago. We have in our own country large reserve stocks of farm products of all kinds which should be released for consumption as rapidly as is necessary to prevent unreasonable price rises.

The Government, for example, now holds seven million bales of cotton. Cotton prices have risen from 9½ cents a pound on August 1, 1939, to over 16 cents a pound at the present time. Yet the Senate has passed a bill indefinitely prohibiting all sales of Government-held stocks of cotton. We ought not to withhold surpluses from the market in this manner. The housewife ought not to be made to pay in times like these a tribute to profiteers and speculators when she buys a cotton sheet for her home or a shirt for her husband or a suit for her child.

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Millions of our people still go without the milk, butter and eggs which nutrition experts have found necessary to good health and good morale. One would imagine that every effort would be made to put more dairy products on the market; yet we are withholding the largest reserves and the largest production of milk, butter, eggs and cheese in our history. We could easily expand our production of dairy products for our own use, and yet leave ample amounts to be sent overseas.

The prospective shortage of dairy products for sale to the public is not being caused by shipments to England. The higher prices are the result of withholding surpluses from the market and of failing to take the most obvious and easy steps to increase production.

I know from experience on my own farm that within two months we could increase our supply of milk by feeding some

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of our huge surpluses of corn to the cows. That is the practical way of getting more milk for our people. I know that we could use some of our surplus grains as feed for chickens, and get more eggs; yet the price of a standard poultry ration has increased 60 percent since the war began. We could feed our surplus grain to hogs and get more pork at prices which the American housewife could pay. Yet the government is withholding 200 million bushels of wheat and 300 million bushels of corn.

This has been historically a land of milk and honey. There is still plenty of milk and honey, but too much of it is in the warehouses. If we were to let it flow to the public we should not only help in keeping prices stable, but we should be doing something even more important; we should be helping to make our people healthier and happier.

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There are too many people who are looking at farm prices purely from a short-run point of view without any discernible regard for the inevitable after-effects of inflation. Have they forgotten the experience of 1920 and 1921 when farm prices dropped more than fifty percent within twelve months? 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. Holding fast to that objective, I am convinced that we must not ignore the danger signals ahead.

It would, of course, be ideal if we could solve our problem of inflation solely by increasing supplies for the consumer. Unfortunately so much of our total output today must go into the defense effort that civilian demand cannot be fully met.

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If we are to prevent prices from shooting upward we must also do something to cut down the demand for goods. In seeking a reduction in the total expenditure for civilian purposes, every effort should be made for economy in the expenditures of the Federal, state and local governments. There are many projects not vital for defense nor for the well-being of the people, which can and should be postponed.

Even the greatest possible savings from public spending would be entirely inadequate. The amount of non-defense public spending is less than 10 percent of the total non-defense spending by public and private sources. We must depend largely upon reducing expenditures from private sources.

The most powerful instrument which the Federal Government has for the reduction of private expenditures is taxation. The tax bill which has just passed the House of Representatives is a forward step. But as I indicated to the Finance Committee of the Senate last Friday, we must have still heavier general taxation next year if we are to help dampen the inflationary fires under the boiler to maintain successfully the balance between supply and demand.

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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.

The Treasury Department wishes to obtain as large a portion of its borrowing as possible from current consumer incomes. In order to do this, we are looking particularly to the sale of defense savings bonds and stamps. We are directing our major effort to placing these securities where they will do the most good in checking inflation. We are also, through the sale of tax anticipation notes, using the borrowing power as a means of reducing the lag between the accrual and payment of the income tax -- thus increasing the effectiveness of that tax as an instrument to combat inflation.

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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, control 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 have so far suggested two important methods of preventing inflation, two ways of preventing the explosion -- one to strengthen the boiler, and the other to dampen down the fires. The problem of inflation cannot, however, be completely solved by these two over-all methods. Even with the expanded output

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of consumption goods and the restriction on expenditures on such goods, there still will remain pressure on prices of specific commodities. This bill is especially designed to take care of those specific price rises which elude the over-all methods of control.

We need all three methods if we are to succeed in controlling inflation. We must expand production -- we must restrict expenditure -- and we must have the power to control prices.

The Treasury proposes to do everything in its power to prevent inflation through its tax and borrowing policies. I hope that every citizen - every housewife will insist that all appropriate measures be taken to increase the supply of goods on the market. And if Congress passes this bill, giving the President the authority to control prices where necessary,

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I am sure that we will avoid making the serious mistake that we made 25 years ago.

As Secretary of the Treasury I must, of course, pay particular attention to the effect of inflation upon the government's finances. The government is itself concerned with the problem of inflation not only as a seller of defense bonds, but also as the nation's largest purchaser. As the nation's largest purchaser, we stand to be the nation's largest loser if prices continue to rise. We have a \$50 billion defense program, the bulk of which is to be spent on purchases of materials. If prices behave as they did during the World War, we will find that our defense program will cost us double without giving us a single additional gun or plane for that extra expenditure. If that happens, not only will we have to double taxes, but our outstanding debt, already high, will reach dangerous proportions.

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Furthermore, as the nation's largest employer we are also concerned. Apart from the armed forces, the government employs more than one million people with a payroll now running at the rate of \$2-1/2 billion a year. A substantial rise in the cost of living will raise for us as an employer nothing but a choice of evils: to permit the real incomes of our employees to be unjustly reduced, or to increase still further the payroll that we must meet.

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money they earn and the money they save will retain its full value in purchasing goods and services a month from now, a year from now, and 10 years from now.

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

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August 11, 1941

Dear Mr. Stout:

It was very good of you to have written me as you did about my talk at the Amherst Commencement. I am especially glad that you have the same faith as mine in the character of our college generation.

This is just to tell you personally how much I appreciate your letter.

Sincerely yours,

(Signed) E. Mergenthan, Sec

Mr. Robert I. Stout,
President, The First National
Bank of Tekamah,
Tekamah, Nebraska.

FK/hkb

8/11/41

Copy to Mr. Thompson

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Mr. Vahn requested that the file be returned to him, so that he may show it to Secretary on his return.

ROBERT I. STOUT, PRESIDENT

THE FIRST NATIONAL BANK OF TERAMAH, NEBRASKA

July 21, 1941.

Hon. Henry Morgenthau, Jr.
Washington, D.C.

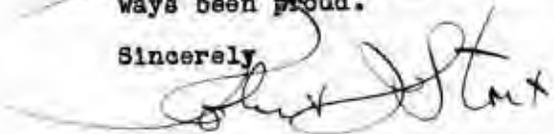
Dear Mr. Morgenthau:

I have just read with pleasure and interest your address at Amherst's Commencement. I wish that every young college student could have heard it or could at least read it. It has that something they seem to need.

I am unable to understand my young college daughter and her friends. Their reasoning, especially about this war is beyond me. Having served through the other war, shortly after leaving college, full of optimism and idealism, it is hard to conceive of their mental functions. They need something to rouse their optimism and idealism for they should be especially attributes of youth. Your address gives them something to think about and should rouse them to saner thinking.

Despite their pessimism I am nothing but optimistic for our youth. I am sure that they are saner than we were when their age and that they will prove to be the kind of men and women of which this country has always been proud.

Sincerely,



RIS:S

July 29, 1941.

Dear Mr. Stout:

In the absence of the Secretary, who is away from Washington on a brief vacation, I am acknowledging your very pleasant letter of July 21st.

You may be sure your letter will be brought to Mr. Morgenthau's attention when he returns to the office the first of next week, and in the meantime I know he would wish me to thank you for your generous praise of the address he recently delivered at Amherst.

Sincerely yours,

H. S. Klats

nnc

H. S. Klats,
Private Secretary.

Mr. Robert I. Stout,
President, The First National
Bank of Tekamah,
Tekamah, Nebraska.

File to - Mr. Kuhn

GEF/dbs

August 11, 1941
9:29 a.m.

HMJr: Hello.

Operator: Admiral Nimitz.

HMJr: Hello.

Admiral Nimitz: Good morning.

HMJr: Hello, Admiral.

N: How are you?

HMJr: I'm all right. How are you?

N: Fine.

HMJr: Admiral, over the week-end Bob was home.

N: Yes.

HMJr: And he brought up a memorandum which was given to all the boys which would give them what they call the "available billets."

N: Yes.

HMJr: And amongst these, of the nine suggestions, none of them were School of Communications.

N: Well, if he applies for the School of Communications, I think that he could get it.

HMJr: You think so?

N: Yes.

HMJr: Well, is it - have you seen this list?

N: I haven't - but I'll look it up right away.

HMJr: I have - I can send you a copy of it over there, if that would save you any trouble.

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N: I'll get it here if it's dated.....

HMJr: It's dated August 8, and is signed by Richard Wagner, by direction.

N: From the Navy Department.

HMJr: From U. S. Naval Reserve Midshipmen's School.

N: Oh, it's up there.

HMJr: Let me send you - it's very.....

N: All right.

HMJr: I'll.....

N: All right.

HMJr:send you over a copy - just.....

N: Yes.

HMJr:address it - I won't send any letter.....

N: All right.

HMJr:and because after talking with Bob, he thought your advice was terribly good and he'd like to follow it.

N: Yeah.

HMJr: Now there's just this one thing. I wouldn't want him singled out as the only boy from Prairie State.

N: No, no - well, we'll - if you'll send that over, I'll look into it.

HMJr: Captain London had had a letter from you.....

N: Yes.

HMJr:and he sent for Bob Saturday.....

- 3 -

N: Yeah.

HMJr:and he said that he thought there must be some mistake about this.

N: Well, I think the mistake is in the - that letter, the availability of billets.

HMJr: Yeah.

N: I will look into that right away.

HMJr: Say, am I bothering you too much?

N: (Laughs) No. Not at all.

HMJr: Well, if I send it over and if it isn't too much, would you - after you had it straight - would you give me a ring?

N: Yes, indeed.

HMJr: Thank you so much.

N: Yes, sir. Well, good-bye.

August 11, 1941
12:05 a.m.

HMJr: Hello.

Operator: Admiral Nimitz.

Admiral Nimitz: Hello.

HMJr: Morgenthau speaking.

N: This is Admiral Nimitz.

HMJr: Yes, Admiral.

N: I received your list. I think the list is in error because that Communications School should have been put on.....

HMJr: I see.

N:and we'll see that it is put on. I think that's all that - I think you can forget about that end of it.

HMJr: Well then I can write to Bob that in due course through proper channels he'll be informed that the Communications School is on?

N: Will be added to the list, yes, sir.

HMJr: Will be added to the list.....

N: Yes, indeed.

HMJr:and that he should apply for that.

N: Yes.

HMJr: I'm ever so much obliged.

N: Yes, sir.

HMJr: And there'll be other boys can go besides Bob.

- 2 -

N: Oh, hell yes. (Laughs) We think that communication instruction is such an important part of a naval officer's equipment that we - even though a man isn't ordered to communication duty, he'll be of all the more valuable to his ship, because he knows that, and they can put him on in emergencies.

HMJr: And they have room at this school?

N: Oh, yes. There'll be room.

HMJr: Well - what was it, some oversight or something?

N: Well, you see this is a local - this is a local order they got out up there, and it may be that one of their young fellows corresponded with one of our young fellows - I haven't been able to run that down.....

HMJr: Yeah.

N:but certainly the communications instruction should never have been omitted from that list.

HMJr: Fine. I'm ever so much obliged.

N: Thank you for bringing it to my attention. Do you want that thing back?

HMJr: No, no, I didn't - I had a photostat made, and I'll send the original back to Bob.

N: Yes. Well, all right.

