

August 13, 1941
10:30 a.m.

RE PRICE CONTROL

Present: Mr. Kuhn
Mr. O'Connell
Mr. Haas
Miss Elliott
Miss Ware
Mr. Bell
Mrs. Klotz
Mr. White
Mr. Viner

H.M.Jr: Harry, the memorandum which you gave me on economic warfare I left with the Vice-President (8-12-41) because they had nothing, so will you give me another one? The only thing that was done was the thing that I brought up - you ladies may be interested - of buying all available fats in North Africa, and they appointed a committee of four, State, Commerce, Treasury and Agriculture, to look into the matter.

White: We have got a - you asked for a memo on it.

H.M.Jr: It was the only thing that was brought up. Mr. Wallace was thirty minutes late. We spent forty-five minutes having our picture taken and fifteen minutes discussing ground nuts and tree nuts in Africa.

White: Nuts. (Laughter)

(Mr. Viner entered the conference).

H.M.Jr: He was thirty minutes late so I have had a beautiful morning and I am in a fine humor.

- 2 -

Klotz: Are you waiting for Mr. Foley?

Elliott: I hope you enjoyed it.

H.M.Jr: The only good time I had was I fed four of these gentlemen this morning and while they ate I asked them questions. They were supposed to ask me questions. Now, I hope we have got something that is finished.

White: Do you want to see the copy or was it for some other purpose?

H.M.Jr: I would like now the copy and the charts and whatever is new; I wish somebody would read it, whatever is new in the statement.

White: Well, I have --

H.M.Jr: We will read what is new and let's take a look at the charts. This ought to be the last run.

White: Here is the draft that was finished last night. Mr. Kuhn and others may have suggestions which we will incorporate right after this meeting. Here is a statement following the thought that you had this morning that might be incorporated and we haven't polished that up, on the dismissal wage.

H.M.Jr: Well, now, have they got a copy?

White: I will give them a copy.

H.M.Jr: Have you got another copy here?

White: I distributed them all to the various people. Here is a copy, --

H.M.Jr: What is that?

- 3 -

White: ...of that.

H.M.Jr: This? Let me have it. Have you got a copy?

White: I only have one.

H.M.Jr: Well, will somebody read who knows it and then read the things which are new.

White: Well, I think Jake and I are the only ones who know it.

H.M.Jr: I hear they took three hours to do two pages.

Elliott: It surely ought to be convincing.

H.M.Jr: Let's have it.

White: There are minor changes but I take it that you don't want those mentioned. The major change is toward the end. One change is, we refer to the fact that "the President has just issued an order giving the Board of Governors and the Federal Reserve System authority to control consumers installment credit, thus making it possible to supplement the restrictions on spending of current income by restraint on spending of anticipated incomes."

That is in the list of things which have been changed. Now, this is new on page eighteen, Mr. Secretary, and it is a substitute for the discussion on farm prices and some comments to the farmer and some comments on the farm board. Shall I read that part?

H.M.Jr: Please.

White: Would you like the old one before you?

- 4 -

- H.M.Jr: No.
- Kuhn: It is only a substitute for that section.
- H.M.Jr: Have they forgotten what happened before, don't they remember the consequences? It is just said in a different way.
- White: "The memory of our sufferings from a remorseless deflation that began a dozen years ago and from which we are just now fully recovering has, I think, blinded many of us to the fact that an inflation can be equally remorseless and tragic in its results. Because the farmer has suffered longer than any of us from price deflation -- it began with him 'way back in 1920 -- we need not be surprised if he particularly, in his struggles against the effects of deflation, fails to see the dangers on the other side. But for him those dangers are very real. Just how real they are he can measure -- not by recalling what happened to him in the era of boom prices -- but by remembering what happened to him later; for it is especially notable and plain that in his case his troubles in very large part were the after-effects of war-time price inflation.
- "That inflation --"
- H.M.Jr: Wait a minute. That sentence, "fails to see the dangers on the other side." I think they might resent that.
- White: "Less apt to see"?
- H.M.Jr: No, I think they might resent that. "Fail to see the dangers on the other side."
- Viner: "He may fail".

- 5 -

- White: "May be less apt" would weaken it greatly, I think. "May be less apt to see the dangers."
- H.M.Jr: That is all right. Well, something like that.
- Viner: I think you are perfectly right there. You shouldn't attribute ignorance to somebody else.
- White: "...That inflation established extravagantly high prices for land; it brought hundreds of thousands of acres of new land into cultivation for the standard crops; it stimulated excessive investment; it loaded upon many farmers a tremendous burden of debt --"
- Viner: "Excessive farm investment", I would put in.
- H.M.Jr: Excessive investment in what?
- Viner: In agriculture, fencing, building, machinery --
- H.M.Jr: They paid all these high prices for land.
- Viner: He already has the land but they also over-built their - bought too much agricultural machinery.
- H.M.Jr: It ought to be defined.
- Viner: Yes, make it "farm investments".
- White: I think we had better cut out, "It brought hundreds of thousands of acres into cultivation for standard crops", because that is very true but it is exactly what we are asking them to do now. I think that might be eliminated and nobody will miss it, although it was an important factor in the down turn.
- "...It loaded upon many farmers a tremendous

- 6 -

burden of debt --"

- H.M.Jr: If you want to put the right thing in and talk about the plow that broke the prairie, talk about the grass lands which were brought into cultivation.
- Viner: Prepared the way for --
- White: I don't know enough about it to phrase it.
- H.M.Jr: Well, they do. It was the grass lands of the Dakotas and so forth which were brought into --
- Haas: I would be inclined to leave it out. It is true, but the Government, you know, put on a campaign --
- Viner: The Government begged them to do it.
- Haas: I would sort of skip through and leave it out.
- White: Well, it was a different Government. (Laughter).
"....It loaded upon many farmers a tremendous burden of debt which they were asked to pay a year later in dollars that were worth --"
- Viner: "Years later".
- White: "...in dollars that were worth twice as much in terms of purchasing power as the dollars in which the debts were contracted. It is highly significant that the farmers themselves have not sought to be restored to the condition of the boom times, whose essential unsoundness they recognized, but in the campaign for parity prices have been struggling to regain an economic position from which they were dislodged initially by price inflation."
- H.M.Jr: That has got to be fixed up. It is terrifically

- 7 -

involved. Looks as though it was written about one a.m. this morning.

- White: Most of this, in fact, all of this page, was written by Gaston and we incorporated these sentences.
- H.M. Jr: It is terribly involved.
- Kuhn: Some of it can be fixed by splitting up a long sentence into two.
- White: "...I could not fail to see the peril to agriculture in the present situation because I happened to be in position as Chairman of the Federal Farm Board in the last two months of its unhappy existence and as Governor of the Farm Credit Administration in the period when the Government quite properly shouldered the burden of refinancing most of the farm debt of the Nation to get an intimate view of tragedy as black and menacing as ever affected the farmers of this country."
- In reading it over, I am inclined to think - to leave out the "last two months of its unhappy existence".
- H.M. Jr: I don't like any of it. This thing has to be cut. I don't - I mean, I don't like any of it.
- White: "...Through the decisions I had to make as Chairman of the Farm Board I saw how the inflation of farm prices followed by a deflation that struck like a mid-western cyclone brought down in scattered ruins almost the whole promising structure of farmers' cooperatives in this country and left a painful and difficult job of rebuilding to be done. As Governor of the Farm Credit Administration I had to put into effect a

- 8 -

policy that would relieve conditions which caused American farmers to gather with shotguns on the steps of courthouses to prevent foreclosure on their farms. This was inflation on the other side of the hill. It was a case of Humpty Dumpty toppling because he had climbed too high. It should not be hard to persuade the present-day descendants of Humpty Dumpty not to go climbing too far up that wall of high prices again."

Here is something new.

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

White: We will compromise between that and what we have.

H.M.Jr: I will give you - I am not going to take the time of these ladies up.

White: "...I don't wish --" here is a new paragraph on page twenty-two, after you have been speaking about the danger signals of the cost of rising agricultural prices.

"...I don't wish to be misunderstood in my comments on agricultural prices. I am glad that some of the agricultural prices that had been too low have attained a reasonable level. I am not disturbed by the general level of agricultural prices now prevailing, but what I am deeply concerned about is the danger that agricultural prices in general will continue to rise until they are out of hand. As the Secretary of Agriculture stated only a few days ago: 'There are some who think agriculture should charge all that the traffic will bear, to get while the getting is good, with the hope that somehow the aftermath can be avoided.' For his part he warned his audience that 'to tie up

- 9 -

stocks in an effort to create an artificial scarcity and unreasonable prices is not in the interests of the farmer, the consumer or the general welfare."

There are no other significant changes. There are some deletions. We have shortened it a bit but no more important changes, though I think you will want to read it over again because there have been some word changes.

H.M.Jr: Now I have asked four times, has that four hundred fifty thousand bushels of wheat been checked?

Haas: We are in the process of checking everything in it.

H.M.Jr: When is it going to be done, George?

Haas: We just had the copy this morning. Four hundred ninety-five is O.K. - ninety-eight, is that what is there?

H.M.Jr: It says four fifty.

Haas: Four hundred ninety-eight, I think.

White: Now, there are two paragraphs that you asked for, one on dismissal wages. You have a tentative draft before you of that and we will polish that up. The second related to a comment on what the Secretary of Agriculture had done. I called up his man and asked him to send me a paragraph of what he has accomplished and they are very eager to do so and it will be here by messenger within the half hour.

H.M.Jr: The other thing I wanted was to use the figures of yesterday to show the amount of stuff in storage.

- 10 -

White: You mean those slips that you gave us?

H.M.Jr: Yes, I mean --

Haas: Oh, we are working on that now.

H.M.Jr: It is time to move on this stuff.

Haas: I didn't know that you wanted it in here.

H.M.Jr: Yes.

Viner: Do you feel very strongly for retaining that quotation from Fortune?

H.M.Jr: Yes. It is the only reference we make to nutrition.

Viner: Yes, but why quote Fortune?

H.M.Jr: Because they have said it better than anybody else.

White: Do we know the author? Is there a writer?

H.M.Jr: They don't give him in there. What don't you like about it?

White: I have a paragraph here about agriculture.

H.M.Jr: Is there - are there any changes on the consumer end? I don't want to tie up Miss Elliott any more.

Ware: There was just one question that Mr. Viner raised yesterday and that was with reference to all kinds of agricultural surpluses; that you are going to get out, aren't you?

Viner: Is that still in? What page is that?

Ware: On page twenty-four and it is in on page sixteen.

- 11 -

"Almost all agricultural goods" on page sixteen and it is "all kinds" on page twenty-four.

White: "Of many kinds".

Viner: I would challenge that. I don't believe that is true, but that is George's responsibility, to see that that is a statement of fact.

Ware: From the consumer point of view it certainly isn't true. That is, from the point of view which is implied in the Fortune article.

Viner: I would use those --

H.M.Jr: What do you want left out?

Viner: To qualify that, to say, "many kinds".

White: We made the change. I have just made it.

Viner: What is there on sixteen?

Ware: Then the third from the last line on the first paragraph, we are --

Viner: I would say, "of many".

White: What page?

Viner: On page sixteen.

Ware: And you had some question about using the butter illustrations, Mr. Viner.

Viner: I would want to look into the facts pretty carefully there.

Ware: I share your doubt on that.

Viner: I don't think there is a surplus of butter in terms of what we need and what the English need.

- 12 -

- H.M.Jr: I told George this morning, those statistics, I took them out of the paper and I said I wanted them incorporated in this statement, the holdings in cold storage.
- Viner: You have to watch for seasonals and you have to see what last year's --
- H.M.Jr: This compared with five years' average.
- Viner: And then to see how much butter was stored, what percentage of it is annual consumption? It might just look like a big figure.
- H.M.Jr: You have had since nine o'clock this morning.
- Viner: Because the minute you go into details and agricultural commodities, the minute you go into details and agricultural commodities you are going to face some wise Congressman who will get tense and if they can pick you up on that they will sort of throw discredit on your whole statement, so you have to be very cautious the minute you name a specific commodity. It has got to be water tight from the point of view of the situation as a whole and the prospects, and so on.
- H.M.Jr: Well, that is George's job to see that it is correct, plus the help we get from the Department of Agriculture. Now, Miss Elliott, is there anything else?
- Elliott: No, that was the only thing unless Miss Ware has something else.
- H.M.Jr: Before we use those charts, George, that Miss Ware suggested, I want her to O.K. them.
- Haas: Fine.
- H.M.Jr: Before they are printed I want her to O.K. them.

- 13 -

Will you get them over to her?

Haas: Yes, they are not made yet.

H.M.Jr: Well, when they are.

Haas: I had previously made that arrangement with her to show them to her before they are finally completed.

H.M.Jr: Well, thank you very much, Miss Elliott.

(Miss Elliott and Miss Ware left the conference).

Now look, gentlemen, I can't fool around with this statement any more. Some of the people see it and some people don't see it. I am going through each word and this is the last time. I don't want any changes after this. I have got to get this thing off to Mrs. Roosevelt. I can't tell her again that we are not ready at eleven-twenty. I don't know why Kuhn hasn't had a chance to see the thing.

Kuhn: Well, I have got some --

White: Why he hasn't had a chance?

H.M.Jr: Yes.

Kuhn: ...changes which --

White: Well, he can speak for himself.

Kuhn: I have got some smoothing changes, verbal changes, but nothing in the way of content.

H.M.Jr: Now George, what about the charts? Did the people work last night on them?

Haas: Yes, sir, and they will have to work all night and --

- 14 -

H.M.Jr: Well, can I count on the charts? Can I count on the thing being in there?

Naas: The only question is, and I don't think - the only really tight place, working all night, is this chart - this pictorial chart of Miss Ware's, but I will know by noon whether it will be through. I think it can go through, working all night, because at the end, when it is completed, we have to make multilith copies of it, you see, to put in your statement, and we planned on having the people who do that come in at three o'clock in the morning or whenever it is and start on it to get it out. I am willing to underwrite it now, that we will get it out.

H.M.Jr: Well, you have got to. I am going to start in and do this thing word for word and this is the last time we will go over it, you see.

"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."

If anybody has anything, don't be bashful, just sing out, will you please?

"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 facing it now and we must deal with it at once.

"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

- 15 -

beat this thing. If we keep always in mind the best interests of our country as a whole; if we provide promptly the appropriate means and use them vigorously when and as necessary, we can prevent inflation from fastening its grip upon us.

Kuhn: May I suggest to change "when and as" to "whenever"?

H.M.Jr: Where is that?

Kuhn: "If we can provide promptly the appropriate means and use them vigorously whenever necessary." It is like "and/or".

H.M.Jr: "Whenever necessary"?

Kuhn: "Whenever necessary".

H.M.Jr: "...That task calls for alertness, courage and mental toughness on the part of every one of us here today.

"I welcome the bill before you."

What about that?

Viner: I think you ought to mention the name of the bill. This goes out to the press and nowhere in the text is there any mention of what the bill is about.

Kuhn: The Price Control Bill.

Viner: All right, if that is what it is.

White: Or, "I am glad that the Price Control Bill is before your committee".

Viner: In fact, I have been in a little doubt as to what the bill is.

- 16 -

H.M.Jr: I don't like "I welcome the bill before you".

White: Would you be willing to say, "I am glad this bill is before you for consideration now"?

H.M.Jr: Yes, that is right. Or put it the other way around, "I am glad that the committee is considering this bill." "I am glad that the committee is considering this bill" -- name the bill.

Klotz: "That your committee".

H.M.Jr: "...and is giving so much time and consideration" or something like that.

White: "And is giving it such careful consideration."

Bell: Could you say that you are glad the committee is covering the subject covered by this bill?

Viner: Yes. "I am glad that the committee is considering the adoption of measures for Price Control."

Bell: "Covered by this bill".

Viner: "...covered by this bill".

H.M.Jr: I believe it is - have you fellows got that?

Viner: We have got it.

H.M.Jr: "...I believe it is a necessary step in the fight against inflation. But it has one serious shortcoming to which I shall refer later."

White: That is --

Kuhn: I have a suggestion there, Mr. Secretary, to

- 17 -

smooth it. "The bill before you has one serious shortcoming to which I shall refer later, but I believe the bill is a necessary step in the fight against inflation." And then it leads you on into the broader subject rather than leaving you dangling.

H.M.Jr: All right, that is good.

O'Connell: I just went through this last draft rather hurriedly but do you mention the hundred and ten percent in the bill, later?

White: Not specifically.

O'Connell: We discussed the undesirability of putting a high price on farm products but we don't anywhere say that --

White: That is true. I think it is probably better --

O'Connell: Then why isn't it better not to mention specifically the specific shortcoming and have this paragraph endorse the objectives of the bill?

Bell: That was in the last draft.