HMJr: Thank you.

N: All right. Good-bye.

August 11, 1941
2:27 p.m.

HMJr: Hello.

Mackenzie
King: Well, I'm delighted to hear your voice.

HMJr: How are you?

K: Very well, thank you.

HMJr: Mr. Prime Minister, I didn't want to come
into your country without telling you.

K: Oh, are you here?

HMJr: No, I'm still in Washington.

K: Oh, yes.

HMJr: But Friday night we're going to go up to
Montreal, and then Saturday we're going
down to Tadoussac.....

K: Oh yes.

HMJr:and to that fishing camp there which
has been arranged by Mr. Howe.

K: Well, that's very nice to hear. I'm delighted
to know that.

HMJr: And I just wanted to tell you that we're
going to be up there; and I don't know -
the family thought if there was any chance
of your taking a few days off, holiday, by
any chance, joining us, we'd love it.

K: Well, that's very kind indeed.

HMJr: And they tell me we've got an enormous place
there - I don't know how many people they
can take care of.....

K: Yes.

HMJr:and no one else is going to be there,

- 2 -

and it would be just Mrs. Morgenthau, Joan, and Henry and I.

K: Well, that's awfully kind of you to even think of anything of the kind.

HMJr: So if by any chance you want a few days' real rest, of course, we'd feel greatly honored and pleased if you were there.

K: Well, I might tell you, frankly, that on Saturday.....

HMJr: Yes.

K:I'm planning just at the moment - it may not come off, but I'm planning to cross over to the other side, you know.....

HMJr: Oh, you are?

K: Yes.

HMJr: I see.

K: And my present plans are to leave on Saturday morning.

HMJr: Oh.

K: I've got everything arranged at that end now.

HMJr: Are you going - will you be going through Montreal?

K: Well, I probably shall be able to start right off from Montreal. I was just going to say, I may see you there on Saturday morning.

HMJr: Well, we're - I think they're sending us to the Ritz-Carlton Hotel. It sounds a little swanky, but that's the place.....

K: Oh, it's very nice, indeed.

HMJr: Well, we'll be there Friday night and Saturday morning.

- 3 -

K: Well, now there may be a chance of getting a glimpse of you there.

HMJr: And if there was any chance for - and you're going to - if you'd let me know, I'd adjust my plans accordingly.

K: I'll have a letter for you at the Ritz.

HMJr: Well, we were going to plan to leave about forenoon and they were flying us down to Tabussac or up, I don't know what you say.

K: Yes. Well, I had planned to arrive on Saturday morning and then I'm leaving by plane a little later.

HMJr: Well, if there's a chance of seeing you, you'll have a letter at the.....

K: At the Ritz.

HMJr:at the Ritz for me Friday night?

K: Yes.

HMJr: That will be wonderful.

E: Yes. Yes, I'll do that.

HMJr: Well.....

K: And if there's any chance of getting there a little sooner, I'll arrange accordingly.

HMJr: Well, I - as I say, I haven't seen you. I've got a scheme I'm working on. I don't know whether there'll be anything to it.....

K: Yes.

HMJr:but I'm working on a scheme that sounds kind of wild, whereby we might be - try to take some of your wheat.

K: Oh, that's fine. That's great work.

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HMJr: Into this country.

K: Oh, yes. That's great. Oh, I'm delighted to hear that.

HMJr: So - but, as I say, it's a little remote; but at least I'm working on it.

K: Oh, that's very good. I'm delighted to hear that.

HMJr: I'm going to testify Thursday, and I'm most likely going to recommend it to the Congress, anyway.

K: Oh, that's fine.

HMJr: Yes.

K: I'm delighted to hear that.

HMJr: I believe you've got a big carry-over there.

K: Yes, we have indeed.

HMJr: All right, sir.

K: Well tell me, just before you go, how are all the family?

HMJr: The family are all fine.

K: That's fine. I wish you'd give my very warmest greetings to Mrs. Morgenthau and the young people.

HMJr: I will. And don't forget.....

K: There's nothing I'd like better, if I were here, I might say I might be coming back before you leave there.

HMJr: Well, if there's a chance that you can come up there for a few days, we'd simply love it.

K: Well, that's very kind indeed.

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HMJr: Yeah.

K: Well, there's nothing I'd love more.

HMJr: We hope to be there for two weeks.

K: Oh, that's splendid.

HMJr: Yes.

K: Well, thank you so much.

HMJr: Mr. Howe knows all about it, because he's made the arrangements.

K: Yes. All right.

HMJr: Yes.

K: Oh, that's first rate.

HMJr: Thank you.

K: Good-bye.

HMJr: Good-bye.

221✓

STANDARD FORM No. 14 A
APPROVED BY THE PRESIDENT
MARCH 10, 1928

TELEGRAM

OFFICIAL BUSINESS—GOVERNMENT RATES

TREASURY DEPARTMENT
WASHINGTON

CHARGE TREASURY DEPARTMENT, APPROPRIATION FOR
Official

H. Morgenthau Jr - F472581

(The appropriation from which payable must be stated on above line)

U. S. GOVERNMENT PRINTING OFFICE

2-14117

AUGUST 11 1941

MRS FRANKLIN D ROOSEVELT
HYDE PARK NEW YORK

MY STATEMENT NOT FAR ENOUGH ALONG TO SEND YOU TONIGHT
WILL TELEPHONE AFTER SUPPER

HENRY MORGENTHAU JR

August 11, 1941

Dear Ros:

I tried to get you on the phone at your home yesterday, but they told me that your receiver was off the hook. That is one way to be sure that you are not disturbed.

I wanted to tell you how much I appreciated the assistance you gave me on my statement before the Senate Finance Committee. I hope you liked the final form in which I gave it.

Please thank Mrs. Magill for letting you come down here. I hope you made your plane.

Yours sincerely,

(Signed) Henry

Mr. Roswell Magill,
R.F.D. No. 2,
Westport, Connecticut.

August 11, 1941

Dear Ros:

I tried to get you on the phone at your home yesterday, but they told me that your receiver was off the hook. That is one way to be sure that you are not disturbed.

I wanted to tell you how much I appreciated the assistance you gave me on my statement before the Senate Finance Committee. I hope you liked the final form in which I gave it.

Please thank Mrs. Magill for letting you come down here. I hope you made your plans.

Yours sincerely,

(Signed) Henry

Mr. Roswell Magill,
R.F.D. No. 2,
Westport, Connecticut.

ROBELL MAGILL
ELEVEN O'CLOCK ROAD
WESTPORT, CONNECTICUT

9th August 1941

Dear Henry:

I think it was an excellent statement. You won't get just what you asked, but even if not, you have the respect of all thoughtful men for your sincerity and honesty. This is no time to be political. We can't afford to do less than our best, whether in taxes or defense - but too many, in Congress and out, are still just playing around.

Thank you for calling me in, and for taking care of my transportation so well. The best to you -

Robell Magill

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE August 11, 1941

TO Secretary Morgenthau
FROM Mr. Kuhn

You may be interested in the attached brief summary by Mr. Merillat of the first press reactions to your tax statement. He saw some forty newspapers over the week-end and will of course give you a fuller report in his regular letter at the end of the week.

JK

Attachment.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE August 11, 1941

TO Ferdinand Kuhn, Jr.
FROM Herbert Merillat

First Reactions to Secretary Morgenthau's Tax Statement

The few papers which have so far commented on Secretary Morgenthau's statement to the Senate Finance Committee on August 8 have seized upon the proposal of a broader income tax base as the most significant part.

The editorial writers passed over the fact that the recommendation was conditional upon the adoption of other tax reforms. In line with the long and persistent press campaign for lower exemptions, the proposal was a welcome one. Some writers remarked that the Gallup Poll of August 10 confirms the Administration's apparent conclusion that the lower income groups are willing to accept the income tax.

Very few writers mentioned the simplification proposal, but those that did hailed it as a much needed reform. The simplification feature was covered fully in news columns and many papers carried copies of the table.

- 2 -

The need of additional revenue above the \$3.5 billion goal originally set has been noted by the press, but there is an apparent reluctance to urge that such an increase in taxes be made immediately. A few papers, however -- for example, the Baltimore Sun and the Scripps-Howard papers -- have urged that the goal be boosted in the current tax bill.

The other recommendation which received most attention in the press was the proposal to cut non-defense expenditures. The Secretary's words, however, have not roused much editorial hope that such cuts will actually be made.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE 8/10/41

TO Secretary Morgenthau
FROM E. H. Foley, Jr.

Mr. O'Connell just returned from the Banking and Currency Committee hearing on the price stabilization bill.

At the conclusion of Henderson's testimony, Mr. O'Connell arranged with Steagall and Henderson that you would testify Thursday morning whether or not Henderson was through by that time. Mr. O'Connell pointed out that you wanted to go away and wanted to have your testimony behind you before leaving town. Both Steagall and Henderson agreed that your testimony was important and under these circumstances you could count on appearing before the Committee on Thursday morning at 10 o'clock.

E. H. F.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE August 11, 1941

For Miss Chauncey
 TO Secretary Morgenthau
 FROM Mr. Cochran

The State Department telephoned me this morning to let us know that Mr. Illingworth, the Ecuadorian Minister of Finance, is leaving Washington this coming Saturday. The State Department hopes that the Secretary of the Treasury may be able to receive the Minister at an early date, and that the latter may then have an opportunity to commence discussions with the usual Treasury group before he departs, such conversations to be perhaps continued by the Ecuadorian Minister. The subject is that of monetary assistance for Ecuador. It is understood that the call on Secretary Morgenthau would be only a courtesy visit, the technical discussions to follow later.

MMP

*Appt. made for
 10:30 am. Fri. Aug. 15
 Colson informed
 MMP
 8/12/41*

August 11, 1941

Files

Mr. Cochran

At 3:45 this afternoon Mr. Jay Crane called me from his Summer home in Maine. He let me know that Vice President Hurdon of the Standard Oil Company had called on Mr. Hall last Friday. Mr. Hurdon was the officer who had gone to Rio de Janeiro to consult with the German officials in regard to the possible sale by the Standard Oil of its Hungarian properties. Secretary Hall had been quite sympathetic with Mr. Hurdon but had said that all of these freezing matters fell within the jurisdiction of the Treasury Department and should be taken up with Secretary Hergenthan. I told Mr. Crane that I doubted very much whether there would be any change from the decision which the Treasury Department has already taken with respect to the proposition under reference. I added that Secretary Hergenthan would be leaving Washington on Friday for a fortnight and is extremely busy at present. I believe, however, that Mr. Hurdon will seek an appointment with Secretary Hergenthan at once.



HMC:lap-8/11/41

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE August 11, 1941

TO Secretary Morgenthau
FROM Mr. Cochran

Mr. Bewley telephoned me at 5:30 this afternoon to let me know that Sir Otto Niemeyer is due to arrive in New York by plane tomorrow, Tuesday. Bewley anticipates that Niemeyer will come shortly afterwards to Washington. Bewley said that Sir Frederick Phillips had left for Canada on an urgent business matter. In answer to Bewley's inquiry, I told him that I did not know whether there would be a meeting between the American and British Treasury staffs this week. I told him that if the British had anything urgent, to let me know before 9:30 tomorrow morning. If there was nothing urgent, I did not recommend their seeking a conference, although I did not know whether Secretary Morgenthau himself had anything which he might desire to be discussed before he leaves.



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

Week ended August 9, 1941

	JAPAN	RUSSIA	SPAIN	GREAT BRITAIN
PETROLEUM PRODUCTS				
Fuel and Gas Oil (including Diesel Oil)	--	--	--	960,100 Bbls.
Crude -				
Blended or California High Octane Crude*	--	--	--	--
All Other Crude	--	--	--	476 Bbls.
Gasoline -				
Gasoline A**	--	--	--	619,200 Bbls.
Gasoline B*	--	--	--	675,800 Bbls.
All Other Gasoline	--	--	--	--
Lubricating Oil -				
Aviation Lubricating Oil***	--	--	--	101 Bbls.
All Other Lubricating Oil	--	--	--	47,466 Bbls.
Tetraethyl Lead***	--	500 Bbls.	--	--
*Boosters, such as Iso-Octane, Iso-Hexane, or Iso-Pentane	--	--	--	--
SCRAP IRON AND SCRAP STEEL				
Number 1 Heavy Melting Scrap	--	--	--	2,950 Tons
All Other Scrap	--	--	--	3,050 Tons

Office of the Secretary of the Treasury, Division of Research and Statistics. August 11, 1941.

Source: Office of Merchant Ship Control, Treasury Department.

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

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE AUG 11 1944

TO Secretary Morgenthau

FROM E. H. Foley, Jr

Reference is made to the clipping you sent me August 5 relating to a recent decision of Judge Eder, in the Bronx County Supreme Court, denying the application of a guardian who sought to invest funds in national defense bonds.

The decision is of very limited application, but is clearly right in so far as the particular situation involved is concerned. Admittedly, as Judge Eder and Mr. Phelps both point out, the provision of the New York Civil Practice Act directing the manner in which funds of a guardian appointed to take care of amounts received by minors or incompetents by way of damages for personal injuries (limited to cases involving not more than \$5000) is needlessly narrow. The solution is a simple amendment to the New York statute. From Mr. Phelps' letter to the Tribune it is apparent that he proposes to introduce legislation which will remedy the situation. Such a proposal should meet with little or no opposition in the New York Legislature.

E. H. F.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE August 5, 1941

to Mr. Foley
 FROM Secretary Morgenthau

Please check into the legal aspects of the attached clipping, and let me know your opinion.

MONDAY, AUGUST 5, 1941

Bars Defense Bonds

Senator Phelps Hopes to Change Present Law

To the New York Herald Tribune:

On Thursday, July 24, Justice Morris Eder, in Bronx Supreme Court, denied the application of a guardian who sought to invest in defense bonds the funds his son had received in a negligence action award.

Reading the account of this case published in the Herald Tribune Friday, July 25, I noted that Justice Eder said he had to make such a ruling because state law specifically limits the disposition of such funds, but, he added that he believed the law should be amended.

This case should be brought to the attention of the statesmen who are working themselves into a lather down in Washington devising ways and means to meet the rapidly rising cost of national defense.

Undoubtedly, there is a lot of money, subject to the order of the court, lying around in many odd corners throughout these United States, and surely there would be no better investment presented today or any other day than national defense bonds.

In New York State, under Section 680-A of the civil practices act, it is provided that all such proceeds shall be deposited in the name of such guardian or committee, subject to the order of the court, with such bank, savings bank, trust company, industrial bank or safe deposit company as shall be designated in the order and shall be withdrawn or removed only by order of the court.

The statute was amended in 1940 to include investment of such funds in the shares of a Federal savings and loan association under the home owners' act of 1932 and in shares of a savings and loan association organized under the laws of New York State.

I most heartily endorse the statement made by Justice Eder in this case and it shall be my first business when the State Legislature convenes again to introduce an amendment to the civil practices act, so that it will be possible for sums of money held subject to the order of the court to be put into the best possible investment today—United States government national defense bonds.

PHELPS PHELPS,
 Albany, N. Y., Aug. 1, 1941.

C O P Y

August 11, 1941

Dear Mr. Golden:

I have just heard with great pleasure that you gave a \$200 Defense Bond to every member of the cast on the night of the two-hundredth performance of "Claudia".

This was not only a fine reward but also a fine contribution to American defense. I am sending you this line just to let you know that I admire and appreciate what you have done.

Will you please give my congratulations and good wishes to everyone in the cast?

Sincerely yours,

(Signed) H. Morganthau, Jr.

Mr. John Golden,
Booth Theater,
New York, N. Y.

FK/hkb

8/11/41

cc - Mr. Graves
Mr. Thompson

August 11, 1941

Dear Miss Starr:

Thank you for telling me about Mr. Golden's gift of Defense Bonds to the cast of "Claudia". I think it was a wonderful thing to have done, and I have written to Mr. Golden to tell him so.

I enjoyed "Claudia" very much during its Washington run, but I now have an additional reason for liking the play and everyone in the cast.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Miss Frances Starr,
Booth Theater,
New York, N. Y.

cc - Mr. Graves

FK/hkb

8/11/41

cc - Mr. Graves
Mr. Thompson.

MR. GRAVES' OFFICE TO

Mr Graves

Don't you think
the Secretary would
like to see this? In
fact, he might want an
answer for his signature

J.M.D.

8/6

Fordy
What would you think of your
preparing for the baby fig. letters,
fig.:

- ① - In the folder, as suggested
by Miss Stark; and
- ② - in columnar form to
Miss Stark.



- | | |
|--------------|----------------------|
| Mr. Odegard | Mr. Adams |
| Mr. Olney | Mr. Barney |
| Mr. Peters | Mr. Callahan |
| Mr. Poland | Miss Chauncey |
| Mr. Powell | Mr. Hall |
| Mrs. Ross | Dr. Howard |
| Mr. Schoenem | Mr. Irey |
| Mr. Schwarz | Mr. Johnston |
| Mr. Sloan | Mr. Mack |
| Mr. Sparks | Mr. Mahan |
| | Mr. Geo. Fort Milton |

.....

- | | |
|------------------|----------------|
| Mr. Edwards | Mr. D. W. Bell |
| Mr. Haas | Mr. Gaston |
| Mr. Houghstaling | Mr. Sullivan |
| Mr. Kuhn | Mr. Foley |
| Mr. White | Mr. Thompson |

TO BE

FRANCES STARR

August 5, 1941.

Dear Mr. Secretary:

As a citizen and an observer of the splendid efforts being made in the Defense Bond drive, I think you might be interested to know what the producer of our play, "CLAUDIA," did last night on the occasion of the two-hundredth performance of its New York run.

The enclosed clipping tells the story of how he surprised all the members of the cast with the presentation to each of us of a \$200 Defense Bond.

I have been a long time in the theatre and I don't remember ever to have seen a more timely or a more generous gesture made by a manager to his actors.

He does not know I am sending this note to you. But I do so because I want you to know that John Golden is working with you and for you, and I have thought that you might perhaps want to send him a personal word approving this action which so well stimulates further public interest in Defense Bonds.

If you can give him some such deserved recognition, it would be best to address Mr. Golden in care of the Booth Theatre, where we are playing "CLAUDIA."

Sincerely,

Frances Starr

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

The Cast of 'Claudia' Gets a Bonus in Defense Bonds



Cast members hit winning \$200 certificates they received from John Golden, producer, at celebratory 100th performance at the Booth Theater last night. Stagehands, ushers, doormen and other theater employees awarded with bonds of smaller denomination. In foreground, left to right, Donald Cook, Dorothy McGuire and Assistant Postmaster Charles Lubin

August 11, 1941

Dear Sam:

I was delighted to receive your letter of August 8th, and learn about the announcement which is being made over WABC in connection with the Stadium Concerts. I am sure that this will be very helpful, and I really do appreciate your having brought this about.

I am still enjoying the aftermath of the many benefits which I derived from my visit with Margaret and you at Twin Ponds. I think Margaret and I would have had a better chance to beat Elinor and you at tennis if you had only let us play on your favorite side of the court. Maybe next year you will let us play occasionally on that side. At least I am looking forward to it.

With affectionate regards to you and Margaret,

Yours sincerely,

(Signed) Henry

Mr. Sam A. Lewisohn,
61 Broadway,
New York, New York.

241

Copies of incoming to: Mrs. Morgenthau
Mr. Kuhn
Mr. Callahan

3
carbon copy of reply to Mrs. Morgenthau

SAM A. LEWISOHN
61 BROADWAY

NEW YORK August 8, 1941

Dear Henry:

This is just to let you know that your idea of having something said during the WABC broadcasts of the Stadium Concerts each week seemed to me such a good idea that I passed it along to WABC which the last few weeks has been broadcasting the concert on Thursday evenings from 8:30 P.M. until 9 P.M. As a result they made the following announcement at the end of these programs:

"In a recent broadcast to the American people, Henry Morgenthau, Jr., Secretary of the Treasury said, and I quote: 'Events across the seas cry out to us every day to speed up our effort in every direction. What has been done is a fine beginning, but it is only a beginning.' (end quote)

"His message is a call to keep on buying Defense Bonds and Stamps, a call to continue month after month, so that the National Government can also continue to build up national defense. Every bond you buy helps to make the ramparts of national defense stronger. So buy more and get more U.S. Defense Bonds and Stamps.

"For complete details write U.S.A. care of the station to which you are listening."

The last Stadium Concert program broadcast by WABC was last night.

With best regards,

Yours,

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

NATIONAL BROADCASTING COMPANY, INC.



A RADIO CORPORATION OF AMERICA SERVICE

RCA BUILDING - RADIO CITY

NEW YORK, N. Y.



NILES TRAMMELL
PRESIDENT

August 11 1941

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

My dear Mr Secretary:

I am indeed grateful for the handsomely engraved document which has come to me from your hand, citing me in connection with the broadcasts we have been putting on the air in behalf of National Defense.

While I am happy, of course, to be thus honored, I want you to be assured that the National Broadcasting Company considers all such activities as a part of the service it is pledged to perform in the public interest, and not something "above and beyond the line of duty" for which we should be singled out for special commendation.

I am sure NBC's devotion to the welfare of the nation, and the people who constitute it, is well known to you, and that they can expect with full confidence our "all-out" co-operation in all that is for the public good.

Again, my dear Mr Secretary, my sincere thanks for the distinction you have conferred through me on the National Broadcasting Company.

With high esteem and kindest regards, I am

Sincerely yours

Niles Trammell.

AUG 11 1941

Dear Mr. Church:

I have read with a great deal of interest Station KMBG's portfolio showing cooperation with the Treasury Department's National Defense Program.

We are particularly appreciative of the fact that Station KMBG is rendering service far beyond what we requested.

Please accept my sincere thanks for the grand job you are doing. You are rendering your government a great public service.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Mr. Arthur B. Church
Radio Station KMBG
Kansas City, Missouri

VFC/moa

AUG 11 1941

My dear Mr. Robbins:

This morning I had the pleasure of inspecting the paintings for the two 24-sheet posters and the two suggestions for painted boards.

I particularly liked Mr. Jarrett's painting of the group and the two painted bulletin suggestions. These are not only exceptionally well done, but are remarkable in catching the spirit of the Defense Savings Program.

Your patriotic interest and your effective cooperation in this Program are sincerely appreciated.

Sincerely,

(Signed) E. Morgenthau, Jr.
Secretary of the Treasury.

Mr. E. W. Robbins,
President,
Outdoor Advertising Company, Inc.,
515 South Loomis Street,
Chicago, Illinois.