White: That was in one of the earlier drafts and there was an objection here that he doesn't approve of the bill, even though he does have the objective. I think it is better. I approve of the general objectives of the bill.

H.M.Jr: And not mention the hundred and ten percent?

O'Connell: Well, we don't mention it anywhere later and if we don't mention it later we certainly shouldn't point out here one serious shortcoming.

H.M.Jr: Is your advice we should or shouldn't mention it?

- 18 -

O'Connell: I say we should not mention it here. Inferentially all through the bill you condemn it.

H.M.Jr: You think we should spell it out?

O'Connell: No, leave out the sentence about the serious shortcoming and only endorse the objectives of the legislation. The rest of the statement is consistent with that.

Kuhn: I don't agree, Joe, because if you don't mention that you are for this bill in general but it has one serious objection, then you are going to leave everybody confused as to whether you are for it or against it, because so much of the statement consists in opposition to farm --

H.M.Jr: I agree with Kuhn and I think that the courageous thing is to say this and later come out flat-footed against the hundred and ten percent.

Kuhn: You practically do that later on.

H.M.Jr: I would like to do it to the committee, no "if" and "and".

Bell: I thought that was what you wanted and it was in the draft.

H.M.Jr: I do. Gentlemen, if you don't mind, I have thought enough about it now. I know what I want to do. I would like to leave this thing in and I would like to flatfootedly some place come out against a hundred and ten percent.

O'Connell: You see, my point was that it doesn't make sense to say there is one serious shortcoming and not refer to the shortcoming.

H.M.Jr: Joe, you are right, but it brings us to the

- 19 -

point that I either shouldn't refer to it at all or I should refer to it here and then spell out the hundred and ten. I don't want to be mealy mouthed about this thing. It doesn't hurt any more to get hung for - what is it - a lamb as a sheep?

White: You are not mealy mouthed about it. May I just quote the first sentence later on?
"That brings me, gentlemen, to what I consider the major defect of the bill now before you. It is a defect which I consider so great that it will undermine the effectiveness of the bill to provide for effective control of farm prices."

H.M.Jr: What is the defect?

White: Well, we don't specify the hundred and ten percent, but we talk about it - you would like to specify it?

H.M.Jr: I would specify it.

White: But you weren't mealy mouthed in any case there.

H.M.Jr: I would specify it. Because then they will say, "What is the defect?" It is the hundred and ten percent. O.K.?

White: Yes.

H.M.Jr: "...We must attack the problem on three different fronts if we are to succeed in controlling inflation; non-defense expenditure must be curtailed, production must be expanded, and prices must be subject to control. The time left us in which to act is short.

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

"Memories are so short that I suppose many of

- 20 -

us 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 --"

Here is the point. We say it here. I am saying "all of us". There is no sense in doing what Gaston does later on, saying to the farmer, "You don't even know what is going on."

"...It was not until April, 1917 that the first real alarm was sounded against inflation. It was only when prices had risen by 70 per cent that President Wilson recommended any steps to prevent inflation. In fact, there was such blindness to the dangers of inflation that as late as June, 1917 Congress actually facilitated inflation by reducing the reserve requirements for member banks of the Federal Reserve System.

"By 1920, prices skyrocketed to double --"

Kuhn: "Had skyrocketed".

H.M.Jr: Yes, "...had skyrocketed to double the level of 1915."

I don't like that "double the level".

Kuhn: "To a height twice as great as in 19 --"

H.M.Jr: "Had skyrocketed to twice the level."

White: "Twice the 1915 level", if that makes it easier.

H.M.Jr: "Prices had skyrocketed - had skyrocketed a hundred percent"?

White: Yes. "By 1920 prices had skyrocketed a hundred

- 21 -

percent."

Viner: No, no. We will --

H.M.Jr: Well, put it the other way around. Say, "from 1915 to 1920 prices doubled." Well, fix it up for me, gentlemen. I will put it back to "double". I won't try to fuss with it now for this purpose. Can you give it to me a little bit simpler and more straightforward?

"...The pattern of price rises in the past two years is frighteningly similar to the price movements during the first two years of World War No. 1.

"As the President said in his message to Congress a few weeks ago:

'Today we stand, as we did in the closing months of 1915, at the beginning of an upward sweep of the whole price structure.'

"Then as now, there was a little rise in the cost of living. Then as now, there was a greater rise in wholesale prices. Then as now there was a still greater rise in the price of basic commodities.

"Since the beginning of the present war, the wholesale prices have risen about 18 percent --"

Now, since the beginning of the present war, is that August, 1939?

Haas: Yes.

H.M.Jr: Is that what you are going to do, George? I am accustomed to working with that August.

Haas: Yes.

- 22 -

- H.M. Jr: "...True to the usual pattern, the cost of living was slow to rise. During the past year, however, it has increased 4 percent -- but the important thing to note is that nearly all of this rise has taken place since March."
- Kuhn: "True to the usual pattern, the cost of living has been slow to rise."
- H.M. Jr: "True to the usual pattern the cost of living has been slow to rise. During the past year, however it has increased 4 percent -- but the important thing to note is that nearly all of this rise has taken place since March, - of this year."
- Bell: Yes.
- Haas: I was going to suggest, in going over this, Mr. Secretary, instead of saying "the past year" say "since the beginning of the war" and instead of using four, then, you can use nearly six percent. It makes a bigger figure. But that is a minor thing. Do you mind if we make changes like that?
- H.M. Jr: No, I don't mind. I just want to get the thing reading it once together and then this crowd - I mean, as long as there is nothing basic, you know what I mean. You people have worked with me long enough now. I am more than willing to leave it in your hands as long as I get the thing in time. I mean, I don't mind words within a sentence, but if you are going to leave out a thought, please see me; but if it is just structural, it is all right.
- "...During the past 12 months" - and again, anybody please stop me any place that something doesn't sound right - "During the past 12 months the average price of 28 basic commodities

- 23 -

has increased 37 percent --"

Now, George, is there a chart on this?

Haas: Yes, sir.

H.M.Jr: "...despite the fact that the prices --"
now, where we have charts - "during the
past 12 months the average price of 28
basic commodities has increased 37 percent" -
you don't want to put in --

Haas: That is fifty-two from the beginning of the
war.

H.M.Jr: ...a little bracket and "see chart"?

Kuhn: We have it at the end of this paragraph.

H.M.Jr: Oh, you have it. I see it here.

Haas: There is a chart previous to that that should
be --

White: No, we had a lot of difficulty with fitting
that chart in. We had to save that for later
when we point to the fact that prices were
going the same way they did later.

H.M.Jr: "...During the past 12 months the average price
of 28 basic commodities has increased 37
percent, despite the fact that the prices of
a number of basic raw materials have been
kept partly in check through the efforts of
the Office of Price Administration and
Civilian Supply."

White: We didn't know and we were going to ask you
this question. If you say "see chart one" that
breaks - they all begin looking. If you begin
reading, it is disturbing. Would you prefer

- 24 -

either to when you get through say, "I have some charts which we will distribute which give these points" or would you prefer to stop at that point and let them look at it?

H.M.Jr: Well, here is the thing. This is one way of doing it. "See chart one". I then would turn the page and have chart one and then the next sentence would come on the following page, do you see what I mean?

Klotz: But you break the trend, you see.

White: But they would all begin looking at the chart and while you are talking they would not hear you. Do you plan on having a big chart there?

H.M.Jr: Yes.

White: Then, if you have a big chart, you don't need this "see chart one" and you can ad lib for a moment and say, "here is a chart that points that out, and you have a copy of it, gentlemen, on the next page." Give them a chance to look at it and say, "Now, may I return to my discussion."

H.M.Jr: The only trouble on that is that they may begin to ask me a lot of questions. I will never get through my statement.

Klotz: Then you would lose the points.

H.M.Jr: I'll tell you what we will do. You could simply put "see chart one" in an appendix and have all the charts at the back.

White: Or a chart depicting this in the appendix.

H.M.Jr: Yes, see appendix.

- 25 -

White: Or better still, "I have some charts which I will show you after the statement for these charts, these large charts." Then when you show these large charts you can say, "Gentlemen, you have got some copies in the appendix."

H.M.Jr: I think that is right. I think I would have it in the appendix. Otherwise, we may get on this thing and we might get as far as chart one and I might be there for two hours.

White: Couldn't you stop at any point along here and say, "Gentlemen, I have some charts that I will show you after the statement," and then they won't - they will wait until then.

Klotz: Why not distribute them after?

H.M.Jr: I think Mrs. Klotz has an idea.

White: Yes, that is right.

H.M.Jr: Have them all together --

Klotz: Because they are going to turn to them.

White: Then you won't have to indicate here when and you can --

Klotz: That is right.

White: Then they can be looking at them while you are sitting down and it will give you a rest.

H.M.Jr: For my own reading copy, though, have - not here but when I make this thing, have it right in the margin. If you want to you can do it in ink afterward. Chart one, so I will just know, so when I leaf through for my reading copy, if it is in ink, you see --

White: "Illustrated in chart one".

- 26 -

- H.M.Jr: Just the word "chart one". Where I begin talking about thirty-seven percent, just for me, right here in ink, have "chart one" on the margin.
- White: That will also give George a little more time in case he absolutely has to have it.
- H.M.Jr: That is all right.
- White: Because the charts won't have to be there until you distribute them.
- Haas: They don't have to be stapled with the stapler. You are a help, Harry.
- Bell: Think it would be right if he said, on the twenty-eight basic commodities, this particular chart was submitted by Henderson?
- H.M.Jr: Well, Dan, what we agreed was that even though some of these were, it doesn't do any harm to do them over again.
- Bell: I see. I thought your first decision was that you wouldn't do that.
- H.M.Jr: On second thought, a lot of these things aren't new and I am making these points and the thought was, well, even if he has used them, we will use them over again.
- White: We can do this, Mr. Secretary. In the copies that we send out, we can remimeograph these pages and say, "see chart one, see chart two", and so on. And append them -- see chart one in appendix.
- H.M.Jr: Well, what they could do is, for instance, Chick Schwarz' man in half an hour can go through each thing in ink that they give the newspaper men, see chart one, so they will know where the chart

- 27 -

fits in.

- White: Then they will begin asking, "Where is chart one", the press men.
- Haas: Here is another thing. You can write on the chart, the page, you see, on the chart, at the top, page eight, page ten, and so on, so a newspaper man will know that that chart goes there.
- H.M.Jr: It has to be fixed up so they will know where it goes.
- Bell: Let me suggest that you attach the charts to your mimeograph and release them to the press and the statements that you give to the members of the committee you don't have any charts attached until after the Secretary finishes his statement.
- H.M.Jr: That is better yet.
- Bell: The press ought to have them, since it is a matter of record.
- H.M.Jr: And I hope they will print some of them in the newspapers. They ought to know where it fits in. Well, Ferdie, that is definitely newspaper work. I will leave it to you to see that the newspaper men get their charts so they will know which chart goes in which spot.
- Klotz: I have another suggestion. You can have two sets. Have one complete set marked for the press. After all, there aren't so many. And then after the thing is over just replace it and give it to them with the marking of where the charts are so there will be nobody fussing while you are reading, because that will be very disconcerting.

- 28 -

Kuhn: I wouldn't send them the charts while you are reading the statement.

H.M.Jr: All right.

Kuhn: I would even avoid putting it in the margin.

H.M.Jr: All right, have it for me in the margin, please.

Kuhn: Yes, sir.

H.M.Jr: "...It is the rise in the prices of basic commodities that constitutes our most obvious danger signal today. 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 the seeds of inflation have taken deep root.

"Moreover, the forces now in existence making for further price rise are both potent and persistent:

(1) Our defense expenditures -- the primary inflationary force -- are increasing rapidly."

Instead of saying, "defense expenditures" I would like to say "our defense program". It isn't only the expenditures.

White: It is all right.

H.M.Jr: What? What else? Or don't you agree?

Haas: It is expenditures which are really putting the pressure on.

H.M.Jr: All right, I will leave it that way.

"...The Bureau of Budget estimates that defense spending during the fiscal year 1942 will be

- 29 -

fifteen billion, or two and a half times as much as in the fiscal year 1941. Even this increased estimate does not include additions to the Defense Program made after June 1 and greater sums needed for Lend-Lease."

O'Connell: Mr. Secretary, for your information, Henderson testified the other day that he estimated they might spend as much as twenty billion during this current fiscal year, although he admitted that was substantially in excess of the budget estimates. I thought it was partially a hope but they might ask you.

H.M.Jr: My answer is that I have got to stick by the budget figures, which are twenty-two billion.

Bell: I would change this language to say "more than fifteen billion" because the estimate is fifteen, five and then if it goes seventeen, you are still right.

H.M.Jr: Would you say "more than"?

Bell: "More than fifteen billion".

H.M.Jr: All right.

White: Would you also say "more than two and a half times as large"?

Bell: Yes.

H.M.Jr: All right.

"...Also important as an inflationary force is the fact that the Government is borrowing from banks and from the idle balances --"

Also important as an inflationary force?

White: As a force making for higher prices?

- 30 -

- Kuhn: You are listing here all the influences making for inflation.
- H.M.Jr: "...The Government is borrowing from banks the idle balance --"
- Why is that inflationary?
- White: Well, because that is what is inflationary. If it is idle balances that you are borrowing, you are putting them to work. It is just as though you were adding money to the income stream. You are making idle money active, which is the same as adding to the money in existence.
- Kuhn: It is not the same as borrowing from current earnings.
- White: That would be spent anyhow, presumably.
- H.M.Jr: What is the matter, Jake?
- Viner: I think you have got something there.
- H.M.Jr: Who has?
- Viner: You have. One covers two, you know.
- H.M.Jr: I think it is a silly thing to say.
- White: Depends on where you get the money you spend. If you get it from money that would otherwise be spent --
- Viner: There is overlapping between one and two. One or the other is the correct one or the two combined. There aren't two separate sums. It isn't the fifteen billion and the borrowing of ten billion in addition. These are not additive, put it this way.

- 31 -

- White: That is right.
- H.M.Jr: Again --
- White: We could argue about it but I still think despite what he says that you should mention them both.
- H.M.Jr: Let me say this, Jake. Would you listen a minute, if you don't mind? The thing that strikes me wrong is, "All right, Mr. Morgenthau, well, why do you borrow from the banks?" Then I get in the whole business. "Why don't you borrow from the savings and this thing and that thing?" I think it is just making trouble for myself. I think you are spelling it out too much.
- White: Well, cut it out. They will never miss it.
- Kuhn: You can go right on into the estimated deficit.
- H.M.Jr: When I think you say paragraph one you have said enough. You say our defense expenditures are the primary inflationary force. Now, why spell the whole thing out?
- White: Technically it is not accurate, but it is all right. Then why do you go out for a program of increased taxes? That doesn't make you spend any less.
- Viner: I think that first on your defense expenditures - the primary inflation force in so far as they are not made from current tax revenues.
- Haas: Then later on --
- Viner: Then you can go on.
- Haas: The Secretary tells later on how he is handling

- 32 -

his financing.

- H.M. Jr: I would start - I couldn't hear Jake - the estimated net deficit. I would start there and leave the rest out.
- White: The reason we included that is that people won't understand why you mentioned the net deficit unless you made clear to them that that net deficit is the borrowing and that this paves the way for the explanation as to why you are trying to issue savings stamps and borrow from people out of their current income, because that kind of borrowing is not inflationary. The kind of borrowing that is inflationary is the kind of borrowing which results in your taking away - sums that would have been idle because if they would have been idle they might as well never have existed.
- Bell: Jake's suggestion cures that, doesn't it, Harry, to the extent that you are not taking these funds in taxes, the expenditures are inflationary.
- Viner: Take them in taxes or otherwise out of current income.
- White: Then that takes the place of the whole second part, but I do think that there are millions of people who just don't understand that.
- H.M. Jr: Well, I am more than willing to leave it in the hands of you people, if you are willing to fight it out.
- White: Let's see what agreement we come to.
- H.M. Jr: I am not going to change it, but I am leaving

- 33 -

it this way. The only point I am making is this. You start off on the borrowing program and the first thing you say we are borrowing from the banks and they will say, "Why do you borrow from the banks?"

White: Well, you can't borrow short term money from --

H.M.Jr: If you insist on saying - I first talk about the things that we are doing which are not - how we are getting our money in a non-inflationary manner, and then say the money - we can only get so much and what we can't get we have to go to the banks for.

White: That is right.

H.M.Jr: Harry, --

White: You can do that, yes, say these sources do not supply at this time all that we need and therefore we have to turn to banks for short term funds.

H.M.Jr: Well, if I could even spell it out a little more. In order to raise this money the Government's borrowing program is the following. First, we get everything that we can through Defense Savings Bonds and Stamps. Second, we get all we can through the tax and so forth and so on. Now, the public is responding wonderfully. What we can't get, we have got to go to the banks for.