RWS:EWS:fgt

DEFENSE SAVINGS STAFF

ADVANCE NOTICE RADIO PROGRAMS

MONDAY - AUGUST 11, 1941

Time: 10:30 - 10:45 A.M.
Program: Big Sister
Station: WJSV and CBS Network

Time: 1:00 - 1:15 P.M.
Program: Life Can Be Beautiful
Station: WJSV and CBS Network

Time: 1:15 - 1:30 P.M.
Program: Joyce Jordan
Station: WJSV and CBS Network

Time: 3:30 - 3:45 P.M.
Program: Lorenzo Jones
Station: WRC and NBC Red Network

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

Time: 7:30 - 8:00 P.M.
Program: Voice of Firestone
Station: WRC and NBC Red Network

Time: 9:00 - 9:30 P.M.
Program: Famous Jury Trials
Station: WMAL and NBC Blue Network

Time: 9:30 - 10:00 P.M.
Program: Daniel W. Bell, Under Secretary of the Treasury
Department speaks on Paying for National Defense
National Radio Forum
Station: WMAL and NBC Blue Network

THESE PROGRAMS PROMOTE THE SALE OF DEFENSE BONDS AND STAMPS.

TREASURY DEPARTMENT

WASHINGTON

August 11, 1941

Memorandum for THE SECRETARY:

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

July 1-August 8	\$28,111.70
August 9	<u>751.70</u>
Total	\$28,863.40

GRAVES



TREASURY DEPARTMENT

WASHINGTON

August 11, 1941

Memorandum for THE SECRETARY:

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

July 1-August 9	\$28,863.40
August 10	<u>257.25</u>
Total	\$29,120.65

GRAVES

UNITED STATES SAVINGS BONDS

CONFIDENTIAL

Comparative Statement of Sales During
First Eight Business Days of June, July, and August, 1941
(June 1-10, July 1-10, August 1-9)

(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	\$ 14,755	\$ 17,539	\$ 14,615	-\$ 2,784	\$ 2,924	- 15.9%
Series E - Banks	<u>27,458</u>	<u>26,883</u>	<u>20,957</u>	<u>575</u>	<u>5,926</u>	<u>2.1</u>	<u>28.3</u>
Series E - Total	42,212	44,422	35,572	- 2,210	8,850	- 5.0	24.9
Series F - Banks	8,472	8,236	13,176	236	- 4,940	2.9	- 37.5
Series G - Banks	54,966	56,660	85,026	- 1,694	- 28,366	- 3.0	- 33.4
Total	<u>\$105,650</u>	<u>\$109,318</u>	<u>\$133,774</u>	<u>-\$ 3,668</u>	<u>-\$24,456</u>	<u>- 3.4%</u>	<u>- 18.3%</u>

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

August 11, 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.

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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
9	1,492	3,195	958	4,101	8,255	4,688	958	4,101	9,747
Total	\$ 14,755	\$ 27,458	\$ 8,472	\$ 54,966	\$ 90,896	\$ 42,212	\$ 8,472	\$ 54,966	\$105,650

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

August 11, 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.

See notes on page 2 - C
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TAKEN CARE OF
8/13/41-

MEMORANDUM FOR THE SECRETARY.

August 11, 1941.

Mail Report

The mail continues to divide itself in the same general classifications -- comments on the war situation; on taxation; defense activities; etc.

During the past week we received 5 letters personally abusive of the Secretary, and 5 abusive of the President. In each case, there were 3 anonymous and 2 signed.

The anti-British letters continued fairly heavy, and those attacking our alliance with Russia were in the proportion of 3 to 6 anti-British ones.

There was an increased number of letters attacking Administration spending; the White House forwarding 40 on one day, and between 70 and 80 on another. We received about a quarter of this amount.

4 letters reminded us of the President's pledge to stay out of the war, and 2 demanded that we undertake peace negotiations at once.

There were 2 letters attacking the parity payments, AAA, etc.

The Secretary's statement in regard to the sale of cotton met with prompt approval, 7 letters in all being received, plus an anonymous one sending the editorial of approval from the New York Times.

There was one printed card, evidently widely circulated, calling for the impeachment of Roosevelt, Knox, etc.

Another postal card said, "Clerk is one good American in Washington."

There were the usual joint income tax howls, suggestions for a lottery, and other ideas for raising money by taxing luxuries, horse-racing, etc.

- 2 -

John Saady, Richmond, Va., operates candy store. Has asked customers if they had bought defense stamps and many said no. He suggested organizing club. A few pledged 50¢ worth weekly, but the majority agreed to buy a dollar's worth. In eight weeks has purchased for customers and self about \$200 worth. Now has 23 club members and will continue. Has asked local papers for publicity and can't get it. Suggests the Secretary help make this a national affair.

*H. Graves
see that
this one
gets local
publicity*

Otto Kucera, Bryn Mawr, Pa. Many people advised him not to buy Defense Bonds. Say they cannot be cashed for face value. Tell of experience with Liberty Bonds. Is father of four small children and wishes Secretary would explain to all buyers why these are good investments.

J. Raymond Thompson, Chicago, Ill. A visit to the P. O. is to millions of people a trip out of the way. They buy postage stamps at drug stores and rarely enter the P. O., especially in a large city. By the time a special trip is made, money to buy Defense Stamps may have gone for soft drinks, beer or some larger but unnecessary expenditure. If stamps were on sale where these temptations to spending are sold, at least half of the money might be set aside. "Take your change in Defense Stamps" poster would be displayed by any store and would bring in sales beyond wildest dreams.

The Workmen's Circle, New York City. H. M. Jr's radio appeal has stirred up membership to enthusiastic response. From all parts of the country requests for a drive for subscriptions are coming in. Have already bought over \$70,000 worth of bonds for members. Would appreciate Secretary mentioning name of the fraternal order in next broadcast as he did German Workers Union. If this is to be done, would like to know in advance. The Circle has over 73,000 members and could assure immense audience. Deeply interested in the defense of liberties and opportunities of the U. S. A.

I. C. Cocky, Baltimore, Md., has been saving dimes for bonds and finds increasing shortage of these coins. Others with dime banks report the same. If more were in circulation, more would be saved and more bonds sold. Many empty their pockets at end of day and set aside all dimes so coins are definitely fewer in circulation.

E. E. Menefee, Jr., Duke University, Durham, N.C., has bought bond and is saving stamps. Went to two substations and find they do not carry the stamps. Nearest P. O. is drive of six miles, costing 30¢ for gasoline, "and antagonizing Mr. Ickes to boot". "Seriously, why can't substations stock Defense Stamps?"

- 3 -

S. E. Hendel, Editor, The Northeast Georgian, Cornelia, Georgia. To judge from the contents of my mailbox, the Defense Saving Staff is misnamed. It should be Defense Spending Staff. Why should a Government Department use a heavy kraft envelope to send two printed sheets or a small booklet? No wonder there is a threatened shortage of paper. I realize this is a small matter, but it is indicative of the many leaks and countless extravagances that arouse no enthusiasm for the sacrificing you are calling for.

Charles A. Johnson, President, Continental National Bank, Harlowton, Mont. "Our whole family is in sympathy with the foreign policy of our Government, and we realize that it takes money to prepare to defend the liberties of this nation. We shall buy bonds for each of our 6 children, but not on a large scale. \$50,000 worth of my property in Canada was conscripted, or whatever term is used, and this restricts investments. I am not complaining as these neighbors of ours are doing good work while they fight our battles, as I see it."

T. D. Griffith, National Association of Chain Drug Stores, N.Y.C. Notes some cut rate drug stores offering 25¢ Defense Stamps for 19¢; 50¢ stamps for 37¢. What is attitude of Treasury Department? Unless firm stand is taken, such stores will be using Defense Stamps as "loss leader merchandise".

F. A. Dragonette, Southern Arizona Bank and Trust Company, Tucson. Sends copy of letter addressed to Editor of Tucson Daily Citizen in re Paul Mallon's column which claims "Wobbling dollar influencing lag in bond sales". Mr. Dragonette says, "Our experiences for past 90 days seem to justify optimistic, rather than pessimistic reaction. No high pressure campaign from Treasury Dept., or locally, yet on basis of our sales we estimate Tucson bought half million dollars worth of bonds, etc., in three months. Immediate response and confidence in Uncle Sam shown by small investors, who believe they will not take a beating by flooding of market later, as was the case with Liberty Bonds. Young and old seem to feel these bonds an excellent investment."

A. Ashton Nevils, Buffalo, N. Y. Treasury Hour radio program just splendid. Is Internal Revenue employee. Proud to be associated with Department conducting this drive -- and encloses poem which may be used on the program.

129 letters were received from banks in regard to cooperating in the sale of tax anticipation notes. They varied from a simple statement to a long and enthusiastic letter, but all expressed themselves as in favor of the notes and glad of the opportunity to assist the defense plans of the Government.

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Gilbert K. Hewit, Indianapolis, Ind., notes that the pamphlet on the tax saving plan attempts to educate the public to deal directly with the Treasury Department, rather than with local banks. Although local banks are mentioned twice, it is in small print, and the question and answer copy speaks only of Federal Reserve Banks and the Treasury Department. In the last war the banks carried the educational and sales program to a successful conclusion, but it would seem now that the Government is overlooking private banking.

Allen Abrams, Rothschild, Wis. The words "Tax Saving Plan" implied that it was a plan whereby taxes might actually be cut down! The Government pamphlet warns taxpayers to start saving. He may be cynical, but cannot help thinking the Government has not only failed to meet obligation of living within its income, but has gone on such a wild spending orgy that he and his children will stagger for years under the load of debt. He is not happy to be told he will have to pay increasingly heavy taxes when already he is heavily taxed by a Government that has not operated on a business basis. "Having gotten this off my chest, I want to say that these notes are unquestionably a wise measure, both for the taxpayer and his Government. May the Government at this time learn something from the thrift and honesty of the average taxpayer".

E. O. Wynkoop, Scarsdale, N. Y. If man and wife make a joint return, they should be permitted to have \$1,200 worth of Series A Bonds. "Adding insult to injury to permit married people making separate returns to buy \$1,200 each or \$2,400 per couple, and at the same time deprive the head of family, who pays the entire and higher tax, of the same privilege".

National Bank of America, Salina, Kan. President writes his bank has been advertising defense obligations through newspapers, radio and placards, and so far have sold only \$19,000 worth. Will continue to urge them, and to do what they can with T. A. notes. "We are not so hot on Government Bonds for our own account for the interest rate is too low, and we have a pretty heavy overhead and running expense to take care of." He adds, "For many years we have been impressed with the idea that the handling of the Government obligations has been in good hands."

C. W. Roddy, New York City, suggests income tax stamps for from 50¢ to \$2.00 for credit against next year's tax. This would be especially worth while for factory and office workers and give Government immediate use of funds at no interest.

G. R. Fredrick, President, Southwest Bank of St. Louis, Mo. "Immediately upon receipt of your letter, officers' conference was held as to best methods of publicizing T. A. notes. Letters will go to all our large depositors, as well as inserts in monthly statements. Results of our efforts in U. S. Defense Bonds campaign most gratifying, and we congratulate you, Mr. Secretary, on the outstanding manner in which you have handled both of these methods of securing funds necessary for financing the great defense program. As you may be interested in our campaign to acquaint school children with Defense Stamps and Bonds, I am sending you a number of photographs showing the children in action." (Picture showing long lines of children on sidewalk waving stamp books, inside bank, etc., forwarded to Mr. Graves.)

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C. M. Pesler, official of F.C.A. at New Orleans, has received T. A. circular. Long anticipated and is much disappointed in it. Is representative of group earning between \$3,000 to \$5,000 and is rarely in position to earmark \$25 or more for future expenses. Plan is not broken down into small enough denominations. Why not try to reach those who really have a hard time saving by giving them some sort of "token" which can later be turned in as part of tax payment.