Viner: I would leave that out and you can say, we come to it later on.

H.M.Jr: Anyway, I am not satisfied with it the way it is, but I will be satisfied with whatever you people write. Could anything be fairer?

- 34 -

- White: Yes. We will see what we can do with it in the line of what you said and whatever we agree on --
- H.M.Jr: And if you would remember, anything that you can leave out is gain because I think the statement is too long.
- White: Yes, that is true. It is too long but it is --
- H.M.Jr: So if you lift a whole paragraph out --
- "...With the increasing flow of spendable funds the upward pressure on prices becomes greater more and more plants attain their maximum output,--" I don't get it.
- "With the increased load of spendable funds, the increased pressure on prices becomes --"
- Kuhn: "Greater".
- H.M.Jr: I see. Greater.
- "...more and more plants attain their maximum output, and more and more shortages in raw materials for civilian use appear." Do you mind - just put a question mark there. It isn't very clear to me. I think again it is kind of an involved sentence.
- White: The thought is simple.
- H.M.Jr: The thought is simple but I don't think it is expressed simply but I am not going to take the time to correct it. Will you put a mark after it?
- "...Prices of imports are also rising daily due to diminishing shipping space, higher shipping costs, and disappearance of normal foreign sources of supply.

- 35 -

"(5) Finally, and of fundamental importance as an inflationary force we have growing profits, increasing agricultural income, and fatter pay envelopes and many more of them.

"Let us see where these forces will take us if permitted to operate unchecked, as they were unchecked in the World War. All we have to do to see what may be ahead of us is to look into the purse of the average family of those times --"

"Look into the purse"? "Examine the budget."

- Kuhn: Isn't it more direct and vivid if you look into the purse and see what they had to spend, not in terms of percentages but in terms of the prices of foods, clothing, and shelter?
- H.M.Jr: I don't like to look into a purse. It looks like snooping.
- White: "Examine the budget".
- H.M.Jr: Doesn't the woman talk in terms of her household budget?
- Klotz: Certainly not about a purse.
- White: "Let us examine the budget of the average family." Of course we don't, we only examine the food costs.
- Bell: You could say household expenses.
- White: Yes, we do, we examine the budget.
- H.M.Jr: All right?
- White: Yes.
- Kuhn: Would you change that one sentence the other way

- 36 -

around, "To see what we have ahead of us, all we have to do is to examine the budget."

H.M.Jr:

What did I say?

Kuhn:

We are finished with that.

H.M.Jr:

"...The money the housewife paid for one loaf of bread in 1914 bought only --" Could you say "the money the housewife paid for one loaf of bread in 1914 bought only half a loaf in 1920"?

"...The money she paid for a pound of bacon in 1914, bought only a half a pound in 1920. The money that she paid for a yard of cotton cloth in 1914, was enough to buy only one-third of a yard in 1920."

White:

You can read it better if we put the word "only" sooner? It wouldn't be grammatical.

H.M.Jr:

Keep it grammatical. It is grammatical and dramatical. I think that is convincing.

White:

Now that is where, if you have some kind of a picture chart, it might be the place for it, I don't know.

Haas:

The chart is not on this. It shows the items of the budget, shelter, food and clothing and so on.

White:

Then that comes later.

H.M.Jr:

"...The family with no increase in income found its purchasing power cut in half."

Haas:

That is in the chart.

H.M.Jr:

You don't want to go back to the old wartime term of the white collar family?

- 37 -

White: Well, why limit it?

H.M.Jr: All right. "...It found that food, fuel, shelter and clothing that cost \$1.00 in April, 1915, had risen to \$1.08 in April, 1916. By 1920, after four years of rising prices, the cost of these goods and services had -- "

Do you mind saying, "these very same goods and services", Ferdie?

Kuhn: "These" implies the ones you are talking about.

H.M.Jr: All right.

"...these goods and services had risen to \$2.03. The pattern of rising prices for food, fuel, shelter in the past five months is startlingly similar to that of 1915 and 1916. If these prices continue to rise as they did from 1916 to 1920, we shall find that food, fuel, shelter and clothing that now cost \$1.00 will once more cost \$2.00."

Over two dollars? Two dollars is so flat.

White: Over two dollars. It is sort of a digression but I think it might be made at this point. In the questioning - it is true that a dollar bought less, but isn't it true, Mr. Secretary, that a great many had much higher incomes, wages were higher, and so forth. I suppose the appropriate answer to that was that in many cases they did get higher wages but rarely did they get as much and in any case, that is the very thing we want to prevent. These rising prices force higher wages and higher wages force higher prices and so on.

H.M.Jr: Joe, now this stuff is new, isn't it, what I am giving here?

- 38 -

O'Connell: Yes.

H.M.Jr: This hasn't been given to the public by anybody?

O'Connell: No. I have read the hearings very carefully.

H.M.Jr: This is the stuff that I called up for Sunday night and I was groping for. I personally like it.

"...The rise in prices is by no means confined to foodstuffs and clothing. I have before me, for instance, the actual figures on the cost of constructing a standard six-room frame house in one of our typical cities."

Why not say in the St. Louis area?

White: I think it is stronger. St. Louis implies special conditions.

H.M.Jr: "...This home that could have been built a year ago for \$6,000 now costs \$7,140 to build. Here we have an increase in prices of nearly 20 percent and if it goes along the 1916 pattern, we are only at the beginning of the story."

White: I don't know whether you can say, "I have before me" because have you got it before you? We had it enumerated in the first draft.

Viner: There is a chart.

H.M.Jr: Yes, we have a chart.

"...Not only is the cost of building homes rising but even for the millions who do not own their homes higher rentals are on the way. We find already in scores of areas where industrial expansion has first taken hold, rents rising 10, 20, 30 and even 100 percent."

Have you got the facts to back that up?

- 39 -

White: Well, I asked Miss Elliott's woman whether it is true that --

H.M.Jr: The name is Miss Ware.

White: ...and she said yes. I am sorry - Miss Ware - she said yes. I asked her twice. Now, I can ask her --

H.M.Jr: Well, George, as long as you are doing charts, check that hundred percent.

White: You could say "in some cases".

H.M.Jr: Well, George, are you going to take the responsibility for all the statistics?

Haas: Well, as a matter of fact, I am checking everything in the thing.

H.M.Jr: All right.

Haas: I don't think it will do any harm.

White: If you do not find that, Miss Ware says she has some instances.

H.M.Jr: "...There is, however, one great difference between conditions today and 1916. We now know what is going on."

White: Going back to that, it would be stronger to say rents are rising ten, twenty, thirty and more --

Viner: And even higher.

Kuhn: Ten, twenty, thirty percent and even higher.

Bell: I wonder if you want to say, "We now know what is going on"? Does that indicate our statistics are better than in the World War?

- 40 -

Kuhn: No, it is our awareness.

White: We have the experience of not only that war but thirty years of --

H.M.Jr: Could you say now to emphasize it, "We now know what is going on. Our eyes are open." Do you think it helps?

White: "Our eyes are open to the price situation."

Kuhn: Or, "Our eyes are open to the dangers that lie ahead of us", which is the next sentence.

H.M.Jr: Something like that.

Viner: That is really the great difference, if it is true. Our eyes are open to the dangers that lie ahead of us.

White: Well, that is what we say. It may be more graphic to say "our eyes are open" instead of "we are aware of". Do you prefer that?

H.M.Jr: I do.

White: "Our eyes are open to the danger." "This time our eyes are open", you will have to say. "This time our eyes are open".

H.M.Jr: Do we have to say that?

White: We can't say, "Our eyes are now open".

Kuhn: I think "this time" is good, Harry.

H.M.Jr: "This time our eyes are open to the dangers that lie ahead of us. We now know or ought to know that the time --"

White: I don't like that, "we now know or ought to know."

H.M.Jr: No.

- 41 -

White: It is a little bit the teacher talking to the student. "We now fully realize or appreciate that the time" --

H.M.Jr: Wait a minute, Dan had something. Simply say, "Now is the time to do something about inflation." That makes it positive. "Now is the time to do something about inflation, not after it is here."

White: I am afraid that conflicts with a later sentence. Let us fix that up.

H.M.Jr: Granted.

"...Our economy today resembles an over-loaded steam boiler. The fire under the boiler is being fed by 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 the boiler from bursting, we must damp down the fires by withdrawing some purchasing power, and we must also strengthen the boiler by increasing the supplies of goods available to the consumer."

Now, by withdrawing some, that is too mild.

Haas: Leave "some" out.

White: I lost some hair last night in keeping that in.

H.M.Jr: Do you still feel that way?

White: Jake didn't like that paragraph.

Haas: When you leave the "some" out, it doesn't mean you are taking it all off.

White: No, I mean he didn't like the paragraph. He

- 42 -

said he was going to suggest taking it out. Maybe he has lost his nerve.

Viner: I don't mind it seriously until we come to the end but I don't know what increasing the supplies of goods available to the consumer has to do with a boiler.

White: We have been over this so many times I would suggest we pass it, Mr. Secretary. (Laughter). He is covering the same ground we went over and we have agreed it is all right, haven't we?

H.M.Jr: Can I, as the person that has got to give it, leave out "withdrawing some purchasing power"? "Some" is too moderate.

White: We cut out "some".

H.M.Jr: "We must damp down the fires by withdrawing purchasing power"?

White: Yes.

Kuhn: That is all right.

H.M.Jr: Oh, the argument wasn't about "some", it was about the whole thing?

White: About the whole paragraph.

H.M.Jr: "...and we must also strengthen the boiler by increasing the supplies of goods available to the consumer."

I will tell you, instead of that, "we must also strengthen the boiler" - how about "we must also build additional boilers"?

O'Connell: "Enlarge the boiler" is what you mean.

- 43 -

- H.M.Jr: That is the answer.
- White: Well, we had that. We can't enlarge a boiler while the hot fire is under it, but it is all right.
- O'Connell: Well, you can try it.
- White: If you like it better.
- H.M.Jr: Well, I said build another boiler.
- White: And another fire?
- O'Connell: You couldn't get a priority for the steel.
- White: We are just covering, Mr. Secretary, almost - not almost - every suggestion that was made here we wrestled with.
- H.M.Jr: Well, I don't like the words "strengthen the boiler".
- Viner: You can't enlarge a boiler.
- White: Enlarge the boiler, I think, is the least - enlarge the boiler - it is all right. No metaphor can be pushed very far. If you examine any metaphor you will find that it has its weaknesses, but it is graphic in its presentation, and most people who will listen to it won't subject it to an economic analyzation of the quality that Viner is able to apply.
- H.M.Jr: He is trying to flatter you into silence. (Laughter).
- Viner: I say still it is spinach.
- White: Well, you don't have to eat it any more.
- H.M.Jr: All right. "...Let us examine the record to see

- 44 -

what is being done and what needs to be done in order to stop prices from rising."

- Kuhn: "From rising further"?
- H.M.Jr: Yes, please. "From rising further".
- "...Congress now has before it a huge tax bill designed to raise from 3 - 3½ billion in additional revenue." Would you say three and a half? I would say three and a half.
- Viner: That is what it is designed to do, isn't it?
- H.M.Jr: Yes. "...designed to raise --"
- Haas: At least.
- H.M.Jr: Well, I think they said that before, what? Would you say, "designed to raise at least"?
- O'Connell: Oh, just "designed to raise three and a half billion."
- H.M.Jr: "...additional revenue. This increase in taxes will withdraw from the public purchasing power that competes with the defense effort. But we need to raise still more taxes as our defense effort grows."
- Viner: "We will need".
- O'Connell: I don't understand that sentence or its relevancy to the part before. Do you mean we need to raise more taxes in order to take away purchasing power or do you mean we need to raise more taxes to pay for the program?
- White: Both.
- O'Connell: But the first part of it refers to taking away

- 45 -

purchasing power.

- White: In its present context it refers to taking away purchasing power.
- Viner: No, you will have to take away still more purchasing power as the government needs more of it itself.
- White: "As our defense effort puts more pressure on prices." How is that?
- Haas: I think it is all right as it is.
- Viner: As it is. It is all right.
- H.M.Jr: Well, again you can argue about it.
- White: This next paragraph is new.
- H.M.Jr: "I want to emphasize, however, --"
- White: That was the point Miss Ware raised.
- H.M.Jr: "...I want to emphasize, however, that we are not seeking to cut down the purchases of families whose incomes can barely meet their needs. The health and vigor of our people must not be undermined. Measures to cut consumption, whether by taxation or borrowing, should be aimed at families with something to spend above their basic needs."
- "Well, then, Mr. Secretary, why are you in favor of lowering the base?"
- Kuhn: Mr. Secretary, I suggest that that could be cut. I think as it stands it weakens your argument and it is repetitious. "I want to emphasize, however, that measures to cut consumption, whether by taxation or borrowing, should be aimed at families with something to spend above

- 46 -

their basic needs."

Viner: "Should be aimed only..."

Kuhn: "Should be aimed only..."

White: Would you say then that a family of seven hundred fifty dollars a year has spare money in addition to its basic needs? That is the question the Secretary is asking.

Kuhn: That is the assumption under --

Viner: A family with seven hundred fifty dollars isn't taxed.

White: Well, eight hundred. I think you can say that he has --

Viner: Not taxed.

White: ...a little to spare. He certainly spends on things that he could sacrifice without undermining his health. In fact, if he spent less on some things his health would be better.

Kuhn: I would express it in that way.

H.M.Jr: I am not impressed with the whole thing. I think you are just raising an issue that will draw a lot of questions.

Kuhn: You raise it later on when you say millions of our people still lack the milk and butter and eggs that they need for good health.

White: Would you want to stop at -- leave the last sentence out? "The health and vigor of our people must not be undermined". Would that be as bad?

H.M.Jr: Just leave that one sentence out?

- 47 -

- White: Just leave it, "I want to emphasize, however, that we are not seeking to cut down the purchases of a family whose income can barely meet their needs. The health and vigor of our people must not be undermined."
- H.M.Jr: If I was going to say it, I would say it this way. It goes without saying that we are not seeking to cut down. I mean, take it perfectly for granted.
- O'Connell: I think that is good and I think it would be better to leave the paragraph out because it really --
- H.M.Jr: I think it just raises a question.
- O'Connell: I think the paragraph is better left out.
- H.M.Jr: I do too.
- Haas: It weakens it.
- White: Nobody will ever miss it.
- H.M.Jr: Let's leave it out.
- Viner: Except Miss Ware. (Laughter).
- White: Well, I will explain to her.
- Haas: That your heart is in the right place.
- H.M.Jr: Harry will explain to Miss Elliott's woman.
- White: Wasn't that a terrible expression? (Laughter). I was thinking, you see, of - you usually speak of Eccles' man and so forth. I apologize to her and to Mrs. Klotz and the assembled gathering.
- Viner: Don't carry it any further, Harry.

- 48 -

- H.M.Jr: Now, boys.
- White: I should apologize to Miss Elliott, I suppose, but she may not be that sophisticated.
- H.M.Jr: Now in a minute, Harry, you will think of something dirty. (Laughter).
- White: Well, the paragraph is out.
- Klotz: He is really blushing.
- H.M.Jr: Who?
- Klotz: Harry.
- H.M.Jr: That is something. Then you leave out the "secondly", don't you?
- Kuhn: The "secondly" is in.
- H.M.Jr: All right. "...Secondly, the Treasury in its borrowing program is attempting to obtain as large a portion of its funds as possible from current consumer income, and through a new form of note -- "
- Kuhn: I would stop the sentence there, Mr. Secretary. Put a period after "income" and start the new sentence with "through".
- H.M.Jr: You will have to say it to me again. The point that I am making, where I was arguing about where they say how we are borrowing from the banks and so forth and so on, and I said that - bring in the whole borrowing program at one time. I think that is the place to do it, isn't it?
- White: This may be a substitute for the other. It may be. Let's consider that. It may be.

- 49 -

- H.M. Jr: Do you get the point that I am making?
- White: It may be that this is enough and we can leave it out of there. We will discuss it.
- Viner: It is all right now with the other one taken out.
- H.M. Jr: You start off by saying, "Here I am borrowing from the banks and it is due to my methods of borrowing from the banks that you have all this inflation. "We have always said Morgenthau was responsible." If you would only let Eccles increase Reserve requirements, everything would be lovely.
- Viner: It is all here that needs to be said.
- H.M. Jr: "...Secondly, the Treasury in its borrowing program is attempting to obtain as large a portion of its funds as possible from current consumer income, and through a new form of note, the Bell Tax Anticipation Note -- is endeavoring to reduce the lag between the time of accrual and the time of payment of income tax, thus increasing the effectiveness of that tax as a means of curtailing current purchasing power for consumers goods."
- I sold this morning between half a million and three quarters of a million to the Chicago Daily News.
- Bell: Oh, really?
- H.M. Jr: He says he carries a balance of a half to three quarters of a million and why shouldn't he do this, and I said he should.
- Bell: For taxes? You mean he carries that balance for taxes?
- H.M. Jr: His taxes run, he said, about three hundred forty

- 50 -

thousand dollars a year.