Continued complaint about slowness in answering certain types of mail. This includes Defense Bond sales suggestions and offers of songs and other material. Also complaint on replies to inquiries about interest on called bonds, etc.

A. M. Knowles, Provincetown, Mass. "What is this racket?" Wrote May 24th reminding of previous notification of change of address. Letter also contained second notification had not received interest due July and December, 1940. On August 1st received reply to letter of May 24th. Treasury Department simply asked if dividends reported in that letter had been received as yet. "That's some speed!" No interest now 18 months and the writer intends to sell her bonds because of the difficulties she has had.

Anonymous writer sends editorial from Chicago paper, probably Tribune, accusing Administration of declaring a false emergency. Officials trying to deceive their people into believing they are about to be attacked; provoking countries with which we should be on friendly basis to war; and otherwise "bringing hell and damnation down on our heads".

Mrs. John Stealy, Clarksburg, West Va., wants "a complete statement of the amount of aluminum collected under false pretenses, and the amount sold; also, to whom it was sold and disposition of cash".

Thomas Mont, Long Beach, Calif. After working hard for a year has had a two weeks' vacation, but travelling is so expensive that he could only go as far as Chicago. Talked with many men of all types on the trains, and says Government spending is universally criticized. As a result of his trip wonders how the Government pays for the constant travelling of its representatives. Mentions Harry Hopkins' trip to Russia, Winant's return trip after a few months abroad, James Roosevelt's foreign jaunt, etc. "The people will flock to the banks and Post Offices when the Government shows some signs of trying to be conservative."

Chauncey P. Carter, Washington, D. C., urges tax on patents. He has suggested this before and told by Treasury might be unconstitutional. Gives facts and figures on liberal U. S. regulations as opposed to other countries.

"Poor Chinese", Hongkong. Appreciate American aid but Chang-Kai-Shek is getting rid of all those not belonging to his gang and is himself antagonistic to ideals of real democracy. Many airplanes, etc., not being used against Japanese at all, but against internal factions. Soong, Kung, etc., piling up money in U. S. wrong from the poor. Requests the President confiscate their bank accounts and turn over to the destitute in China.

M. Di Stasio, Fort Chester, N. Y. Naturalized Italian, devoted to America, and wants to help. Refused employment because of nationality, and has to "sit waiting while Hitler gets closer and closer". Skilled welder, has done railroad work, and would like to have character checked by some Government agency and to be given statement proving he is eligible for employment. "I want to do all in my power to keep this country free from Dictators' grasp." Letter inspired by H.M.Jr's message in Italian-American paper, praising loyalty of Italian-American citizens.

Telegram from Robert S. Palmer, Secretary, The Colorado Mining Association, says, "Your recent statement in the press is but evidence of your continued hostility to silver. Those of us who desire a metallic base for our currency in preference to mere promises and are opposed to inflation, know that silver is largely a by-product of zinc, lead and copper, which are vitally needed for our national defense. Curtailment of production of these metals would follow any tampering with the price of silver. Surely you do not intend by your statement to offend South American countries, China and other countries which rely on silver. We feel your personal statement should be retracted lest it be construed as official. We ask the question, 'Who fixes the price of silver on the so-called open market?'"

Senator Nye writes about the case of a Mrs. Ethel O. Palmer, Postmistress at Oakdale, N. D. Mrs. Palmer's car was stolen April 10th, and abandoned with some moonshine in it. The Alcohol Tax Unit confiscated the car and started its disposition of it before she found out that it had been located. No one reported to the authorities the finding of the car so that the local sheriff, who knew that it had been stolen, could not notify her. The Federal Agents kept the whole thing secret and Mrs. Palmer was advised that she would have to have an Attorney qualified to act in order to get her car back. She has taken the necessary steps and the papers are somewhere in Washington awaiting decision. The car is in storage; she is out a great deal of money, and has not had her car for some months. The Government has spent an enormous amount trying to find the person who owned the small amount of liquor in the car when it was abandoned. Local citizens are highly indignant over the way the matter has been handled, and Senator Nye feels that the case ought to be expedited in order to make up to Mrs. Palmer for the injustice that has already been done her. (Letter forwarded to Mr. Sullivan for special handling.)

- 7 -

Comment on the Secretary's taxation statement is just beginning to come in, and there are also letters evidently elicited by the statement but not definitely commenting upon it. The first two mails on Monday, the 11th, contained 34 communications -- telegrams, letters, and postal cards, directly traceable to the tax statement. Representative quotations follow:

Edward A. Storms, New York City. "Your theory that we should be taxed heavily so that we can save more and spend less simply does not make sense. How can Defense Bonds be bought when there is nothing left after living expenses and taxes are paid? To get the proper cooperation on the defense program, the man in the street will have to see fewer strikes and a curtailment of non-defense expenditures by the Federal Government."

Robert W. Fleisch, Bureau of Internal Revenue, Calif. As Deputy Collector has followed tax bill with interest. Respectfully suggests that all returns with no tax due, which must be handled and checked, should be accompanied by a 50¢ or \$1 handling charge. Also, that those who pay in installments pay a dollar additional assessment for the privilege, as is the case with all installment selling.

"In revising the income tax, remember the plight of persons 65 years of age and over who must use a large part of their incomes for doctors, hospital bills, etc. It would be in the public interest if such expenditures were exempt for those 65 and up, with incomes under \$3,000." (New Jersey)

Dr. John J. Wicker, President, Fork Union Military Academy, Fork Union, Va. Urges that the Secretary recommend a Federal tax of 1% on everybody in the entire U. S., up to some definite point of exemption. Unless people are conscious that they are supporting the Government, they cannot have the loyalty they should. This would take the place of the poll tax, which is not universal throughout the country.

Miss C. S. Evans, Philadelphia, Pa. In the lowering of income tax exemption remember those who derive their incomes from annuities. In Pa. such elderly persons pay 6% tax on annuities. With living costs rising and additional taxes, this group will be robbed of necessities to pay from the very small incomes they receive.

W. L. Gansoreky, Bridgeport, Conn. "I heard that 'slap-happy' remark about 'millions would welcome a lowered income tax exemption'. You're talking through your hat! Why not let all work for the Government which will simply feed and house us."

"If the newspapers are quoting you correctly, which I doubt they are, you have been quoted as being in favor of lowering tax exemption,

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which policy does not seem to concur with President Roosevelt's purpose of having those pay who are most able to do so. Those in the lower bracket incomes have been paying increased prices in everything they purchase. In fairness to them, give serious consideration to those who can afford to carry the burden." (Pennsylvania)

"If we have faith in our country and expect to raise our children in accordance with American standards, we must assume the direct responsibility for establishing freedom, not only here, but throughout the world. Taxation must be heavy. I would be in favor of setting a ceiling on allowable dividend payments which should not go above those of last year. All earnings above that sum should be invested in Government bonds. No one should make more money and live more comfortably as a result of the war. These bonds would also be a cushion against depression after the war is over." (New York City)

"The extra billions you are asking can be obtained, according to your own statement, through the simple process of reducing Government non-defense expenses." (New York)

"I have read your full statement on taxes and consider it an excellent outline of the necessities of the situation. I liked what you said about the need for cutting non-defense expenditures. The resources of the country are not unlimited and we should reserve them for the future. We are all for paying necessary taxes, but let the Government set an example of economy." (New York)

"I would like to protest your statement in which you propose further lowering of the exemption of the Federal income tax. It is true the hard-working class welcomes an opportunity to contribute, but you are knocking at the wrong door. The rich can raise their voices so loud to protect their own interests that they frighten the law makers of Washington." (N.Y.C.)

"If the danger is as critical as the war mongers make it, better build up defense here and do not give away or sell our supplies abroad. Save our material and save our men." (Indiana)

"In collecting income tax, please don't overlook Mrs. R. and the new \$52,000 coffee job. When \$75,000 is not enough for man and wife to live on, and the wife has to take money that someone else could well use, it is no wonder the Communists "gang" up with the New Deal." (New York)

"So you think the little man should be taxed heavier. We are poorly housed and half starved now to keep wealthy England and Communistic Russia in luxury. 'Bundles for Britain' makes me sick. It is 'Bundles for America' we want." (Ohio)

"Go after the wives on payrolls, and the officers' salaries in closed corporations." (New York)

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"Do you realize in recommending a tax on small incomes that lawyers and tax experts would collect ten times the amount for fees that the Government would levy? It appears to a great many of us on the outside that our representatives who are in a position to lighten the burden for the little fellow are planning how to lessen taxes for themselves." (California)

"Good revenue could be obtained if there were a 25% tax on all Union dues collected. A boy here was forced to pay \$37 to join a Union to work in an A & P Store, and then \$4 per month on a \$16 per week job. The head of the Union got away with a quarter of a million dollars." (Illinois)

"The people in the lower income group want less taxation - not more. Why don't you and Roosevelt donate your fortunes to the cause?" (Illinois)

"Soak the overpaid political job holders and don't take the taxpayers' shirts and shoes." (Illinois)

"Your new tax suggestion on low incomes is all right. Everyone should pay some tax. Why not have income tax stamps to help the low income people save the payments?" (Illinois)

"The all out tax program is to pay for aggression against Europe and Asia. Send the draftees home and forget about this idea of fighting England's and Russia's war." (Pennsylvania)

"Doctors and hospital bills should be exempt, and the Federal Government should get together with the State Governments, as the combined taxes are beggaring the middle class citizen!" (Illinois)

"The Treasury Department, up to now, has done a reasonably good job in its recommendations to Congress on excess profits tax, income and excise tax situations. It is to be regretted that Congress has turned down these recommendations. Now the Treasury has come out for lowered exemptions. This is really disturbing as it will surely make the rich, richer and the poor, poorer. Get after the life insurance companies which maintain great lobbies in Washington and which take advantage of every legal loop-hole to avoid paying taxes. There is plenty of material on file to show what a racket the insurance companies are conducting and how they are escaping carrying their fair share of taxation. There are many sacred cows which the politicians do not have the courage to touch." (New York)

"I am a taxpayer and I am tickled to death to pay more income tax, but I am single and when I see so many married couples, with no children, making good money, that hurts." (Pennsylvania)

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A school teacher says that those who levy taxes do not understand the difficulties of citizens who are single persons. Teachers are not earning large salaries in defense work and are paying more every week for necessities. She herself has legally adopted children; others have family dependents for whom they can take no exemption.

Telegram. "The Unions have an income of sixty million per year. They pay no taxes and stop corporations from making headway. Something should be done at once." (New York)

Telegram. "Where do you get that crazy idea civilian citizens so enthusiastic for war they are cheerfully happy to be taxed to death and afterwards?" (Nevada)

Telegram. "Let me congratulate you upon the joint return idea. It should be passed, but also a break should be given to families with four or more children. They contribute substantially to the income of others through purchases of food, clothing, education and medical treatment." (New Jersey)

August 11, 1941.

CONFIDENTIAL

Dear Mr. Knocks:

I have pleasure in acknowledging the receipt, on behalf of Secretary Morgenthau, of your letter of August 7, 1941, enclosing your compilation for the week ended July 30, 1941, showing dollar disbursements out of the British Empire and French accounts at the Federal Reserve Bank of New York, and the means by which these expenditures were financed.

Faithfully yours,

(Signed) H. Merle Cochran

H. Merle Cochran,
Technical Assistant to the Secretary.

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

HMC:dm:8/11/41

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FEDERAL RESERVE BANK
of New York

August 7, 1941.