- Viner: That is the only part of that --
- H.M.Jr: It makes about a million and a quarter.
- Bell: You can buy two years worth at a time.
- Viner: Oh, you can?
- H.M.Jr: "...But we need also to get a still larger proportion of our borrowing from the wage-earner and the farmer."
- How are you going to borrow from the farmer?
- Kuhn: Sell him Defense Bonds.
- White: But we are trying - but our program is designed to get - aw, leave it out.
- H.M.Jr: I would leave that sentence out. I don't like it. But we need to get still larger proportions from the wage-earner and the farmer.
- White: That justifies your --
- Haas: Isn't it better to put the Savings Bond thing before the Tax Anticipation note?
- H.M.Jr: That I am not going to argue about here, but I don't like that sentence. You can argue with them, George. You love to argue.
- "...To do this the Treasury initiated a program of selling defense savings bonds and stamps to people of moderate and low income."
- You don't have to specify the farmer. Just cut out that one sentence.
- Klotz: "Has initiated"?

- 51 -

- Kuhn: "The Treasury has also initiated a program of selling Defense Savings Bonds and stamps."
- H.M.Jr: "...The President has just issued --"
- Bell: Moderately low income? I suppose that is all right. Fifty thousand dollars is not so moderate.
- Kuhn: But you are not emphasizing - you are not making a drive at those people.
- H.M.Jr: I suppose that is all right.
- White: They come without driving.
- H.M.Jr: "...The President has just issued an order giving the Board of Governors of the Federal Reserve System authority to control consumer installment credit, thus making it possible to supplement the restrictions on spending of current income by restraints on the spending of anticipated income."
- That is a novel way of putting it.
- "...The Office of Price Administration and Civilian Supply is making every effort to obtain the cooperation of producers and distributors in limiting price rises.
- "These are some of the steps which have already been taken. But there are additional methods to which we may find it necessary to resort in our efforts effectively to prevent inflation, such as: --"
- Kuhn: We should stop that after inflation, and say "Some of these are."
- H.M.Jr: When I read "these are some of the steps" I wonder

- 52 -

if OPACS is taking these steps. Why not say "in addition"?

White: Oh, these are some of the steps which have already - these refer to the five or six. We might fix that by numbering them, if you like.

H.M.Jr: Something, please.

White: I also think as we read this we don't say, as we said in an earlier draft - there is nothing here to indicate that OPACS needs any more authority and we have got to say somewhere that moral suasion and voluntary cooperation has failed.

H.M.Jr: It isn't enough. I don't see why you can't leave out this sentence, "these are some of the steps which have already been taken." But there are additional methods which we may find necessary.

White: Leave the first sentence out.

H.M.Jr: Yes.

Viner: This is the OPACS bill, really, isn't it?

H.M.Jr: Yes.

Viner: Then you ought to say something. That paragraph has to be strengthened so that you say they need more powers to operate effectively.

White: But experience has shown that voluntary cooperation and moral suasion --

Viner: You can say this bill is necessary to give them the powers if they are to be at all effective.

H.M.Jr: I would like to say it differently. I would like to say in many cases it has been perfectly

- 53 -

amazing what wonderful cooperation the public has given but unfortunately, there are some situations where voluntary cooperation isn't enough, and therefore this bill is necessary, because I think, for instance - for example, what the copper people have done, I think is - I mean, they have got cooperation.

White: There is no harm in saying that.

H.M.Jr: I think I would say something like, "In many instances it has been highly" --

Viner: Henderson would say that.

White: Henderson has said it several times.

Bell: He said it before the Committee.

H.M.Jr: What I would like to say. But in addition, there are these many unusual or unique situations where you have to have this special kind of legislation. I mean, I think - I can't think of all of them, but I can think of one, copper.

O'Connell: Steel, too.

Bell: Steel scrap. Henderson said he had had complete cooperation.

O'Connell: Copper and some other non-ferrous metals.

H.M.Jr: I wouldn't just leave the impression that nobody is cooperating. Well, you get the idea.

White: Yes.

H.M.Jr: Do you agree?

O'Connell: Sure. Less than a hundred percent cooperation

- 54 -

means he has got to have a bill.

White: We can phrase that to carry out your thought.

H.M.Jr: "...But there are additional methods to which we may find it necessary to resort in our efforts effectively to prevent inflation, such as:

"(1) Extension of the general controls over bank credit.

"(2) Creation of controls over capital expenditures."

Haas: That first one is excess reserves. That would come under that.

White: Where? Extension of Government control over bank credit? No, that may be selected credit.

Haas: Let's leave out the word "general". That would include anything. Specialized and general.

White: Extension of controls over credit.

Bell: It is consumer credit, or some of that.

White: Some of it, yes. We can say --

H.M.Jr: Well, you can fix it up. "...Creation of controls over capital expenditures." I would like to bring in that idea of selective controls so they don't think you are going to - I mean, you will select the things.

White: Controls over selected capital expenditures.

H.M.Jr: That is all right.

White: Well, we will fix that up.

- 55 -

- H.M. Jr: "...(3) An extension of the Social Security program along lines which would increase the flow of funds to the Treasury from current income during the emergency and would increase the outflow of funds when needed in the post -- "
- Now, is this where this thing comes in?
- White: Yes, that should come in there.
- Viner: Dismissal wage?
- H.M. Jr: Yes. Oh, I mentioned it to Frank Knox. He said, "For God's sake, don't call it dismissal wage."
- White: That is what it is called everywhere.
- H.M. Jr: Well, he says don't do it. Call it lay-off, he suggested, or depression.
- White: Lay-off wage?
- O'Connell: That is worse.
- H.M. Jr: But as a newspaper publisher, I would take his reaction.
- White: Under the assumption that workers aren't dismissed, they are just laid off.
- Viner: It is separation wages.
- White: They might think you are talking of married families.
- Bell: You can use a bonus.
- Viner: I don't know. That is a standard term, dismissal wage.
- Kuhn: What is the matter with lay-off wage?

- H.M. Jr: He says don't give the people the idea they are just going to be dismissed.
- White: You will notice I got that reaction and changed the word "dismissed" to "lay-off", but not in the title.
- H.M. Jr: Well, fix that up, will you please?
- White: That is a little more of a major decision. Do you want to call it lay-off wages?
- H.M. Jr: I would take Frank Knox' word.
- Haas: You can call it lay-off bonus.
- White: We can call it something instead of describing it. A wage to which the worker attains when he is laid off.
- Viner: I would ask somebody at Social Security who has been working on it to see if they can suggest another term. They might have been playing with other terms.
- H.M. Jr: As long as he is so emphatic - he is very good at those things.

"I am cognizant of the fact that this bill contains no provisions with reference to wages. With this I am in full accord. I am fully aware that unjustifiable wage increases have the same inflationary effect that the rises in the prices of other increases in other costs of production have. However, in my judgment, the best way to avoid widespread wage increases is to keep the cost of living from rising and to tax excess profits. The tax bill which the Treasury has recommended is designed to tax excess profits. One purpose of this bill is to keep the cost of living from rising and in that way to lessen the pressure for increases in wages. Obviously should this and other measures be ineffective to keep any one of the major elements of cost in line, additional steps will be called for. At the present time, however, I see no necessity for legislation directed at wages."

- 57 -

In first draft this is good, but I would like one sentence in here, please. Simply say where deflationary decline - "and that this would again be the process of leveling the peaks and the valleys."

- White: This would contribute to the process, because we speak of the peaks and valleys later.
- H.M.Jr: Would you please put that in, leveling the peaks and valleys? .
- Kuhn: Isn't that the same as a big extension of Social Security?
- H.M.Jr: It is.
- Kuhn: And this is only supplementary, not additional, not a new proposal.
- H.M.Jr: That is right, and they haven't brought in the thing here which we spoke of at breakfast, Harry, of bringing new people into Social Security.
- White: I have that here. I have got the figures and the data but I haven't had a chance to --
- H.M.Jr: Put it in, please. Household servants, farmers, are all exempt.
- Kuhn: As it read there, though, it sounded as though you were talking about two different schemes, and you are not.
- H.M.Jr: Well, an extension of Social Security.
- White: It is a different scheme. It is part of a Social Security program but we can tie them up, I think, in the way in which you want. Professional, self-employed, domestic, farm, etc.

- 58 -

H.M.Jr: "...(4) A reduction of the Federal lending and underwriting program, such as non-emergency housing expenditures and mortgage guarantees." That is all right.

"(5) Reduction of non-essential Federal expenditures, an appeal for economy in State and local governmental expenditure and for curtailment of their borrowing for non-emergency expenditures, thus building a back-log for the post-defense period.

"These measures to restrain price rises, though they have unquestionably been helpful, are inadequate to meet the situation --"

Viner: That doesn't follow.

H.M.Jr: No, that doesn't belong there. That is a mistake.

Kuhn: You should say all of these measures would attack the problem by attempting to reduce the demand for goods. We should, however, also attack the problem from the opposite direction.

Viner: That will be fixed up.

H.M.Jr: "...We should also attack the problem from the opposite direction, by making every effort to increase the supply of goods available to the consumer wherever this can be done without encroaching upon our defense program. 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 many millions who, though not classified as unemployed, could be added to the working force if jobs were easily available. Because of our accumulations of agricultural surpluses we are in a position to provide increased quantities of almost --"

Kuhn: "Of many agricultural goods".

- 59 -

White: I think what we need there, before "because of our accumulation of agricultural goods" we ought to say, "not only can the supply of many manufactured commodities be increased, but because of our accumulation" and so forth.

H.M.Jr: Well, you people can fix that up.

"...and thereby both prevent the cost of food from rising and prevent the standard of living from being impaired.

"Indeed, my suggestion that the granary doors should now be opened agrees with our established agricultural policy -- the ever normal granary. Having been accumulated in time of surplus, the stocks should be distributed in time of shortage."

Now, you don't want to say here about the cold storage figures that we ran off? This would be the place to put it.

White: How are you going to force a farmer to - who has stuff in cold storage - to relinquish his goods any more than you can force a man who has a large inventory of textiles or any other item to sell them? All you can do is say he can't get more than this and the lower you put the price ceiling - if he expects he will never get lower - never get more, it is an inducement for him not to withhold supplies.

H.M.Jr: Then let me just give you this thought. Ferdie, write this down. If you put in here something along these lines, the Department of Agriculture has just released the prices of lard, butter, cheese and eggs. The prices in these particular commodities have gone up "X" percent. I would like to point out in passing that the reason for these increases in - these price rises in these particular commodities is not due to

- 60 -

shortages but is due to speculation. On the part of the middleman let's call a spade a spade.

- Haas: Well, the middleman, Mr. Secretary, wouldn't speculate unless he anticipated a shortage. Otherwise he would lose.
- White: No, he might anticipate higher prices.
- Haas: And what makes higher prices? The demand is going to be higher.
- Kuhn: Mr. Secretary, I think that as you are dealing later with the whole question of surpluses of butter, sugar, wheat, and so on and doing it in pretty hard hitting fashion, you are going to weaken your whole statement by putting it in here.
- H.M.Jr: All right. "...To do so is the natural complement of our previous policy and the necessary preparation for reaccumulation when and if surpluses again develop.
- "Now is the time to empty our bins, both for present advantage, and so that if necessary we can later fill them again. The concept of the ever normal granary calls for a floor to be built under falling farm prices and, it seems to me, for a ceiling to be built over rising farm prices."
- I don't get that.
- O'Connell: That is Leon's bill, the ceiling.
- H.M.Jr: It says the concept of the ever normal granary is for a floor to be built under farm prices --
- Viner: Yes, the ceiling is in the form of the release

- 61 -

of these stored up stocks so as to prevent the prices from rising. In other words, the ever normal granary idea calls for a stabilized price.

White: Why not say a ceiling to prevent unduly rising prices?

H.M.Jr: What did you say, Harry?

White: You might want to say instead of saying "to be built over rising prices", "to prevent farm prices from rising unduly." It is a weasel phrase.

H.M.Jr: Well, would you just put a question after that sentence? I think it could be fixed up a little bit. I am fighting time here terribly and I am running down hill myself.

"...If we permit price peaks to develop, price valleys are inevitable.

"And that brings me, gentlemen, to what I consider the major defect of the bill now before you. It is a defect which I consider so great that it will undermine the effectiveness of the bill to provide for effective control of farm prices. And without a check upon farm prices, it is useless to look for a check upon inflation."

That is a strong statement.

Kuhn: That is where you wanted to bring in the hundred and ten percent.

H.M.Jr: That would be the place. Name it.

Viner: Well, just say - how would you refer to it, as a hundred and ten percent parity?

- 62 -

- H.M.Jr: Quote the section and verse in the bill.
- White: Section such and such, which prohibits any action taken controlling prices until parity prices reach a hundred and ten and is a violation of this principle.
- Kuhn: You could say, the defect is to be found in section so and so.
- O'Connell: This last sentence, Harry, is not accurate. It is true, but the bill doesn't check it.
- H.M.Jr: Gentlemen, may I have your attention a minute? What I would like to say is simply this. Section three-a, whatever the darn thing is, I think, should be stricken out of the bill or something like that.
- White: Yes. And if you do that, don't you think you can leave out that last sentence?
- H.M.Jr: What?
- White: "And without a check upon farm prices, it is useless to look for a check upon inflation."
- Viner: "For a complete check".
- O'Connell: You see, the bill hasn't checked farm prices.
- H. M. Jr: "Adequate" is all right.
- Bell: Inadequate.
- White: Well, you see there is - Joe is right. That isn't strictly true. They don't say you shall not control farm prices. All they say is that you shan't begin to control them until they have reached a hundred and ten percent.
- O'Connell: It is the level that is important.

- 63 -

- White: A hundred and ten percent, you can treat it as any other.
- Viner: If you think that they can be granted a hundred and ten percent parity and then others won't begin citing the hundred and ten percent --
- O'Connell: That is not my point.
- White: But supposing somebody picks the Secretary up and says, "Mr. Secretary, you said that without a check upon farm prices it is useless to look for a check upon inflation."
- H.M.Jr: I will answer it and say here, "The President has got a gentleman's agreement with Congress dated May thirty-first on eighty-five percent and now you boost it to a hundred and ten and how do I know that next week it won't be a hundred and fifty?"
- White: That is a good answer.
- H.M.Jr: How do I know it won't be a hundred and fifty. But I do think - without a check upon farm prices - why not let's be personal? Without a check upon farm prices, it just makes Mr. Henderson's job that much more difficult.
- White: It is perfectly all right.
- O'Connell: That is all right.
- Viner: No, that is too weak.
- H.M.Jr: Well, fix it up again. But that is the idea, isn't it?
- White: If we decide on something, it will be all right with you?
- H.M.Jr: Yes.

- 64 -

- White: By majority vote?
- H.M.Jr: No, but by knockout and drag out vote. (Laughter).
"...The memory of our suffering" --
- White: That is what you said you didn't like. Would you like to see what you had before and see whether we can't get something in between?
- H.M.Jr: No, I will tell you. You don't have to do all these things. We talk about the beginning, about 1920, and I just think that this is too much.
- Kuhn: Mr. Secretary, I think this can be improved a lot just by simple cutting. The thing that contributes that we didn't have last time is a sympathetic note on your part toward the farmer and his troubles which you want to put in.
- H.M.Jr: I would leave all reference out to the Federal Farm Board and Farm Credit.
- Klotz: I would be relieved if you left that out.
- White: What you are doing is stating your record and what pertinence does it have to show that you are a friend of the farmer?
- O'Connell: And leave out pages eighteen and nineteen and twenty.
- Kuhn: But keep Humpty Dumpty in.
- White: Humpty Dumpty is not so hot.
- Bell: You can also bring that in in the questioning.
- H.M.Jr: Yes.
- White: You are calling the farmer a Humpty Dumpty.

- 65 -

Haas: Yes, or a descendant.

H.M.Jr: All right. Let's take him out.

White: How could you descend from a Humpty Dumpty that had fallen off the wall and crashed?

Viner: You could put it in the boiler. (Laughter).

H.M.Jr: Well, I have got twenty-two minutes more.

White: I think that will help a lot. We can salvage maybe a paragraph.

H.M.Jr: Well, let Ferdie do one.

Klotz: Does it fit together that way?

H.M.Jr: Yes. It works beautifully, from the bottom of page seventeen to the bottom of page twenty-one. It works beautifully. You wouldn't know anything was taken out.

"...With that objective I helped to initiate our agricultural program and have continued to support it. Holding fast to that objective, I am convinced that we must not ignore the danger signals ahead."

I think that is adequate.

White: The way to handle troubles with things is to kick them out. They will never miss it.

H.M.Jr: I think it is adequate.

"...Now what are those danger signals as they apply to our farms? The most serious of them is a rapid rise in prices which is hastened to a large extent by the artificial withholding of huge supplies from the market. It is hastened also, to some extent, by the continuance of

- 66 -

unreasonably high tariff rates that keep foreign supplies from our shores. Yet if we were intelligent in seeking to prevent further price rises, we should be making every attempt to bring in supplies from other countries, particularly those supplies in which shortages are already operating. 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 should be making full use of those supplies that are available here in the United States."

I think that tariff thing, Jake, is awfully good. I hope you like it.

Viner: I am glad you are saying that, except that one thing here where I think you --

H.M.Jr: It is new, isn't it?

Viner: If you carry it - you do carry it just a stage further than I think is - that sentence, "we should be making every attempt to bring in from other countries such supplies of such commodities as are short in this country." In other words, you wouldn't want to bring in more wheat, you see.

H.M.Jr: Of which we have a shortage.

White: If necessary to keep the price down to present levels.

H.M.Jr: Well, this covers it, "of which we have a shortage."

Kuhn: Particularly those of which we have a shortage.

Viner: No, not particularly those. If we have reserves--

- 67 -

- H.M.Jr: Well, we have done it in lumber, haven't we? Aren't we bringing in lumber from the Canadian Northwest?
- Haas: That is normal.
- H.M.Jr: I would say "of those of which we have shortages."
- White: Then we will change something later, because we speak of what would the housewife do if she knew there were four hundred million bushels in Canada.
- H.M.Jr: Keep that in, even if it doesn't make four, Harry. I want a reference to Canada. I told MacKenzie King I was going to do that.
- White: I see.
- H.M.Jr: "I don't wish to be misunderstood." Attention please. "I don't wish to be" -- That fellow Viner is the most loquacious fellow I ever saw. I would like to take a course with him. "I don't wish to be misunderstood" -- (Laughter) Look at his innocence.
- Viner: I guess I had a narrow escape. I didn't hear what you said.
- H.M.Jr: "I don't wish to be misunderstood in my comments on agricultural prices. I am glad that some of the agricultural prices that had been too low have attained a reasonable level. I am not disturbed by the general level of agricultural prices now prevailing, but what I am deeply concerned about is the danger that agricultural prices in general will continue to rise until they are out of hand. As the Secretary of Agriculture stated only a few days ago: 'There are some who think Agriculture should charge all that the traffic will bear, to get while the

- 68 -

getting is good, with the hope that somehow the aftermath can be avoided.' For his part he warned his audience that 'to tie up stocks in an effort to create an artificial scarcity and unreasonable prices is not in the interests of the farmer, the consumer or the general welfare.'

"At this time when agricultural prices are in the main at or near a satisfactory level, when the country is facing a major threat of inflation, and when it is more important than ever that there should be no undernourishment, we should not increase still further our reserves of agricultural commodities in the warehouses for the purpose of raising prices."

That takes care of that thing that we cut out of Miss Ware's.

"I wonder if the housewife knows, when she pays 20 per cent 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 of two years' crops are stored in Canada and could be imported easily."

Viner: I would take out that "and could be imported easily." There is no shortage in the world.

Haas: And you notice that 20 comes to 2 per cent and takes a lot of the kick out of that. It is 2 per cent up instead of 20.

White: No, not on the figures we got from Daggett. We will check on that, but we went over that three times.

H.M.Jr: May I please continue?

"I wonder if she knows, when she pays 15 per cent more for a pound of sugar than a year ago, that there are huge untouched reserves of sugar in Cuba."

- 69 -

- White: And you wanted to add, "and in"--
- Kuhn: "And unusually large sugar stocks in this country."
- H.M.Jr: Well, put it in. We keep going over and over it and it is not in.
- "I wonder if she knows when she pays 25 per cent more for butter" --
- If you are going to say "in this country," why don't you say, "There are three hundred million bushels of wheat in storage in this country"?
- White: That our supply of wheat is the largest on record.
- H.M.Jr: All right.
- "I wonder if she knows when she pays 25 per cent more for butter, that we have forty million more pounds of butter in storage than a year ago." Bring that up to yesterday, George, yesterday's figures, which were released. "We have in our country large reserve stocks of farm products of all kinds."
- Viner: "Many kinds."
- H.M.Jr: All right. "All of which" --
- White: If they asked you to enumerate them I think you could have that clipping handy.
- Hess: Well, you have to look out for that.
- H.M.Jr: "The Government 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."

- 70 -

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

I love that. Don't anybody take that out.

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

Wheat: It will make trouble with that passage if we start sending more milk and butter and eggs to England, as may be necessary.

W.C.Jr: Well, they could increase the stuff. Are you going to pay a tribute to the Secretary of Agriculture and what he has done?

John: It is in the two pages --

W.C.: I have asked them to write the paragraph themselves.

W.C.Jr: Jake, if they will take this stuff and put it into the chickens and feed it to the cows and hogs, we can increase production so we can take care of this in any way - anything within sight.

Wheat: Well then, tie up the surplus stocks with the milk, butter and eggs, because the point is that there are not huge stocks of milk, butter and eggs in terms of the program of needs. There may be huge stocks of corn. It may be that you could produce these.

W.C.Jr: Will you argue that with the boys afterward, please?

- 71 -

Viner: Yes.

H.M.Jr: "Millions of our people still go without milk, butter and eggs" -- now why do you bring that in?

White: Merely to introduce --

H.M.Jr: Why do you bring that in?

Kuhn: The value of food and the need of increasing production.

H.M.Jr: I don't get that paragraph the way it is. It stands out like a sore thumb.

White: No transition there.

H.M.Jr: It sticks out like a sore thumb.

White: Well, if you want it in we will get a transition. If you don't want it in we won't need one.

H.M.Jr: I think it is bringing in another argument which I don't think is necessary. We are not talking about ill-housed, ill-fed --

Kuhn: Yes, the whole Fortune passage depends on that and what the Department of Agriculture has done to increase processing plants.

H.M.Jr: Well, the way it is here it is - there is something wrong.

Kuhn: There has to be a bridge there.

H.M.Jr: All right.

"The effect of good food on national defense has been stated so well in the August issue of Fortune magazine that I should like to read one paragraph" -- I don't see why you have got to

- 72 -

talk about this - "still go without milk and butter".

Kuhn: We are talking in the previous paragraph about the cotton surplus, which isn't food.

H.M.Jr: Well, why can't you - -

Bell: You are talking about surpluses all the way through and then you jump to nutrition.

H.M.Jr: I don't understand. You say, "in times like this, the housewife ought to be" -- and so forth and so on. Then if you went on and said, "The effect of good food on national defense has been stated so well in the August issue of Fortune magazine" -- I would leave that paragraph out.

White: Fine. It is better out anyway. It is troublesome.

H.M.Jr: Now, somebody has questioned this thing of Fortune magazine's?

White: Jake thought - I don't know how he feels about it.

Viner: I don't quite see that - you see, you have got two things here. You may say that the release of these surpluses will improve nutrition or you may say a campaign of increased production will improve nutrition but you don't have to cite Fortune in order to tell people. Our Government experts have been angling the nutrition angle.

White: These two pages are out of place, Mr. Secretary. If you will just go on reading you will see whether you want to cut them out or not.

H.M.Jr: No, I like that Fortune thing.

White: If you don't want it there, it can go later

- 73 -

very appropriately if you think it is out of place.

H.M.Jr: I want it in somewhere.

White: If you will just go on to page twenty-six.

Kuhn: Twenty-six follows right along.

H.M.Jr: "I think that our Department of Agriculture has reason to be proud of the progress that it has made in foreseeing the scarcity of some of the agricultural commodities and in taking effective steps to increase their production. They are also undertaking a program of encouraging powder milk and cheese factories so that there shall be more of those products available to the consumer.

"But still more effort should be made to put more dairy products on the market. We are withholding probably the largest reserves and the largest production of milk, butter, eggs and cheese in our history."

Well, this doesn't check up with the other, this thing here. This is repetitious here.

White: Yes.

Kuhn: I would cut out the sentence about "we are withholding". "But still more effort should be made to put more dairy products on the market. We could easily expand our production of these products on the market for our own use and yet leave ample amounts. I know from my experience on my own farm --"

H.M.Jr: I think that is all right. There is something wrong there, gents, this part is awfully rough.

- 74 -

There is something wrong. I like the part tremendously where - does the farm wife know that with the increased price of a sack of flour, there are large surpluses of wheat here, four hundred fifty million bushels. I want that in, you see; then I would like to say something about the importance of nutrition, and I don't know how to say it any better than Fortune has said it.

White: You are right. The organization isn't so smooth.

H.M.Jr: I want to say, does the housewife know when she is paying more on the one hand that there is more wheat and there is sugar that can be gotten, and so forth and so on. Then some place I want to say, in connection with increased production, the question of nutrition is just as important as guns.

Kuhn: You have it in your passage about milk and honey. "Let's make it flow to make a healthier and happier people." Then if you wanted to quote the Fortune passage you could do it immediately after that.

H.M.Jr: It is such a beautiful thing I would like to bring it in. I have no reluctance to quoting Fortune. It may not be the right spot there. From here on it is kind of rough.

"...I know from experience on my own farm that within two months we could substantially 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 per cent --"

- 75 -

I don't know whether that is accurate or not. Well, I think in here when you get what he has done, maybe his own program - Department of Agriculture's program - they have instituted the following program to increase production. We still could go further and do these things.

White: I should be inclined to delete this paragraph.

H.M.Jr: It is all right with me.

White: If we decide to delete it, will it be all right?

H.M.Jr: That is all right.

White: Because in this reorganization it would help if we could delete this.

H.M.Jr: It is all right.

"...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. Let's make it flow. 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."

Kuhn: The effect of good food on morale, and so forth, has been stated in Fortune.

H.M.Jr: Healthier and happier?

White: Healthier.

Viner: Healthier and stronger.

Klotz: I don't like the word "happier."

H.M.Jr: No, I don't like the word, "happier". "Make our

- 76 -

people fit." Make them tough, something.

"...The Treasury proposes to do everything in its power to prevent inflation, through its tax and borrowing policies. It proposes to do this because on the one hand, it has a responsibility to the public, and on the other hand, its own financing will be definitely more difficult if inflation develops."

White: Could we say fiscal program instead of borrowing policy, because the borrowing policy in general --

H.M. Jr: All right.

Viner: This is a very sudden turn here. We will have to find some connecting sentence.

H.M. Jr: You are right. I have got six minutes to go. All of this end here --

Viner: Those two are of altogether disproportionate significance and ought to be restated there. We propose to do this primarily because it has a responsibility to the public but incidentally, because its own financing will be definitely more difficult if inflation develops. In other words, the interest in national economy is so much more important than the Treasury budget situation.

H.M. Jr: You are right. May I proceed?

"....As the nation's largest purchaser" -- Well, I know this. "Furthermore, the employer" -- I know that.

Kuhn: How about the Defense Bonds, Mr. Secretary? Is that statement necessary at the end about the people who buy Defense Bonds having a right to expect that we prevent inflation?

- 77 -

White: We changed that.

Kuhn: Do you thereby set up a moral commitment which we would have difficulty in meeting if Congress turned you down?

White: Look at the way it is stated.

H.M.Jr: How is it stated?

Viner: Have you got it differently from what it is here?

White: We did change that last night. If you would like me to compare it with what it was the night before --

H.M.Jr: No, no.

Viner: But this changed part is still --

Kuhn: It is what you have, Mr. Secretary.

H.M.Jr: Where is it?

Kuhn: "Moreover millions of people" --

H.M.Jr: "...Moreover, millions of people who are now responding to our pleas for cooperating in financing our defense effort have the right to expect that we prevent inflation. These people were asked to invest in defense savings bonds partly as a means of preventing inflation. They have a right to ask that the government do everything in its power to prevent inflation."

Viner: "That we make every endeavor to prevent inflation."

White: We say that in the next sentence.

H.M.Jr: I suggested this myself. I think it is dangerous. I would leave it out.

- 78 -

- Kuhn: Right. That is what I wanted to check on. It is not necessary to your argument.
- H.M.Jr: I would leave it out. It will come back and hit me in the face.
- "...We are determined to battle against every threat of inflation. Every citizen, every wage earner, and every housewife has a vital interest in seeing that this bill passes and in seeing that a program be pressed of increasing the supply of food and other civilian goods whose production does not interfere with our defense program.
- "Some of our people think that they will benefit from rising prices. They are wrong."
- Well, that is all the same, isn't it?
- White: Just one change. I don't know whether you like it.
- H.M.Jr: Where is that?
- White: We changed the three horsemen to four horsemen and added a fourth horseman.
- H.M.Jr: "...No group in a community profits from inflation except the Four Horsemen - the Speculator, the Profiteer, the Hoarder, the Fifth Column."
- No. We will shoot the fourth horseman.
- Haas: The three horsemen are really one man. In other words, it says the same thing.
- H.M.Jr: No, I don't like that other one.
- "...Inflation does more than merely to rob the wage earner of a portion of his earnings. It is

- 79 -

more destructive of morale than any other single force. Inflation divides the country."

Is that all right?

"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 buying goods and services a month from now, a year from now --"

Gee, boys, that is awfully difficult, "retain - ten years from now"?

Kuhn: "Retain something like its full value."

H.M.Jr: That throws a whole doubt on the thing. I don't like that. I don't like this thing of retaining it.

Haas: That was taken out of the President's message to the Economic Conference.

White: Was it your thought, Mr. Secretary, that the building of American morale is - it puts it on too low a plane if you say it can be built merely by a promise of stable prices?

H.M.Jr: No, we can't do it. It is hooey. I don't want to say it.

Haas: There is also a hole in the thought.

H.M.Jr: I don't want to say it. You will have to end on another note.

Kuhn: Suppose you said, "There is no better way of building American morale in the present emergency than to convince them that they will not have to go through what they went through the last time."

- 80 -

- H.M. Jr: We will say it something like this. "There is no better way to build morale than to convince the people we are not going to have inflation."
- Kuhn: That is the thought.
- H.M. Jr: But without saying this other thing.
- Haas: How about the closing sentence you had last night? That was all right, Ferdie.
- Kuhn: It is the same closing sentence here.
- H.M. Jr: I agree with you. You have got to sum up and say something about the bill. Now look, gents, on the time schedule, when will I see you people again? I don't think I want to see you again. I am a wreck now and I have got to go to Hull this afternoon at three-thirty. I just think I will have to trust you people.
- White: I can send it to your house.
- H.M. Jr: Before I go home I will ask for you, but I think you will be at it all night because the last part of it isn't polished and I will just have to leave it with you people and I am more than willing to leave it if you are willing to take the responsibility.
- White: Well, there are no further questions of policy. Those are all settled, so I don't think we should have difficulty in agreeing on the best presentation.
- H.M. Jr: Well, here is the point. Before I go home, or any time this afternoon, if anybody wants to see me, let me know, if you are stumped, you see.
- Kuhn: May I see you five minutes after lunch sometime on another thing?

- 81 -

H.M. Jr: On what, this?

Kuhn: Any time this afternoon. I have three statements to be cleared with you.

H.M. Jr: Don't do that to me, Ferdie, please. I haven't done my mail and I am just in the most terrible jam. I won't look at a statement.

Kuhn: O.K., we will do it in the morning.

PRELIMINARY DRAFT

*Fourth Draft 288
Discussed at 10:00
meeting on 8/13/41 -*

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 facing it now and we must deal with it at once.

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

D-7

- 2 -

best interests of our country as a whole; if we provide promptly the appropriate means and use them vigorously when ^{ever} ~~and as~~ necessary, we can prevent inflation from fastening its grip ~~up~~ upon us.

That task calls for alertness, courage and mental toughness ~~af~~ on the part of every one of us here today.

I welcome the bill before you. I believe it is a necessary step in the fight against inflation. But it has one serious shortcoming to which I shall refer later.

We must attack the problem on three different fronts if we are to succeed in controlling inflation: Non-defense expenditure must be curtailed, production must be expanded, and prices must be subject to control. The time left us in which to act is short.

- 3 -

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

Memories are so short that I suppose many of us 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 alarm was sounded against inflation. It was only when

- 4 -

prices had risen by 70 per cent that President Wilson recommended any steps to prevent inflation. In fact, there was such blindness to the dangers of inflation that as late as June 1917 Congress actually facilitated inflation by reducing the reserve requirements for member banks of the Federal Reserve System.

By 1920, ^{had} prices skyrocketed to ^{double} ~~double~~ the level of 1915.

The pattern of price rises in the past two years is frighteningly similar to the price movements during the first two years of World War No. 1.