CONFIDENTIAL

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

I am enclosing our compilation for the week ended July 30, 1941, showing dollar disbursements out of the British Empire and French accounts at this bank and the means by which these expenditures were financed.

Faithfully yours,

/s/ L. W. Knoke

L. W. Knoke,
Vice President.

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

Enclosure

COPY:new 8/11/41

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

Week Ended July 30, 1941.

Reference
Confidential

PERIOD	BANK OF ENGLAND (BRITISH GOVERNMENT)								BANK OF FRANCE						
	DEBITS				CREDITS				DEBITS			CREDITS			
	Total Debits	Gov't Expenditures (a)	Other Debits	Total Credits	Proceeds of Sales of Gold	Securities Official (b)	Other Credits (c)	Net Incr. (+) or Decr. (-) in Balance	Total Debits	Gov't Expenditures (d)	Other Debits	Total Credits	Proceeds of Gold Sales	Other Credits	Net Incr. (+) or Decr. (-) in Balance
First year of war (8/29/39-8/28/40)*	1,793.2	605.6	1,187.6	1,828.2	1,356.1	52.0	420.1	+ 35.0	866.3 (e)	416.6 (a)	449.7	1,035.3 (e)	300.2	195.1 (a)	+ 222.0
1940															
Aug. 29 - Oct. 2	316.8	244.3	72.5	508.9	271.5	6.0	31.8	- 7.9	8.6	4.4	4.2	1.3	-	1.3	- 7.3
Oct. 3 - 30	136.7	157.6	20.9	196.5	160.5	6.0	32.0	+ 1.8	0.5	0.3	0.2	0.5	-	0.5	-
Oct. 31 - Nov. 27	241.0	201.1	39.9	259.5	210.0	18.0	31.5	+ 18.5	0.8	0.1	0.7	0.7	-	0.7	- 0.1
Nov. 28 - Dec. 31	234.6	206.8	27.8	198.0	111.4	36.0	80.6	- 36.6	2.1	-	2.1	0.6	-	0.6	- 1.5
War period through Dec. 31, 1940	2,789.3	1,425.6	1,356.7	2,793.1	2,109.5	108.0	575.6	+ 10.8	878.3	421.4	456.9	1,098.4	900.2	198.2	+ 220.1
1941															
Jan. 2 - 29	197.4	162.7	34.7	259.9	176.2	52.0	31.7	+ 62.5	1.7	-	1.7	0.3	-	0.6	- 1.2
Jan. 30 - Feb. 25	164.6	137.9	26.8	101.4	26.6	26.0	48.8	- 63.2	0.2	-	0.2	0.2	-	0.2	-
Feb. 27 - Apr. 2	229.7	157.6	32.1	237.9	103.7	72.0	62.2	+ 8.2	0.7	-	0.7	1.6	-	1.6	+ 0.9
Apr. 3 - Apr. 30	126.0	101.9	24.1	218.9	125.6	15.0	78.3	+ 29.8	0.9	-	0.9	0.9	-	0.9	-
May 1 - May 28	122.8	90.6	32.0	91.0	6.5	32.0	52.7	- 31.6	0.9	-	0.4	0.8	-	0.6	+ 0.4
May 29 - July 2	140.5	115.8	26.7	105.1	1.9	11.0	92.2	- 35.4	11.3	-	21.5	0.9	-	0.9	- 20.6
July 3 - July 30	101.4	75.5	25.8	61.5	-	6.0	55.5	- 33.9	0.5	-	0.5	0.3	-	0.3	- 0.2
July 31 - Aug. 27															
Second year of war (8/29/40-8/27/41)															
Aug. 28 - Oct. 1															
Oct. 2 - Oct. 29															
Oct. 30 - Dec. 3															
Dec. 4 - 31															
WEEK ENDED:															
July 9	24.5	15.7	8.8	12.5	-	1.0	11.5	- 12.0	-	-	-	-	-	-	-
16	21.5	17.1	4.4	18.9	-	2.0	16.9	- 2.6	-	-	-	0.1	-	0.1	+ 0.1
23	25.0	20.7	4.3	18.2	-	3.0	15.2	- 6.8	0.4	-	0.4	0.3	-	0.4	- 0.1
30	30.4	22.1	8.3	11.9	-	-	11.9 (f)	- 12.5	0.1	-	0.1	0.1	-	0.1	-

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

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

(See footnotes on reverse side)

England (through June 19, 1940) 27.6 million
England (since June 19, 1940) 46.6 million

Week ended July 30, 1941 \$ - million
Cumulation from July 8, 1940 \$162.7 million

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

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

Week Ended July 30, 1941.

Serially
Confidential

PERIOD	CANADA								AUSTRALIA							
	DEBITS				CREDITS				DEBITS				CREDITS			
	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Transfers from Official British A/C	Other Credits	Net Incr. (+) or Deor. (-) in Balance	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Other Credits	Net Incr. (+) or Deor. (-) in Balance	
First year of war (8/29/39-8/28/40)*	323.0	16.6	306.4	504.7	412.7	20.9	36.7	32.4	+181.7	31.2	3.9	27.3	35.1	30.0	6.1	+ 4.9
1940																
Aug. 29 - Oct. 2	44.3	-	44.3	43.9	16.4	-	27.3	0.2	- 0.4	8.7	2.5	6.2	6.0	6.7	1.3	- 0.7
Oct. 3 - 30	25.7	-	25.7	28.6	14.0	-	14.3	0.3	+ 1.9	10.1	7.5	2.6	7.9	6.5	1.4	- 2.2
Oct. 31 - Nov. 27	36.2	-	36.2	59.6	49.2	-	16.7	3.7	+ 34.4	3.1	0.6	2.5	3.6	2.1	1.5	+ 0.5
Nov. 28 - Dec. 31	48.0	-	48.0	60.6	42.5	-	13.7	4.4	- 12.6	4.8	-	4.8	6.8	4.8	2.0	+ 2.0
War period Unmarsh. Exp.	477.2	16.6	460.6	707.4	534.8	20.9	110.7	41.0	-230.2	57.9	14.5	43.4	62.4	50.1	12.3	+ 4.6
1941																
Jan. 2 - 29	33.7	-	33.7	33.9	16.9	-	15.0	2.0	+ 0.2	4.8	-	4.8	6.8	5.1	1.7	+ 2.0
Jan. 30 - Feb. 26	31.1	-	31.1	24.3	14.3	-	6.8	3.2	- 5.8	5.0	1.7	3.3	3.2	0.6	2.6	- 1.8
Feb. 27 - Apr. 2	60.9	-	60.9	46.0	23.1	-	19.1	3.8	- 14.9	5.8	0.8	5.0	13.7	12.5	1.2	+ 7.9
Apr. 3 - Apr. 30	34.9	-	34.9	35.9	12.5	-	10.5	12.8	+ 1.0	2.8	-	2.8	5.7	4.5	2.3	+ 3.1
May 1 - May 28	39.2	-	39.2	25.6	15.6	-	0.5	9.3	- 13.7	5.4	-	5.4	4.9	4.1	0.8	- 0.5
May 29 - July 2	45.2	-	45.2	48.2	16.3	-	-	31.9	+ 5.0	10.1	-	10.1	5.8	4.5	1.3	- 4.3
July 3 - July 20	30.6	-	30.6	21.8	15.2	-	-	6.6	- 2.8	6.4	-	6.4	6.3	4.8	1.5	- 0.1
July 31 - Aug. 27																
Second year of war (8/29/40-8/27/41)																
Aug. 28 - Oct. 1																
Oct. 2 - Oct. 29																
Oct. 30 - Dec. 3																
Dec. 4 - 31																
WEEK ENDED:																
July 9	1.9	-	1.9	5.8	3.9	-	-	1.9	+3.9	1.2	-	1.2	0.1	-	0.1	- 1.1
16	2.1	-	2.1	6.2	3.3	-	-	2.9	-2.9	2.4	-	2.4	5.4	4.8	0.6	+ 3.0
23	1.5	-	1.5	3.5	3.1	-	-	0.2	-4.0	2.4	-	2.4	0.5	-	0.5	- 1.9
30	12.1	-	12.1	6.3	4.7	-	-	1.6	-5.8	0.4	-	0.4	0.3	-	0.3	- 0.1

Weekly Average of Total Debits Since Outbreak of War

Through July 30, 1941 \$ 7.5 million

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

(a) Includes payments for account of British Purchasing Commission, British Air Ministry, British Supply Commission, Supply Timber Control, and Ministry of Shipping.

(b) Estimated figures based on transfers from the New York Agency of the Bank of Montreal, which apparently represent the proceeds of official British sales of American securities, including those effected through direct negotiations. In addition to the official selling, substantial liquidation of securities for private British account occurred, particularly during the early months of the war, although the receipt of the proceeds at this Bank cannot be identified with any accuracy. According to data supplied by the British Treasury and released by Secretary Morgenthau, total official and private British liquidation of our securities through December, 1940 amounted to \$334 million.

(c) Includes about \$80 million received during October, 1939 from the accounts of British authorized banks with New York Banks, presumably reflecting the requisitioning of private dollar balances. Other large transfers from such accounts since December, 1939 apparently represent the acquisition of proceeds of exports from the Pacific area and other countries in dollars receipts.

(d) Includes payments for account of French Air Commission and French Purchasing Commission.

(e) Adjusted to eliminate the effect of \$30 million paid out on June 28, 1940 and returned the following day.

(f) Includes \$5 million representing proceeds of exports from Singapore.

MONTH	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950
Jan												
Feb												
Mar												
Apr												
May												
Jun												
Jul												
Aug												
Sep												
Oct												
Nov												
Dec												
TOTAL												

For Miss Chauncey

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE August 11, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

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

	<u>No. of Shares Sold</u>	<u>\$ Proceeds of Shares Sold</u>	<u>Nominal Value of Bonds Sold</u>	<u>\$ Proceeds of Bonds Sold</u>
Aug. 4	2,260	69,817	5,000	2,394
5	5,789	200,012	12,000	12,762
6	3,413	111,226	31,500	27,687
7	7,067	158,121	55,000	33,528
8	4,796	222,914	67,000	59,127
9	1,700	10,132	Nil	Nil
	<u>25,025</u>	<u>772,222</u>	<u>170,500</u>	<u>135,498</u>
Sales from 2/22/40 to 8/2/41	<u>9,681,142-1/2</u>	<u>276,741,717</u>	<u>44,514,716</u>	<u>36,583,824</u>
Total 2/22/40 to 8/9/41	<u>9,706,167-1/2</u>	<u>277,513,939</u>	<u>44,685,216</u>	<u>36,719,322</u>
Aug. 5	307 rights sold for		\$ 368	
July 24 to Aug. 2	<u>54,293</u>	" " "	<u>100,467</u>	
Total July 24 to Aug. 9	<u>54,600</u>	" " "	<u>\$101,335</u>	