As the President said in his message to Congress a few weeks ago:

"Today we stand, as we did in the closing months of 1915, at the beginning of an upward sweep of the whole price structure."

Then as now, there was a little rise in the cost of living. Then as now, there was a greater rise in wholesale prices. Then as now there was a still greater rise in the price of basic commodities.

- 5 -

Since the beginning of the present war, the wholesale prices have risen about 18 percent - most of it during the past five months.

True to the usual pattern, the cost of living ^{has been} ~~was~~ slow to rise. During the past year, however, it has increased 4 percent -- but the important thing to note is that nearly all of this rise has taken place since March ^{of this year.}

During the past 12 months the average price of 28 basic commodities has increased 37 percent, despite the fact that the prices of a number of basic raw materials have been kept partly in check through the efforts of the Office of Price Administration and Civilian Supply. (See chart 1.)

It is the rise in the prices of basic commodities that constitutes our most obvious danger signal today. 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 the seeds of inflation have

- 6 -

taken deep root.

Moreover, the forces now in existence making for further price rise are both potent and persistent:

(1) Our defense expenditures -- the primary inflationary force -- are increasing rapidly. The Bureau of Budget estimates that defense spending during the fiscal year 1942 will be ^{more than} \$15 billion, or two and a half times as much as in the fiscal year 1941. Even this increased estimate does not include additions to the Defense Program made after June 1 and greater sums needed for Lend-Lease.

(2) Also important as ~~an~~ an inflationary force is the fact that the Government is borrowing from banks and from ~~the~~ the idle balances of the public much of the money it is spending. When the Government borrows

- 7 -

from banks or from private balances that otherwise would remain idle it is adding to the total stream of money spent on goods and therefore adding to the upward pressure on prices. The estimated net deficit for the fiscal year 1942, which of course must be met by borrowing -- will be \$12.8 billions, compared with \$5.1 billions for the previous fiscal year. If the present tax bill is passed by Congress so that it will yield \$3-1/2 billion in additional revenue, the deficit will be reduced by \$2-1/2 billions, but it will still be over \$10 billion. Again this estimated deficit -- which, of course does not take account of the expansion of the Defense Program after June 1, 1941.

(3) Supplementing the inflationary force of the Federal deficit has been the expansion of bank credit by increased loans to business. ~~During~~ During the past twelve months

- 8 -

bank loans expanded by approximately \$3 billions, or about 20 percent. As in the case of the other forces making for inflation, the expansion of bank loans has been proceeding at a quickening pace.

(4) With the increasing flow of spendable funds the upward pressure on prices becomes greater, more and more plants attain their maximum output, and more and more shortages in raw materials for civilian use appear. Prices of imports are also rising daily due to diminishing shipping space, higher shipping costs, and disappearance of normal foreign sources of supply.

(5) Finally, and of fundamental importance as an inflationary force we have growing profits, increasing agricultural income, and fatter pay envelopes and many more of them.

D-7

- 9 -

Let us see where these forces will take us if permitted to operate unchecked, as they were unchecked in the World War. All we have to do to see what may be ahead of us is to look into the purse of the average family of those times -- not in percentages and indexes, but the prices of essential food, clothing and shelter.

The money the housewife paid for one loaf of bread in 1914, bought only a half a loaf in 1920. The money she paid for a pound of bacon in 1914, bought only a half a pound in 1920. The money that she paid for a ^{yard} ~~yard~~ of cotton cloth in 1914, was enough to buy only one-third of a yard in 1920.

- 10 -

The family with no increase in income found its purchasing power cut in half. It found that food, fuel, shelter and clothing that cost \$1.00 in April, 1915, had risen to \$1.08 in April, 1916. By 1920, after four years of rising prices, the cost of these goods and services had risen to \$2.03. The pattern of rising prices for food, fuel, shelter in the past five months is startlingly similar to that of 1915 and 1916. If these prices continue to rise as they did from 1916 to 1920, we shall find that food, fuel, shelter, and clothing that now cost \$1.00 will once more cost ^{over} \$2.00.

The rise in prices is by no means confined to food-stuffs and clothing. I have before me, for instance, the actual figures on the cost of constructing a standard six-room ~~in~~ frame house in one of our typical cities. This home that could have been built a year ago for \$6,000 now costs \$7,140 to build. Here we have an increase in prices of nearly 20 percent and if it goes along the 1916 pattern, we are only at the beginning of the story.

D-7

~~11~~
~~12~~

Not only is the cost of building homes rising but even for the millions who do not own their homes higher rentals are on the way. We find already in scores of areas where industrial expansion has first taken hold, rents rising 10, 20, 30, and even ^{higher} ~~100~~ percent.

There is, however, one great difference between conditions today and 1916. We now know what is going on. ~~We~~ ^{time Our eyes are open to} ~~are aware of~~ the dangers that lie ahead of us. 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.

- 12 -

Our economy today resembles an over-loaded steam boiler. The fire under the boiler is being fed by 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 the boiler from bursting, we must damp down the fires by withdrawing ~~some~~ purchasing power, and we must also strengthen the boiler by increasing the supplies of goods available to the consumer.

Let us examine record to see what is being done and what needs to be done in order to stop prices from rising: *further*

Congress now has before it a huge tax bill designed to raise ~~some~~ \$3-1/2 billion in additional revenue. This increase in taxes will withdraw from the public purchasing power that competes with the defense effort. But we need to raise still more taxes as our defense effort grows.

D-7

- 13 -

I want to emphasize, however, that we are not seeking to cut down the purchases of families whose incomes can barely meet their needs. The health and vigor of our people must not be undermined. Measures to cut consumption, whether by taxation or borrowing, should be aimed at families with something to spend above their basic needs.

Secondly, the Treasury in its borrowing program is attempting to obtain as large a portion of its funds as possible from current consumer income, and through a new form of note -- the Tax Anticipation Note -- is endeavoring to reduce the lag between the time of accrual and the time of payment of income tax, thus increasing the effectiveness of that tax as a means of curtailing current purchasing power for consumers goods. ~~(But we need also to get a still larger proportion of our borrowing from the wage-earner and the farmer.)~~ To do this the Treasury ^{has also} initiated a program of selling defense savings bonds and stamps to people of moderate and low income.

- 14 -

The President has just issued an order giving the Board of Governors of the Federal Reserve System authority to control consumer installment credit, thus making it possible to supplement the restrictions on spending of current income by restraints on the spending of ~~new~~ anticipated income.

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

~~(These are some of the steps which have already been taken.)~~ But there are additional methods to which we may find it necessary to resort in our efforts effectively to prevent inflation, such as:

- (1) Extension of the general controls over bank credit.
- (2) Creation of controls over capital expenditures.
- (3) An extension of the Social Security program along lines which would increase the flow of funds to the

Treasury from current income during the emergency and would increase the outflow of funds when needed in the post-defense period.

- (4) A reduction of the Federal lending and underwriting program, such as non-emergency housing expenditures and mortgage guarantees.
- (5) Reduction of non-essential Federal expenditures, an appeal for economy in State and local governmental expenditure and for curtailment of their borrowing for non-emergency expenditures, thus building a back-log for the post-defense period.

~~These measures to restrain price rises, though they have unquestionably been helpful, are inadequate to meet the situation confronting us. All of them attack the problem by attempting to reduce the demand for goods.~~

We should also attack the problem from the opposite direction, by making every effort to increase the supply of goods available to the consumer wherever this can be done without encroaching upon our defense program. 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 many millions who, though not classified as unemployed, could be added to the working force if jobs were easily available. Because of our accumulations of agricultural surpluses we are in a position to provide increased quantities of ^{almost} ~~almost~~ all agricultural goods and thereby both prevent the cost of food from rising and prevent the standard of living from being impaired.

Indeed, my suggestion that the granary doors should now be opened agrees with our established agricultural policy -- the ever normal granery. Having been accumulated in time of surplus, the stocks should be distributed in time of shortage.

- 17 -

To do so is the natural complement of our previous policy and the necessary preparation for reaccumulation when and if surpluses again develop.

Now is the time to empty our bins, both for present advantage, and so that if necessary we can later fill them again. The concept of the ever normal granary calls for a floor to be built under falling farm prices and, it seems to me, for a ceiling to be built over rising farm prices. If we permit price peaks to develop, price valleys ~~are~~ are inevitable.

And that brings me, gentlemen, to what I consider the major defect of the bill now before you. It is a defect which I consider so great that it will undermine the effectiveness of the bill to provide for effective control of farm prices. And without a check upon farm prices, it is useless to look for a check upon inflation.

D-7

- 18-

The memory of our sufferings from a remorseless deflation that began a dozen years ago and from which we are just now fully recovering has, I think, blinded many of us to the fact that an inflation can be equally remorseless and tragic in its results. Because the farmer has suffered longer than any of us from price deflation -- it began with him 'way back in 1920 -- we need not be surprised if he particularly, in his struggles against the effects of deflation, fails to see the dangers on the other side. But for him those dangers are very real. Just how real they are he can measure -- not by recalling what happened to him in the era of boom prices -- but by remembering what happened to him later; for it is especially notable and plain that in his case his troubles in very large part were the after-effects of war-time price inflation.

That inflation established extravagantly high prices for land; it brought hundreds of thousands of acres of new

- 19 -

land into cultivation for the standard crops; it stimulated excessive investment; it loaded upon many farmers a tremendous burden of debt which they were asked to pay year later in dollars that were worth twice as much in terms of purchasing power as the dollars in which the debts were contracted. It is highly significant that the farmers themselves have not sought to be restored to the condition of the boom times, whose essential unsoundness they recognized, but in the campaign for parity prices have been struggling to regain an economic position from which they were dislodged initially by price inflation.

I could not fail to see the peril to agriculture in the present situation because I happened to be in position as Chairman of the Federal Farm Board in the last two months of its unhappy existence and as Governor of the Farm Credit Administration in the period when the Government quite properly shouldered the burden of refinancing most of the farm debt of the Nation to get an intimate view of tragedy as black and menacing as ever affected the farmers of this country.

D-7

- 20 -

Through the decisions I had to make as Chairman of the Farm Board I saw how the inflation of farm prices followed by a deflation that struck like a mid-western cyclone brought down in scattered ruins almost the whole promising structure of farmers' cooperatives in this country and left a painful and difficult job of rebuilding to be done. As Governor of the Farm Credit Administration I had to put into effect a policy that would relieve conditions which caused American farmers to gather with shotguns on the steps of courthouses to prevent foreclosure on their farms. This was inflation on the other side of the hill. It was a case of Humpty Dumpty toppling because he had climbed too high. It should not be hard to persuade the present-day descendants of Humpty Dumpty not to go climbing too far up that wall of high prices again.

- 31 -

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 buying goods and services a month from now, a year from now, and ten years from now. The responsibility is ours. The time to give our people that assurance is before the inflationary process has gripped them. It is our duty, in this year of great decisions, to show the courage which the American people expect of us.

D-7

- 21 -

I want very much to see a healthy development of farm prosperity, and with that objective I helped to initiate our agricultural program and have continued to support it. Holding fast to that objective, I am convinced that we must not ignore the danger signals ahead.

Now what are those danger signals as they apply to our farms? The most serious of them is a rapid rise in prices which is hastened to a large extent by the artificial withholding of huge supplies from the market. It is hastened also, to some extent, by the continuance of unreasonably high tariff rates that keep foreign supplies from our shores. Yet if we were intelligent in seeking to prevent further price rises, we should be making every attempt to bring in supplies from other countries, particularly those supplies in which shortages are already operating. 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 should be making

- 22 -

full use of those supplies that are available here in the United States.

I don't wish to be misunderstood in my comments on agricultural prices. I am glad that some of the agricultural prices that had been too low have attained a reasonable level. I am not disturbed by the general level of agricultural prices now prevailing, but what I am deeply concerned about is the danger that agricultural prices in general will continue to rise until ~~they~~ they are out of hand. As the Secretary of Agriculture stated only a few days ago: "There are some who think agriculture should charge all that the traffic will bear, to get while the getting is good, with the hope that somehow the aftermath can be avoided." For his part he warned his audience that "to tie up stocks in an effort to create an ~~artificial~~ artificial scarcity and unreasonable prices is not in the interests of the farmer, the consumer, or the general welfare."

- 23 -

At this time when agricultural prices are in the main at or near a satisfactory level, when the country is facing a major threat of inflation, and when it is more important than ever that there should be no undernourishment, we should not increase still further our reserves of agricultural commodities in the warehouses for the purpose of raising prices.

I wonder if the housewife knows, when she pays 20 per cent 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 of two years' crops are stored in Canada. ~~and could be imported easily.~~ I wonder if she knows, when she pays 15 per cent for a pound of sugar than a year ago, that there are huge untouched reserves of sugar in Cuba. I wonder if she knows, when she pays 25 per cent more for butter, that we have forty million more pounds of butter in

- 24 -

storage than a year ago. We have in our own country large reserve stocks of farm products of ~~all~~^{many} kinds which should be released for consumption as rapidly as is necessary to prevent unreasonable price rises.

The Government 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. In times like these, the housewife ought not to be made to pay tribute to profiteers and speculators when she buys a cotton dress for herself or a shirt for her husband or a suit for her child.

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

- 25 -

The effect of good food on national defense has been stated so well in the August issue of Fortune magazine that I should like to read one paragraph to you. It says:

"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 highest potential by the right food. Courage and the 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."

- 26 -

I think that our Department of Agriculture has reason to be proud of the progress that it has made in foreseeing the scarcity of some of the agricultural commodities and in taking effective steps to increase their production. They are also undertaking a program of encouraging powder milk and cheese factories so that there shall be more of those products available to the consumer.

But still more effort should be made to put more dairy products on the market. (~~We are withholding probably 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.

D-7

- 27 -

I know from experience on my own farm that within two months we could substantially 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 per cent 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. Let's make it flow. 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.~~

- 28 -

The Treasury proposes to do everything in its power to prevent inflation, through its tax and borrowing policies. It proposes to do this because on the one hand, it has a responsibility to the public, and on the other hand, its own financing will be definitely more difficult if inflation develops.

As the nation's largest purchaser, the Government is concerned with the problem in a very direct way. 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~~ 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.

D-7

- 29 -

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 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 expect that we prevent inflation. These people were asked to invest in defense savings bonds partly as a means of preventing inflation. They have a right to ask that the government do everything in its power to prevent inflation.

- 30 -

We are determined to battle against every threat of inflation. Every citizen, every wage earner, and every housewife has a vital interest in seeing that this bill passes and in seeing that a program be pressed of increasing the supply of food and other civilian goods whose production does not interfere with our defense program.

Some of our people think that they will benefit from rising prices. They are wrong. No group in a community profits from inflation except the ^{three} ~~four~~ Horseman - the Speculator, the Profiteer, ^{and} the Hoarder, ~~the Fifth Column~~. 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.

D-7

*Draft discussed
with Mrs. Schott
and ministered
at meeting in
New York 11/3/41*

PRELIMINARY DRAFT

I am glad that you have asked me to testify today, 10:30 am

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 facing it now and we must deal with it at once.

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

- 2 -

best interests of our country as a whole; if we provide promptly the appropriate means and use them vigorously when and as necessary, we can prevent inflation from fastening its grip upon us. ✓

That task calls for alertness, courage and mental toughness on the part of every one of us here today.

I welcome the bill before you. ✓ I believe it is a necessary step in the fight against inflation. But it has one serious shortcoming to which I shall refer later.

We must attack the problem on three different fronts if we are to succeed in controlling inflation; Non-defense expenditure must be curtailed, production must be expanded, and prices must be subject to control. The time left us in which to act is short.

- 3 -

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

Memories are so short that I suppose many of us 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 alarm was sounded against inflation. It was only when

- 4 -

prices had risen by 70 per cent that President Wilson recommended any steps to prevent inflation. In fact, there was such blindness to the dangers of inflation that as late as June 1917 Congress actually facilitated inflation by reducing the reserve requirements for member banks of the Federal Reserve System.

By 1920, prices skyrocketed to double the level of 1915. /

The pattern of price rises in the past two years is frighteningly similar to the price movements during the first two years of World War No. 1.

As the President said in his message to Congress a few weeks ago:

"Today we stand, as we did in the closing months of 1915, at the beginning of an upward sweep of the whole price structure."

Then as now, there was a little rise in the cost of living. Then as now, there was a greater rise in wholesale prices. Then as now there was a still greater rise in the price of basic commodities.

- 5 -

Since the beginning of the present war, the wholesale prices have risen about 18 percent - most of it during the past five months.

True to the usual pattern, the cost of living was slow to rise. During the past year, however, it has increased 4 percent -- but the important thing to note is that nearly all of this rise has taken place since March.

During the past 12 months the average price of 28 basic commodities has increased 37 percent, despite the fact that the prices of a number of basic raw materials have been kept partly in check through the efforts of the Office of Price Administration and Civilian Supply. (See chart 1.)

It is the rise in the prices of basic commodities that constitutes our most obvious danger signal today. 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 the seeds of inflation have

- 6 -

taken deep root.

Moreover, the forces now in existence making for further price rise are both potent and persistent:

(1) Our defense expenditures -- the primary inflationary force -- are increasing rapidly. The Bureau of Budget estimates that defense spending during the fiscal year 1942 will be \$15 billion, or two and a half times as much as in the fiscal year 1941. Even this increased estimate does not include additions to the Defense Program made after June 1 and greater sums needed for Lend-Lease. /

(2) Also important as an inflationary force is the fact that the Government is borrowing from banks and from the idle balances of the public much of the money it is spending. When the Government borrows

- 7 -

from banks or from private balances that otherwise would remain idle it is adding to the total stream of money spent on goods and therefore adding to the upward pressure on prices. The estimated net deficit for the fiscal year 1942, which of course must be met by borrowing -- will be \$12.8 billions, compared with \$5.1 billions or the previous fiscal year. If the present tax bill is passed by Congress so that it will yield \$3-1/2 billion in additional revenue, the deficit will be reduced by \$2-1/2 billions but it will still be over \$10 billion. Again this estimated deficit -- which, of course does not take account of the expansion of the Defense Program after June 1, 1941.

(3) Supplementing the inflationary force of the Federal deficit has been the expansion of bank credit by increased loans to business. During the past twelve months

- 8 -

bank loans expanded by approximately \$3 billions, or about 20 per cent. As in the case of the other forces making for inflation, the expansion of bank loans has been proceeding at a quickening pace.

(4) With the increasing flow of spendable funds the upward pressure on prices becomes greater more and more plants attain their maximum output, and more and more shortages in raw materials for civilian use appear. Prices of imports are also rising daily due to diminishing shipping space, higher shipping costs, and disappearance of normal foreign sources of supply.

(5) Finally, and of fundamental importance as an inflationary force we have growing profits, increasing agricultural income, and fatter pay envelopes and many more of them.

- 9 -

Let us see where these forces will take us if permitted to operate unchecked, as they were unchecked in the World War. All we have to do to see what may be ahead of us is to look into the purse of the average family of those times/-- not in percentages and indexes, but the prices of essential food, clothing and shelter.

The money the housewife paid for one loaf of bread in 1914, bought only a half a loaf in 1920. The money she paid for a pound of bacon in 1914, bought only a half a pound in 1920. The money that she paid for a yard of cotton cloth in 1914, was enough to buy only one-third of a yard in 1920.

- 10 -

The family with no increase in income found its purchasing power cut in half. It found that food, fuel, shelter and clothing that cost \$1.00 in April, 1915, had risen to \$1.08 in April, 1916. By 1920, after four years of rising prices, the cost of these goods and services had risen to \$2.03. The pattern of rising prices for food, fuel, shelter in the past five months is startlingly similar to that of 1915 and 1916. If these prices continue to rise as they did from 1916 to 1920, we shall find that food, fuel, shelter, and clothing that now cost \$1.00 will once more cost \$2.00./

The rise in prices is by no means confined to food-stuffs and clothing. I have before me, for instance, the actual figures on the cost of constructing a standard six-room frame house in one of our typical cities./ This home that could have been built a year ago for \$6,000 now costs \$7,140 to build. Here we have an increase in prices of nearly 20 percent and if it goes along the 1916 pattern, we are only at the beginning of the story./

- 11 -

Not only is the cost of building homes rising but even for the millions who do not own their homes higher rentals are on the way. We find already in scores of areas where industrial expansion has first taken hold, rents rising 10, 20, 30 and even 100 per cent. /

There is, however, one great difference between conditions today and 1916. We now know what is going on. We are aware of the dangers that lie ahead of us. We now know or ought to know that the time do to 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.

- 12 -

Our economy today resembles an over-loaded steam boiler. The fire under the boiler is being fed by 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 the boiler from bursting, we must damp down the fires by withdrawing some purchasing power, and we must also strengthen the boiler by increasing the supplies of goods available to the consumer.

Let us examine record to see what is being done and what needs to be done in order to stop prices from rising:

Congress now has before it a huge tax bill designed to raise from \$3 - \$3-1/2 billion in additional revenue. This increase in taxes will withdraw from the public purchasing power that competes with the defense effort. But we need to raise still more taxes as our defense effort grows.

- 13 -

I want to emphasize, however, that we are not seeking to cut down the purchases of families whose incomes can barely meet their needs. The health and vigor of our people must not be undermined. Measures to cut consumption, whether by taxation or borrowing, should be aimed at families with something to spend above their basic needs.//

Secondly, the Treasury in its borrowing program is attempting to obtain as large a portion of its funds as possible from current consumer income, and through a new form of note --//the Tax Anticipation Note -- is endeavoring to reduce the lag between the time of accrual and the time of payment of income tax, thus increasing the effectiveness of that tax as a means of curtailing current purchasing power for consumers goods.// But we need also to get a still larger proportion of our borrowing from the wage-earner and the farmer. To do this the Treasury initiated a program of selling defense savings bonds and stamps to people of moderate and low income.

- 14 -

The President has just issued an order giving the Board of Governors of the Federal Reserve System authority to control consumer installment credit, thus making it possible to supplement the restrictions on spending of current income by restraints on the spending of anticipated income.

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

These are some of the steps which have already been taken. But there are additional methods to which we may find it necessary to resort in our efforts effectively to prevent inflation, such as:

- (1) Extension of the general controls over bank credit.
- (2) Creation of controls over capital expenditures.
- (3) An extension of the Social Security program along lines which would increase the flow of funds to the

- 15 -

Treasury from current income during the emergency and would increase the outflow of funds when needed in the post-defense period.

- (4) A reduction of the Federal lending and underwriting program, such as non-emergency housing expenditures and mortgage guarantees.
- (5) Reduction of non-essential Federal expenditures, an appeal for economy in State and local governmental expenditure and for curtailment of their borrowing for non-emergency expenditures, thus building a back-log for the post-defense period.

These measures to restrain price rises, though they have unquestionably been helpful, are inadequate to meet the situation confronting us. All of them attack the problem by attempting to reduce the demand for goods.

- 16 -

We should also attack the problem from the opposite direction, by making every effort to increase the supply of goods available to the consumer wherever this can be done without encroaching upon our defense program. 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 many millions who, though not classified as unemployed, could be added to the working force if jobs were easily available. Because of our accumulations of agricultural surpluses we are in a position to provide increased quantities of almost/all agricultural goods and thereby both prevent the cost of food from rising and prevent the standard of living from being impaired.

Indeed, my suggestion that the granary doors should now be opened agrees with our established agricultural policy -- the ever normal granary. Having been accumulated in time of surplus, the stocks should be distributed in time of shortage.

- 17 -

To do so is the natural complement of our previous policy and the necessary preparation for reaccumulation when and if surpluses again develop.

Now is the time to empty our bins, both for present advantage, and so that if necessary we can later fill them again. The concept of the ever normal granary calls for a floor to be built under falling farm prices and, it seems to me, for a ceiling to be built over rising farm prices. / If we permit price peaks to develop, price valleys are inevitable.

And that brings me, gentlemen, to what I consider the major defect of the bill now before you. It is a defect which I consider so great that it will undermine the effectiveness of the bill to provide for effective control of farm prices. And without a check upon farm prices, it is useless to look for a check upon inflation. /

D-7

- 18 -

The memory of our sufferings from a remorseless deflation that began a dozen years ago and from which we are just now fully recovering has, I think, blinded many of us to the fact that an inflation can be equally remorseless and tragic in its results. Because the farmer has suffered longer than any of us from price deflation -- it began with him 'way back in 1920 -- we need not be surprised if he particularly, in his struggles against the effects of deflation, fails to see the dangers on the other side. But for him those dangers are very real. Just how real they are he can measure -- not by recalling what happened to him in the era of boom prices -- but by remembering what happened to him later; for it is especially notable and plain that in his case his troubles in very large part were the after-effects of war-time price inflation.

That inflation/established extravagantly high prices for land; it brought hundreds of thousands of acres of new

D-7

- 19 -

land into cultivation for the standard crops; it stimulated excessive investment; it loaded upon many farmers a tremendous burden of debt which they were asked to pay year later in dollars that were worth twice as much in terms of purchasing power as the dollars in which the debts were contracted. It is highly significant that the farmers themselves have not sought to be restored to the condition of the boom times, whose essential unsoundness they recognized, but in the campaign for parity prices have been struggling to regain an economic position from which they were dislodged initially by price inflation.

I could not fail to see the peril to agriculture in the present situation because I happened to be in position as Chairman of the Federal Farm Board in the last two months of its unhappy existence and as Governor of the Farm Credit Administration in the period when the Government quite properly shouldered the burden of refinancing most of the farm debt of the Nation to get an intimate view of tragedy as black and menacing as ever affected the farmers of this country.

D-7

- 20 -

Through the decisions I had to make as Chairman of the Farm Board I saw how the inflation of farm prices followed by a deflation that struck like a mid-western cyclone brought down in scattered ruins almost the whole promising structure of farmers' cooperatives in this country and left a painful and difficult job of rebuilding to be done. As Governor of the Farm Credit Administration I had to put into effect a policy that would relieve conditions which caused American farmers to gather with shotguns on the steps of courthouses to prevent foreclosure on their farms. This was inflation on the other side of the hill. It was a case of Humpty Dumpty toppling because he had climbed too high. It should not be hard to persuade the present-day descendants of Humpty Dumpty not to go climbing too far up that wall of high prices again.

D-7

- 21 -

I want very much to see a healthy development of farm prosperity, and with that objective I helped to initiate our agricultural program and have continued to support it. Holding fast to that objective, I am convinced that we must not ignore the danger signals ahead.

Now what are those danger signals as they apply to our farms? The most serious of them is a rapid rise in prices which is hastened to a large extent by the artificial withholding of huge supplies from the market. It is hastened also, to some extent, by the continuance of unreasonably high tariff rates that keep foreign supplies from our shores. Yet if we were intelligent in seeking to prevent further price rises, we should be making every attempt to bring in supplies from other countries, particularly those supplies in which shortages are already operating. 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 should be making

D-7

- 22 -

full use of those supplies that are available here in the United States. /

I don't wish to be misunderstood in my comments on agricultural prices. I am glad that some of the agricultural prices that had been too low have attained a reasonable level. I am not disturbed by the general level of agricultural prices now prevailing, but what I am deeply concerned about is the danger that agricultural prices in general will continue to rise until they are out of hand. As the Secretary of Agriculture stated only a few days ago: "There are some who think agriculture should charge all that the traffic will bear, to get while the getting is good, with the hope that somehow the aftermath can be avoided." For his part he warned his audience that "to tie up stocks in an effort to create an artificial scarcity and unreasonable prices is not in the interests of the farmer, the consumer or the general welfare."

- 23 -

At this time when agricultural prices are in the main at or near a satisfactory level, when the country is facing a major threat of inflation, and when it is more important than ever that there should be no undernourishment, we should not increase still further our reserves of agricultural commodities in the warehouses for the purpose of raising prices. |

I wonder if the housewife knows, when she pays 20 per cent 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 of two years' crops are stored in Canada and could be imported easily. I wonder if she knows, when she pays 15 per cent ^{more} for a pound of sugar than a year ago, that there are huge untouched reserves of sugar in Cuba. | I wonder if she knows, when she pays 25 per cent more for butter, that we have forty million more pounds of butter in

- 24 -

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 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. In times like these the housewife ought not to be made to pay tribute to profiteers and speculators when she buys a cotton dress for herself or a shirt for her husband or a suit for her child. /

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

- 25 -

The effect of good food on national defense has been stated so well in the August issue of Fortune magazine that I should like to read one paragraph to you. It says:

"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 highest potential by the right food. Courage and the 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."

- 26 -

I think that our Department of Agriculture has reason to be proud of the progress that it has made in foreseeing the scarcity of some of the agricultural commodities and in taking effective steps to increase their production. They are also undertaking a program of encouraging powder milk and cheese factories so that there shall be more of those products available to the consumer.

But still more effort should be made to put more dairy products on the market. We are withholding probably 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.

- 27 -

I know from experience on my own farm that within two months we could substantially 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 per cent 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. Let's make it flow. 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.

- 28 -

The Treasury proposes to do everything in its power to prevent inflation, through its tax and borrowing policies. It proposes to do this because on the one hand, it has a responsibility to the public, and on the other hand, its own financing will be definitely more difficult if inflation develops. /

As the nation's largest purchaser, the Government is concerned with the problem in a very direct way. 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 proportion.

- 29 -

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 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 expect that we prevent inflation. These people were asked to invest in defense savings bonds partly as a means of preventing inflation. They have a right to ask that the government do everything in its power to prevent inflation.

- 30 -

We are determined to battle against every threat of inflation. Every citizen, every wage earner, and every housewife has a vital interest in seeing that this bill passes and in seeing that a program be pressed of increasing the supply of food and other civilian goods whose production does not interfere with our defense program.

Some of our people think that they will benefit from rising prices. They are wrong. / No group in a community profits from inflation except the Four Horsemen - the Speculator, the Profiteer, the Hoarder, the Fifth Column. / 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.

D-7

- 31-

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 buying goods and services a month from now, a year from now, and ten years from now. The responsibility is ours. The time to give our people that assurance is before the inflationary process has gripped them. It is our duty, in this year of great decisions, to show the courage which the American people expect of us.

D-7

August 13, 1941

350

Secret Service transmitted this message by teletype to New York, and a Secret Service man in N.Y. then took it by automobile and delivered it to Miss Thompson for Mrs. Roosevelt.

357

August 13, 1941 Completed sending at 1:45 P.M.

M
OPR N Y 1-2139 OK
NY 1-2139 GOVT V OK
SECRET SERVICE NYTORINA CCC
SECRET SERVICE WASH WILSON

THE FOLLOWING MESSAGE IS TO BE DELIVERED TO MRS. ROOSEVELT AT HER COTTAGE.

I AM GLAD THAT YOU HAVE ASKED ME TO TESTUXXXXXX TESTIFY TODAY, BECAUSE YOU AND I ARE FACED WITH SERIOUS DECISIONS OF POLICE, VERY SERIOUS DECISIONS, IF WE ARE TO AVOID BRINGING THE CALAMITY OF INFLATION UPON THE AMERICAN PEOPLE.

TXXX 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 FACING IT NOW AND WE MUST DEAL WITH IT AT ONCE.

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 ALWAYS KXXXXXX IF WE KEEP ALWAYS IN MIND THE BEST INTERESTS OF OUR COUNTRY AS A WHOLE, IF WE PROVIDE PROMPTLY THE APPROPRIATE MEANS AND USE THEM VIGOROUSLY WHEN EVER NECESSARY, WE CAN PREVENT INFLATION FROM FASTENING ITS CRIP UPON US.

TXXX THAT TASK CALLS FOR ALERTMVXXXXX ALERTNESS, COURAGE AND MENTAL TOUGHNESS ON THE PART OF EVERY ONE OF US HERE TXXX TODAY.

I WILSONME THE BILL BEFORE YOU. I BELIEVE IT IS A NECESSARY STEIKXXX STEP IN THE FIGHT AGAINST INFLATION. BUT IT HAS ONE SERIOUS SHORT-COMING TO WHICH I SHALL REFER LATER.

WE MUST ATTACK THE PROBLEM ON THREE DIFFERENT FRONTS IF WE ARE TO SUCCEED IN CONTROLLING INFLATION. NON-DEFENSE EXPENDITURES MUST BE CURTAILED, ORXXX PRODUCTION MUST BE EXPANDED, AND PRICES MUST BE SUBJECT T O CONTROL. THE TIME LEFT US IN WHICH TO ACT IS SHORT.

WE ARE AT THE SAME POINT IN PRICE HISTORY AS IN 1915 -- ON THE EDGE OF INFLATION.

MEMORIES ARE SO SHORT THAT I SUPPOSE MANY OF US HAVE FORGOTTEN WHAT AXXX HAPPENED THE LST TIME INFLATION STRUCK US -- 25 YEARS AGO. IN 1916, THE COST OF LIVING BEGAN TO RISE SHARPLY, BUT THERE WERE CXXX FEW WHO SAW ITS SIGNIFICANCE AND NOTHING WAS DONE ABOUT IT.

IT WAS NOT UNTIL APRIL 1917 THAT THE FIRST REAL ALARM WAS SOUNDED AGAINST INFLATION. IT WAS ONLY WHEN PRICES HAD RISEN BY 70 PER CENT THAT PRESIDENT WILSON RECOMMENDED ANY STEPS TO PREVENT INFLATION. IN FACT, THERE WAS SUCH BLINDNESS TO THE DANGERS OF INFLATION THAT AS LAST AS JUNE 1917 CONGRESS ACTUALLY FACILITATED INFLATION BY REDUCING THE RESERVE REQUIREMENTS FOR MEMBER BANKS OF THE FEDERAL RESERVE SYSTEM.