TREASURY DEPARTMENT

267

INTER-OFFICE COMMUNICATION

DATE August 11, 1941

to Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

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

	<u>\$ Proceeds of Shares Sold</u>	<u>\$ Proceeds of Bonds Sold</u>	<u>Total</u>	
Aug. 4	69,817	2,394	72,211	
5	200,012	12,762	212,774	
6	111,226	27,687	138,913	
7	158,121	33,528	191,649	
8	222,914	59,127	282,041	
9	<u>10,132</u>	<u>Nil</u>	<u>Nil</u>	
	772,222	135,498	907,720	
Sales from Feb. 22, 1940 to Aug. 2, 1941	<u>276,741,717</u>	<u>36,583,824</u>	<u>313,325,541</u>	
Total Feb. 22, 1940 to Aug. 9, 1941	<u>277,513,939</u>	<u>36,719,322</u>	<u>314,233,261</u>	314,233,261
\$ proceeds of non-vested securities sold July 28 to Aug. 2, 1941			700,000	
\$ proceeds of non-vested securities sold Sept. 1, 1939 to July 26, 1941			<u>230,000,000</u>	
\$ proceeds of non-vested securities sold Sept. 1, 1939 to Aug. 2, 1941			<u>230,700,000</u>	<u>230,700,000</u>
			GRAND TOTAL	<u><u>544,933,261</u></u>
Aug. 5	307 rights sold for		\$ 368	
July 24 to Aug. 2	<u>54,293</u>	" " "	<u>100,967</u>	
Total July 24 to Aug. 9	54,600	" " "	\$ 101,335	

MEMORANDUM

FROM British Supply Council in North America
TO Mrs. Henrietta Klotz

Compliments of E.N. Gray

STATEMENT NO. 27.AIRCRAFT SHIPPED TO U. K. AND OVERSEAS COMMANDS

TYPE	DESTINATION	ASSEMBLY POINT	By Sea during Week ending July 19/41.	By Air during Week ending August 10/41/
<u>PORTISS</u>				
Tomahawks	Middle East	Port Sudan	15	--
<u>UNITED</u>				
Chesapeake	U. K.	U. K.	2	--
<u>DOUGLAS</u>				
Boston III	U. K.	U. K.	16	--
Boston III	Middle East	Port Sudan	3	--
<u>CONSOLIDATED</u>				
Liberator I	U. K.	U. K. (via Bermuda)	--	1
<u>LOCKHEED</u>				
Hudson V	U. K.	U. K. (via Gander)	--	3
Hudson III	U. K.	U. K. (via Gander)	--	29
TOTALS			36	33

British Air Commission,
August 11, 1941.

THE SECRETARY OF THE NAVY
WASHINGTON

August 11, 1941

Dear Henry:

Thank you for your letter of August 6 which I found on my return this morning.

I think you are correct in your sensing alarm over the lower production of planes in July. I have made an investigation of it so far as the Navy is concerned today and find that there are a great many planes which are just short of completion and, therefore, not counted as delivered because of a lack of one or two gadgets which are necessary. One of the most serious shortages right now is that of the type of propeller made by Curtiss.

When I flew over the Glenn Martin field in Baltimore yesterday afternoon, I saw about 150 bombers on the ground, and I was told that they were lacking propellers but otherwise, were ready for delivery. Some other types are short on generators and similar items. The prospect is for a very considerable increase this month. I hope this expectation is realized.

Yours sincerely,



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

August 11, 1941

Dear Bill:

This is to acknowledge receipt of your letter of August 8th relative to airplane production. If it is available, I would like to see Schedule 8-F.

Yours sincerely,

(Signed) Henry

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

By Messenger 4:45 pm

HENRY L. STIMSON
SECRETARY OF WAR

FRANK KNOX
SECRETARY OF THE NAVY

WILLIAM S. KNUDSEN
DIRECTOR GENERAL

SIDNEY HILLMAN
ASSOCIATE DIRECTOR GENERAL

OFFICE OF PRODUCTION MANAGEMENT
OFFICE OF THE DIRECTOR GENERAL
WASHINGTON, D. C.

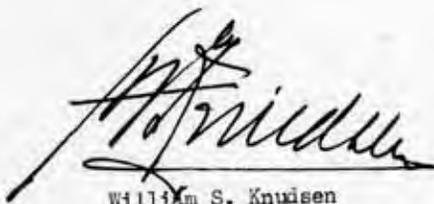
August 8, 1941

The Honorable
Henry Morgenthau Jr.,
Secretary of the Treasury

Dear Henry:

Replying to your letter of August 8th, the New York Times statement should read "July 1942" which is Schedule 8-F and has not been changed since we started. No one could expect 3000 planes per month in July 1941, when we were getting 600 per month in September 1940. They just do not come that fast.

Sincerely,



William S. Knudsen

Copies to: Secretary of State
Secretary of War
Secretary of the Navy
Mr. Sidney Hillman

RECONSTRUCTION FINANCE CORPORATION
 THE FPC MORTGAGE COMPANY
 FEDERAL NATIONAL MORTGAGE ASSOCIATION
 FLS RESERVE COMPANY
 FLEET RESERVE COMPANY
 DEFENSE PLANT CORPORATION
 DEFENSE SUPPLIES CORPORATION
 DEFENSE HOMES CORPORATION

FEDERAL HOUSING ADMINISTRATION
 HOME OWNERS LOAN CORPORATION
 FEDERAL HOME LOAN BANK BOARD
 FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION
 ELECTRIC HOME AND FARM AUTHORITY
 BRANCHER LOAN CORPORATION
 EXPORT-IMPORT BANK OF WASHINGTON

FEDERAL LOAN AGENCY WASHINGTON

JESSE H. JONES
 FEDERAL LOAN ADMINISTRATOR

August 11, 1941

Dear Henry:

Your note of the 5th received. Thanks.

Sincerely yours,



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

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GRAY

London

Dated August 11, 1941

Rec'd 12:11 p.m.

Secretary of State,

Washington.

3558, August 11, 6 p.m.

Department's 2964, August 5, 11 a.m.

A. P. Watt & Son have informed the Embassy today that they have communicated with Mrs. Bambridge, Mr. Kipling's daughter, who owns the copyright to "The Islanders" and that she consents to the use of the poem as described in the Department's telegram.

WINANT.

RR.

eh:copy
8-12-41

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TELEGRAM SENT

DES

GRAY

August 11, 1941

6 p.m.

AMEMBASSY,

LONDON.

3084.

Department's 2964, August 5.

Secretary Morgenthau would appreciate prompt tele-
graphic reply.

HULL
(FL)

EA:FL:LWW

Copy:lg 8/13/41

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Extract from the Times, 26th July, 1941.

"The 'Freezing' of Japanese Assets".

Japanese Assets in Britain.

OFFICIAL STATEMENT.

The following official statement was issued in London last night:-

"Treasury directions have been given to bankers under Defence (Finance) Regulation 2A prohibiting as from to-day, July 26th, the carrying out of orders affecting Japanese balances, gold, and securities in the United Kingdom without a licence from the Treasury.

"Corresponding action is being arranged in other parts of the Empire."

Copy:lg 8/11/41

Extract from "The Times" - 29/7/41.

NEW MOVES BY THE DEMOCRACIES.

CHINA'S REQUEST.

Last night the Treasury issued the following statement:-

At the request of the Chinese Government and in order to assist the Chinese financial position, Treasury directions have been issued blocking sterling balances and other assets of persons resident in China. These directions come into operation from the opening of business on 29th July. General authority is given for any payments in the sterling area authorized on behalf of the Chinese Government as well as payments necessary for the fulfilment of certain outstanding transactions.

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YFOREIGN SECRETARY'S STATEMENT

30th July, 1941.

FAR EASTERN SITUATION

Mr. Eden: I wish to make a further statement on the Far Eastern situation. In my statement on 25th July I informed the House that, although there was as yet no official news of the conclusion of a definite agreement between the Japanese and Vichy Governments, or the occupation of further bases by Japanese forces, it was quite evident that both these events were imminent. It is now known that the Vichy Government have acceded to Japanese demands for the occupation of two naval bases, Camranh Bay and Saigon, and eight air bases in South Indo-China, and that the occupation is already in progress. With the permission of the House, I propose to circulate in the Official Report a full account of the developments which have led up to the present situation and of the action which His Majesty's Government took to avert it. Hon. Members will, however, wish to hear what measures are now being taken to meet the threat to our own territories which the Japanese action implies. The House will not expect me to describe in detail the defence measures which, as I announced on 25th July, have already been enforced in Malaya. In the economic sphere the counter measures taken by the United States and Netherland Governments and the Governments of the British Commonwealth of Nations are now, I think, well known from reports which have appeared in the Press. As soon as His Majesty's Government learnt of the decision of the United States Government to freeze all Japanese assets, arrangements were made for a parallel measure to come into force as regards the United Kingdom on 25th July. Similar steps have been taken or are being taken throughout the Dominions, India, Burma and the Colonial Empire, which thus present a united front. The effect is to stop all financial transactions on Japanese account, whether for financing trade or for other purposes, which are not licensed by the authorities of the United States, the Netherland East Indies and the British Commonwealth of Nations.

At the request of the Chinese Government, steps have similarly been taken to freeze all Chinese assets throughout the British Empire. The object of this is, of course, to prevent evasion, through parts of China occupied by the Japanese, of the effects of the order freezing Japanese sterling assets and also to enable assistance to be given to the Chinese economy by releasing such assets only for approved purposes. Steps have also been taken to withdraw ships' warrants from Japanese shipping lines.

I would also like to take this opportunity to announce that His Majesty's Ambassador at Tokyo, on behalf of the Government of India and Burma as well as of the United Kingdom, has given notification to the Japanese Government of the termination of the Anglo-Japanese Treaty of Commerce and Navigation of 1911, the Supplementary Convention of 1925, and the Conventions covering commercial relations between Japan, India and Burma. As a party to the 1911 Treaty, His Majesty's Government in New Zealand in respect of their own Trade Agreement with Japan, each made similar notifications to the Japanese Government.

Sir, it is a matter of regret to His Majesty's Government that their relations with Japan should have reached their present state, but the fault does not lie with His Majesty's Government. Japan complains of encirclement. Yet it is Japan herself, who, by successive acts of aggression, has drawn closer and closer together in self-defence the countries which lie in her path and whose territories and interests are ever more sharply threatened. I cannot believe that statesmanship in Japan is entirely dead or blind; and I sincerely trust that those responsible for the destinies of the Japanese Empire will reflect, while there is yet time, whether their present policy is leading them.

Mr. Noel-Baker: Will the Foreign Secretary instruct His Majesty's Ambassador in Tokyo to inform the Japanese Government that his statement today has the fullest support of all parties in the House of Commons? May I further ask whether we are right in understanding that the measures now being taken will effectively prevent the despatch of oil to Japan from companies under British, American and Dutch control?

Mr. Eden: As to the first part of my Hon. Friend's Question, I will gladly do that. As to the second part, the position is that the steps we have taken give all the Governments concerned complete control of all financial transactions, including the financing of trade. Nothing can happen or proceed unless a licence is given. Naturally we shall act in this matter in the closest consultation with the other Governments interested, but I can say that the dominating principle which is to govern our own attitude in this matter in exercising the control will be the furtherance of our own war effort.

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THE BRITISH BANKERS' ASSOCIATION
20 King William Street, London, E.C. 4
26th July, 1941

Dear Sir,

I am asked by the Trading with the Enemy Branch (Treasury & Board of Trade) to draw your attention to the following notice.

Yours faithfully,
J.D. BLACKBURN,

 Acting Secretary.

To the Market

DEFENCE (FINANCE) REGULATIONS, 1939
DIRECTIONS PURSUANT TO REGULATION 2A OF THE DEFENCE (FINANCE)
REGULATIONS, 1939

1. The Treasury, by virtue of the powers conferred in Regulation 2A of the Defence (Finance) Regulations, 1939, (Statutory Rules and Orders, 1940 No. 1329 as amended Statutory Rules and Order, 1941, No. 649) hereby prohibit except with permission granted by or on behalf of the Treasury, the carrying out of an order given by or on behalf of
 - (a) any of the States named in paragraph 2 hereof or any person resident therein, or
 - (b) any body corporate which is incorporated under the laws of any of the said States or which is under the control of any of them or of any person resident therein
 in so far as the order
 - (i) requires the person to whom the order is given to make any payment or to part with any gold or securities, or
 - (ii) requires any change to be made in the persons to whose credit any sum is to stand or to whose order any gold or securities are to be held.

2. The States referred to in paragraph 1 are:-

The Empire of Japan (Japan proper, Korea, Formosa, Karafuto, Kwantung Leased Territory, Islands in the Pacific under Japanese Mandate)

and

Republic of China (Manchuria).

3. The Treasury hereby grant permission to bankers:
- (a) to honour their obligations under confirmed credits opened prior to 26th July, 1941, on account of any State, person or body corporate referred to in paragraphs 1 (a) or 1 (b) hereof;
 - (b) to accept bills or drafts, and to pay cheques, bills or drafts, drawn by or for any State, person or body corporate referred to in paragraph 1 (a) or paragraph 1 (b) hereof, and presented by or on behalf of any person who, being in possession thereof; became a holder for value thereof before the 26th July, 1941;
 - (c) to carry out orders received before the 26th July, 1941, for the making of any payment or the transfer of gold or securities in or within the United Kingdom.
4. Nothing in the foregoing authorises any transaction prohibited by or under the Trading with the Enemy Act, 1939, or any order made thereunder, or by or under any other Regulation.
-

Note: All unconfirmed credits opened on account of any of the States above-mentioned or on account of any person resident therein or any body corporate referred to in paragraph 1 (b) therein (including branches or subsidiaries wherever carrying on business) should be cancelled forthwith. But, provided that no other regulation of the Defence (Finance) Regulations is infringed, there is no objection to sums which may be received for the credit of accounts blocked under these directions being credited to such accounts.

Any enquiries in connexion with matters not dealt with in the foregoing, including any permissible limits in respect of drawings for personal requirements by any national of any of the States referred to in the foregoing who is resident in the United Kingdom, should be referred to the Treasury (Japan Accounts Branch), 24 Kingsway, London, W.C. 2.

F.W.W. McCombe,
For the Treasury.
26th July, 1941.

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THE BRITISH BANKERS' ASSOCIATION

STAFFORD HOUSE,
20 KING WILLIAM STREET,
LONDON, E.C. 4.

July 28th, 1941.

Dear Sir,

I am requested to circulate the following notice for your information.

Yours faithfully,
J.D. BLACKBURN, Acting Secretary.

To the Market

DEFENCE (FINANCE) REGULATIONS, 1939
DIRECTIONS PURSUANT TO REGULATION 2A of the DEFENCE (FINANCE)
REGULATIONS, 1939.

1. The Treasury in pursuance of the powers conferred in Regulation 2A of the Defence (Finance) Regulations, 1939, hereby prohibit except with permission granted by or on behalf of the Treasury, the carrying out of an order given by or on behalf of

- (a) China or any person resident therein, or
- (b) any body corporate which is incorporated under Chinese laws (including the laws of any territory forming part of China) or which is under the control of China or any person resident therein

in so far as the order

- (i) requires the person to whom the order is given to make any payment or to part with any gold or securities, or
- (ii) requires any change to be made in the persons to whose credit any sum is to stand or to whose order any gold or securities are to be held.

Permission is hereby granted for any payment in the Sterling Area authorised by the National Government of the Republic of China or any person duly authorised to act on its behalf, and for transfers into or out of any Chinese Special Accounts which may be set up for the purposes of an Order made under the Defence (Finance) Regulations.

2. The Treasury hereby grant permission to bankers:

- (a) to honour their obligations under confirmed credits opened prior to 29th July 1941 on account of any State, person or body corporate referred to in paragraphs 1 (a) or 1 (b) hereof;
- (b) to accept bills or drafts, and to pay cheques, bills or drafts, drawn by or for any State, person or body corporate referred to in paragraph 1 (a) or paragraph 1 (b) hereof, and presented by

-2-

or on behalf of any person who, being in possession thereof, became a holder for value thereof before the 29th July 1941;

- (c) to carry out orders received before the 29th July 1941 for the making of any payment or the transfer of gold or securities in or within the United Kingdom.

3. Nothing in the foregoing authorises any transaction prohibited by or under the Trading with the Enemy Act, 1939, or any order made thereunder, or by or under any other Regulation.

Questions arising out of the foregoing Directions should be REFERRED TO THE BANK OF ENGLAND.

On behalf of the Treasury
(Sgd.) S.D. WALEY, Under Secretary.

Treasury Chambers, S.W.I.
July 28th, 1941.

Copy:lg:bj:8-11-41

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PARAPHRASE OF TELEGRAM RECEIVED

FROM: AMLEGATION, Ottawa
TO: Secretary of State, Washington
DATED: August 11, 1941, noon
NUMBER: 208

In telegram dated August 11 noon the American Minister at Ottawa stated in a conversation the previous day, Mr. Graham Towers told him that an agreement between Canada and Brazil had been reached regarding payment for Brazilian cotton whereby Brazil will sell back to Canada for Brazilian cotton purchases by Canada one-half the American dollars spent. There is no involvement of the Canadian purchaser of cotton: the Brazilian seller is paid with American dollars and the appropriate authorities of the two governments concerned make the subsequent readjustments. The Minister reported that last week the first return of 500,000 American dollars reached Ottawa.

MOFFAT

Copy:lg 8/20/41

PARAPHRASE OF TELEGRAM RECEIVED

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

DATE: August 11, 1941, 10 a.m.

NO.: 341

THE FOLLOWING IS FOR THE SECRETARY OF THE TREASURY
FROM FOX,

The United Press carried a story on the sixth of August about the unfreezing of American assets of the nationals listed below who are doing business within the British Empire, Russia, and other allied territories:

- (1) German
- (2) Italian
- (3) Japanese
- (4) Chinese

Last night Dr. Kung informed me that the story disturbed the Generalissimo. He asked me to telegraph the Department for information and the text of such.

I am conferring with (?) at 5:30 on Wednesday, August 13, 1941. (?) must have (?) reply at least in time for the conference which has been scheduled.

GAUSS

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840.51 Frozen Credits/2945

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PLAIN

Hong Kong via N.R.

Dated August 11, 1941

Rec'd. 4:41 p.m.

Secretary of State,
Washington.

300, August 11, 3 p.m.

FOR TREASURY FROM FRESE.

"Would appreciate confirmation of United Press dispatch of August sixth reporting unfreezing of American assets of Italian, German, Chinese and Japanese nations doing business in British Empire Russia or other allied territories. Request text of this general license by naval radio and any possible interpretation regarding effect on Hong Kong which is presumably part of British empire for purposes of this license. Further request pertinent information regarding other amendment to executive orders regulations or general licenses issued since July 26".

Sent to Department, repeated to Chungking.

SOUTHARD

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PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consulate General, Singapore,
Straits Settlements

DATE: August 11, 1941, 5 p.m.

NO. : 200

The Consulate General refers to telegram of August 4,
no. 83 from the Department.

We are of the opinion, after careful investigation,
that the controls over exports which are exercised by the
British authorities in Malaya are sufficient to permit
relaxation in the application of Executive Order no. 8389,
as amended. A cable was received by the Far Eastern Mission
of the Economic Warfare Ministry indicating that the British
Embassy in Washington will take up this matter with the State
Department. The Department may find of use in such dis-
cussion the following background information on the past
functioning of the export controls here:

On shipments to Thailand, particularly of manufactured
articles, the export regulations are strictly carried out.
The authorities have permitted certain exports of petroleum
products and vegetable oils, for political reasons. It
has been the policy of the control authorities to permit
exports at levels prevailing before the war. However, as
a matter of fact, the amounts which they permit to go out
have been kept below such figures by using administrative

delays, saying that there was no shipping space, or using any excuse that might serve as justification for slowing up the shipments to Thailand even of those commodities which came from the British Empire or which had through bills of lading, but which were unloaded for transshipment at Singapore or Penang.

As for Indochina: the commodity to be exported is the determining factor, along with the question of whether or not exchange can be provided for Malaya. Release of certain non-defense materials has been permitted, in exchange for cement and anthracite coal. Cement is needed in construction for defense, and the coal is vital for tin smelting. Local authorities examine closely the class and volume of exports to Indochina, and only when they have final instructions from London are the shipments released.

As for exports to Chinese ports, there is practically an embargo on commodities of all kinds.

It is practically impossible to get permits to export tin and rubber to Manila and Hong Kong. Other commodities are permitted to go there in amounts which do not exceed levels before the war. There have not been any significant re-exports of merchandise from the U.S. going to Manila from Malaya.

PATTON.

EA:LNV
Copy:bj:8-16-41

BRITISH EMBASSY,
WASHINGTON, D.C.

PERSONAL
AND SECRET.

11th August, 1941.

Dear Mr. Secretary,

I enclose herein for your personal
and secret information copies of the
latest reports 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 8, 1941

One motor minesweeper mined and sunk in the Thames estuary on August 6th.

2. Night of August 6th/7th.

Seven swordfish of F.A.A. attacked convoy of 6 merchant ships, 6 destroyers, off Tunisia. One 8,000 ton ship, one 6,000 ton ship sunk. A.M. 7th. 8 Blenheims attacked and hit 2 ships about the same tonnage, 1 probably sunk and 1 severely damaged.

3. Suez. Shipping in harbour attacked by 20 enemy aircraft night of August 6th/7th. Fire in an oil tanker quickly controlled. Damage not heavy so far as known at present.

4. August 7th.

6 Blenheims with fighter escort attacked St. Omer aerodrome and 6 other barges near Calais. During these and other minor operations 478 (sic) fighters employed. Four enemy fighters destroyed and others damaged. We lost 11 fighters, 1 pilot safe. Night of August 7th/8th Royal Air Force despatched strong force to attack Essen, medium force Bonn and Dortmund. Attack on Bonn particularly successful. Three aircraft missing.

5. Tobruk. August 6th

We captured enemy post containing 4 men.

6. Russia.

Some reason to suppose that Germans have cut off Russian forces in Estonia. Ukraine, 2 strong German thrusts south eastwards, Astride River Bug and west of River Dnieper, believed making considerable progress.

If progress maintained Russians will be forced to
evacuate southern Ukraine west of River Bug.

BRITISH EMBASSY,

WASHINGTON, D.C.,

11TH AUGUST, 1941.

Telegram from London dated 9th August, 1941.

Week ending 2nd August over 1,000,000 tons of imports were brought in convey highest total of this year. Up to August 5th since commencement of hostilities enemy had lost 3,755,000 tons of shipping and in addition 16,00 gross tons under enemy control.

2. Famagusta Cyprus attacked by 3 enemy aircraft P.M. 7th. One tug sunk otherwise no naval damage or casualties.
3. In the air raid on Alexandria early 8th by 20 enemy aircraft a near miss slightly damaged British merchant ship and a quay. Otherwise no naval damage or casualties.
4. During daylight of the 8th weather prevented offensive bombing operations. One enemy fighter destroyed. Night of 8th/9th 143 aircraft despatched, shipyards at Kiel and Hamburg attacked. Kiel highly successful. Large fires broke out. 4 aircraft missing.
5. Syria. Total of guns excluding antiquated pieces handed in to date 341. Ammunition ample and usable. Beirut workshops operating. Principal aerodromes taken over. Embarkation of personnel for repatriation proceeding.
6. Russia. Estonia. German advance to Rakvere (Wesenberg) threat to whole of Estonian coast Gulf of Finland. Ukraine German advances south eastwards believed to have resulted in rounding up of considerable Russian forces.