BY 1920 PRICES HAD SKYROCKETED TO DOUBLE THE LEVEL OF 1915.

THE PATTERN OF PRICE RISES IN THE PAST TWO YEARS IS FRIGHTENINGLY SIMILAR TO TE PRICE MOVEMENTS DURING THE FIRST TWO YEARS OF WORLD WAR NO. 1.

AS THE PRVXXXPRESIDENT SAID IN HIS MESSAGE TO CONGRESS A FEW WEEKS AGOM " TODAY WE STAND, AS WE DID IN THE CLOSING MONTHS OF 1915, AT THE BEGINNING OF AN UPWARD SWEEP OF THE WHOLE PRICE STRUCTURE."

THEN AS NOW, THERE WAS A LITTLE RISE IN THE COST OF LIVING, THEN AS NOW, THERE WAS A GREATER RISE IN WHOLESOMEXXXXXX WHOLESALE PRICES. THEN AS NOW THERE WAS A STILL GREATER RISE IN THE PRICE OF VXX BASIC COMMODITIES.

SINCE THE BEGINNING OF THE PRESENT WAR, THE WHOLESALE PRICES HAVE RISEN ABOUT 18 PERCENT - MOST OF IT DURING THE PAST FIVE MONTHS.

TRUE TO THE USUAL PATTERN, THE COST OF LIVING HAS BEEN SLOW TO RISE. DURING THE PAST YEAR, HOWEVER, IT HAS INCREASED A PERCENT -- BUT THE IMPORTANT THING TO NOTE IS THAT NEARLY ALL OF THIS RISE WAS TAKEN PLACE SINCE MARCH OF THIS YEAR.

DURING THE PAST 12 MONTHS THE AVERAGE PRICE OF 400 BASIC COMMODITIES

Regraded Unclassified

PERIOD SINCE THE END OF THE 1914 YEAR
DURING THE PAST 12 MONTHS THE AVERAGE PRICE OF 28 BASIC COMMODITIES
HAS INCREASED 37 PERCENT, DESPITE THE FACT THAT THE PRICES OF A
NUMBER OF BASIC RAW MATERIALS HAVE BEEN KEPT PARTLY IN CHECK THROUGH
THE EFFORTS OF THE OFFICE OF PRICE ADMINISTRATION AND CIVILIAN
SUPPLY. SEE CHART 1.

IT IS THE RISE IN THE PRICES OF BASIC COMMODITIES THAT CONSTITUTES
THE MOST OBVIOUS DANGER SIGNAL TODAY. 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 THE
SEEDS OF INFLATION HAVE TAKEN DEEP ROOT.

MOREOVER, THE FORCES NOW IN EXISTENCE MAKING FOR FURTHER PRICE RISE
ARE BOTH POTENT AND PERSISTENT

1. OUR DEFENSE EXPENDITURES -- THE PRIMARY INFLATIONARY FORCE --
ARE INCREASING RAPIDLY. THE BUREAU OF BUDGET ESTIMATES THAT DEFENSE
SPENDING DURING THE FISCAL YEAR 1942 WILL BE MORE THAN \$15 BILLION,
OR TWO AND A HALF TIMES AS MUCH AS IN THE FISCAL YEAR 1941. EVEN THIS
INCREASED ESTIMATE DOES NOT INCLUDE ADDITIONS TO THE DEFENSE PROGRAM
MADE AFTER JUNE 1 AND GREATER SUMS NEEDED FOR LEND-LEASE.
2. ALSO IMPORTANT AS AN INFLATIONARY FORCE IS THE FACT THAT THE
GOVERNMENT IS BORROWING FROM BANKS AND FROM THE IDLE BALANCES OF THE
PUBLIC MUCH OF THE MONEY IT IS SPENDING. WHEN THE GOVERNMENT BORROWS
FROM BANKS OR FROM PRIVATE BALANCES THAT OTHERWISE WOULD REMAIN IDLE
IT IS ADDING TO THE TOTAL STREAM OF MONEY SPENT ON GOODS AND THERE-
FORE ADDING TO THE UPWARD PRESSURE ON PRICES. THE ESTIMATED NET
DEFICIT FOR THE FISCAL YEAR 1943, WHICH OF COURSE MUST BE MET BY
BORROWING -- WILL BE \$12.8 BILLIONS, COMPARED WITH \$5.1 BILLIONS FOR
THE PREVIOUS FISCAL YEAR. IF THE PRESENT TAX BILL IS PASSED BY
CONGRESS SO THAT IT WILL YIELD \$3-2 BILLION IN ADDITIONAL REVENUE,
THE DEFICIT WILL BE REDUCED BY \$2-2 BILLIONS, BUT IT WILL STILL BE
OVER \$10 BILLION. AGAIN THIS ESTIMATED DEFICIT -- WHICH, OF
COURSE DOES NOT TAKE ACCOUNT OF THE EXPANSION OF THE DEFENSE PROGRAM
AFTER JUNE 1, 1941

WA OPR H THIS IS NOT ALL PLS

GA WITH MSG

3. SUPPLEMENTING THE INFLATIONARY FORCE OF THE
FEDERAL DEFICIT HAS BEEN THE EXPANSION OF BANK CREDIT BY INCREASED
LOANS TO BUSINESS. DURING THE PAST TWELVE MONTHS BANK LOANS
EXPANDED BY APPROXIMATELY 3 BILLIONS, OR ABOUT 20 PERCENT.
AS IN THE CASE OF THE OTHER FORCES MAKING FOR INFLATION, THE EXPANSION
OF BANK LOANS HAS BEEN PROCEEDING AS A QUICKENING PACE.

RXX

4. WITH THE INCREASING FLOW OF SPENDABLE FUNDS THE UPWARD PRESSURE
ON PRICES BECOMES GREATER MORE AND MORE PLANTS ATTAIN THEIR
MAXIMUM OUTPUT, AND MORE AND MORE SHORTAGES IN RAW MATERIALS FOR CIVILIAN
USE APPEAR. PRICES OF IMPORTS ARE ALSO RISING DAILY DUE TO DIMINISH-
ING SHIPPING SPACE, HIGHER SHIPPING COSTS, AND DISAPPEARANCE OF NORMAL
FOREIGN SOURCES OF SUPPLY.

5. FINALLY, AND OF FUNDAMENTAL IMPORTANCE AS AN INFLATIONARY FORCE
WE HAVE GROWING PROFITS, INCREASING AGRICULTURAL INCOME, AND FATTER PAY
ENVELOPES AND MANY MORE OF THEM.

LET US SEE WHERE THESE FORCES WILL TAKE US IF PERMITTED TO OPERATE
UNCHECKED, AS THEY WERE UNCHECKED IN THE WORLD WAR. ALL WE
HAVE TO DO TO SEE WHAT MAY BE AHEAD OF US IS TO LOOK INTO THE PURSE
OF THE AVERAGE FAMILY OF THOSE TIMES -- NOT IN PERCENTAGES AND
INDEXES, BUT THE PRICES OF ESSENTIAL FOOD, CLOTHING AND SHELTER.

THE MONEY THE HOUSEWIFE PAID FOR ONE LOAF OF BREAD IN 1914,
BOUGHT ONLY A HALF A LOAF IN 1920. THE MONEY SHE PAID FOR A POUND OF
BACON IN 1914, BOUGHT ONLY A HALF A POUND IN 1920. THE MONEY THAT SHE
PAID FOR A YEAR OF COTTON CLOTH IN 1914, WAS ENOUGH TO BUY ONLY ONE-
THIRD OF A YEAR IN 1920.

THE FAMILY WITH NO INCREASE IN INCOME FOUND ITS PURCHASING POWER CUT
IN HALF. IT FOUND THAT FOOD, FUEL, SHELTER AND CLOTHING THAT COST
\$1.00 IN APRIL, 1915, HAD RISEN TO \$1.08 IN APRIL, 1916. BY 1920, AFTER
FOUR YEARS OF RISING PRICES, THE COST OF THESE GOODS AND SERVICES HAD
RISEN TO \$2.03. THE PATTERN OF RISING PRICES FOR FOOD, FUEL, SHELTER
IN THE PAST FIVE MONTHS IS STARTLINGLY SIMILAR TO THAT OF 1915 AND
1916. IF THESE PRICES CONTINUE TO RISE AS THEY DID FROM 1916 TO 1920
WE SHALL FIND THAT FOOD, FUEL, SHELTER, AND CLOTHING THAT NOW
COST \$1.00 WILL ONCE MORE COST OVER \$2.00.

THE RISE IN PRICES IS BY NO MEANS CONFINED TO FOODSTUFFS AND CLOTHING.
I HAVE BEFORE ME, FOR INSTANCE, THE ACTUAL FIGURES OF THE COST OF CON-
STRUCTING A STANDARD SIX-ROOM FRAME HOUSE IN ONE OF OUR TYPICAL CITIES.
THIS HOME THAT COULD HAVE BEEN BUILT A YEAR AGO FOR \$6,000 NOW COSTS
\$7,140 TO BUILD. HERE WE HAVE AN INCREASE IN PRICES OF NEARLY 20
PERCENT AND IF IT GOES ALONG THE 1916 PATTERN, WE ARE ONLY AT THE
BEGINNING OF THE STORY.

NOT ONLY IS THE COST OF BUILDING HOMES RISING BUT EVEN FOR THE MILLIONS
WHO DO NOT OWN THEIR HOMES HIGHER RENTAL S ARE ON THE WAY. WE
FIND ALREADY IN SCORES OF AREAS WHERE INDUSTRIAL EXPANSION HAS
FIRST TAKEN HOLD, RENTS RISING 10, 20, 30 AND 40 PERCENT.

TEAXX THERE IS, HOWEVER, ONE GREAT DIFFERENCE BETWEEN CONDITIONS TODAY AND 1916. WE NOW KNOW WHAT IS GOING ON. THIS TIME OUR EYES ARE OPEN TO THE WANDERS THAT LIE AHEAD OF US. 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 KNOWLEGXXX KNOWLEFXXXXXX KNOWLEDGE AND TAKE PROMPT AND EFFECTIVE ACTION NOW.

OUR ECONOMY TODAY RESEMBLES AN OVEN-LOADED STEAM BOILER. THE FIRE UNDER THE BOILER IS BEING FED BY 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 THE BOILER FROM BURSTING, WE MUST DAMP DOWN THE FIRES BY WITHDRAWING PURCHASING POWER, AND WE MUST ALSO STRENGTHEN THE BOILER BY INCREASING THE SUPPLIES OF GOODS AVAILABLE TO THE CONSUMER.

LET US EXAMINE RECORD TO SE KXX SEE WHAT IS BEING DONE AND WHAT NEEDS TO BE DONE IN ORDER TO STOP PRICES FROM RISING FURTHER.

CONGRESAXXXXX CONGREAXXXXXX CONGRESS NOW HAS BEFORE IT A HUGE TAX BILL DESIGNED TO REAXXXX RAISE \$32 BILLION IN ADDITIONAL REVENUE. THIS INCREASE IN TEAXXX TACESXXX TAXES WILL WITHDRAW FROM THE PUBLIC PURCHASING POWER THAT COMPETES WITH THE DEFENSE EFFORT. BUT WE NEED TO RAISE STILL MORE TAXES AS OUR DEFENSE EFFORT GROWS.

SECONDLY, THE TREASURY IN ITS MONETARY PROGRAM IS ATTEMPTING TO OBTAIN AS LARGE A PORTION OF ITS FUNDS AS POSSIBLE FROM CURRENT CONSUMER INCOME, AND THROUGH A NEW FORM OF NOTE -- THE TAX ANTICIPATION NOTE -- IS ENDEAVORING TO REDUCE THE LAG BETWEEN THE TIME OF ACCRUAL AND THE TIME OF PAYMENT OF INCOME TAX, THUS INCREASING PXX THE EXXX EFFECTIVENESS OF THAT TAX AS A MEANS OF CURTAILING CURRENT PURCHASING POWER FOR CONSUMERS GOODS. TO DO THIS THE TREASURY HAS ALSO INITIATED A PROGRAM OF SELLING DEFENSE SAVINGS BONDS AND STAMPS TO PEOPLE OF MODERATE AND LOW INCOME.

THE PRESIDENT HAS JUST ISSUED AN ORDER GIVING THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM SXX AUTHORITY TO CONTROL CONSUMER INSTALLMENT CREDIT, THUS MAKING IT POSSIBLE TO SUPPLEMENT THE RESTRICTIONS ON SPENDING OVXXX OF CURRENT INCOME BY RESTRAINTS ON THE SPENDING OF ANTICIPATED INCOME.

THE OFFICE OF PRICE ADMINISTRATION AND CIVILIAN SUPPLY IS MAKING EVERY EFFORT TO OBTAIN THE COOPERATION OF PRODUCERS AND SIXX DISTRIBUTORS IN LIMITING PRICE RISKS.

BUT THERE ARE ADDITIONAL METHODS TO WHICH WE MAY FIND IT NECESSARY TO RESORT IN OUR EFFORTS EFFECTIVELY TO PREVENT INFLATION, SUCH AS.

1. EXTENSION OF THE GENERAL CONTROLS OVER BANK CREDIT.
2. CREATION OF CONTROLS OVER CAPITAL EXPENDITURES.
3. AN EXPANXXX EXTENSION OF THE SOCIAL SECURITY PROGRAM ALONG LINES P WHICH WOULD INCREASE THE FLOW OF FUNDS TO THE TREASURY FROM CURRENT INCOME DURING THE EMERGENCY AND WOULD INCREASE THE OUTFLOW OF FUNDS WHEN NEEDED IN THE POST-DEFENSE PERIOD.
4. A REDUCTION OF THE FEDERAL LENDING AND UNDERWRITING PROGRAM, SUCH AS NON-EMERGENCY HOUSING EXPENDITURES AND MORTGAGE GUARANTEES.
5. REDUCTION OF NON-ESSENTIAL FEDERAL EXPENDITURES, AN APPEAL FOR ECONOMY IN STATE AND LOCAL GOVERNMENTAL EXPENDITURES AND FOR CURTAILMENT OF THEIR BORROWING FOR NON-EMERGENCY EXPENDITURES, THUS BUILDING A BACK-LOG FOR THE POST-DEFENSE PERIOD.

WE SHOULD WLXXX ALSO ATTACK THE PROBLEM FROM THE OPPOSITE DIRECTION, BY MAKING EVERY EFFORT TO INCREASE THE SUPPLY OF GOODS ABXX AVAILABLE TO THE CONSUMER WHEREVER THIS CAN BE DONE WIRXXX WITHOUT ENCROACHING UPON OUR DEFENSE PROGRAM. I BELIEVE THAT WE HAVE FAILED TO PUCH OUR PRODUCTION OF GOODS TO THE ULL CAPACITY OF OUR ENORMOUS RESOURCES. MILLIONS ARE STILL UNEMPLOYED, AND THERE ARE ALSO MANY MILLIONS WHO, THOUGH NOT CLASSIFIED AS UNEMPLOYED, COULD BE ADDED TO THE WORKING FORCE IF NXX MOXXX JOBS WERE EASILY AVAILABLE. BECAUSE OF OUR ACCUMULATIONS OF AGRICULTURAL SURPLUSES WE ARE IN A POSITION TO PROVIDE INCREASED QUANTITIES OF ALMOST ALL AGRICULTURAL GOODS AND THEREBY BOTH PREVENT THE COST OF FOOD FROM RISING AND PREVENT THE STANDARD OF LIBXXX LIVING VXX FROM BEING IMPAIRED.

INDEED, MY SUGGESTION THAT THE GRANARY DOORS SHOULD NO CXXX NOW BE PXX OPENED AGREES WITH OUR ESTABLISHED AGRICULTURAL POLICY -- THE EVER NORMAL GRANARY. HAVING BEEN ACCUMULATED IN TIME OF SURPLUS, THE STOCKS SHOULD BE DISTRIBUTED IN TIME OF SHORTAGE.

TO DO SO IS THE NATURAL COMPLEMENT OF OUR PREVIOUS POLICY AND THE NECESSARY PREPARATION FOR REACCUMULATION WHEN AND IF SURPLUSES AGAIN DEBXXX DEVELOP.

NOW IS THE TIME TO EMPTY OUR BINS, BOTH FOR PRESENT ADVANTAGE, AND SO THAT IF NECESSARY WE CAN LATER FULL THEM AGAIN. THE CONCEPT OF THE EVER NORMAL GRANARY CALLS FOR A FLOOR TO BE BUILT UNDER FALLING FARM PRICES AND, IT SEEMS TO ME, FOR A CEILING TO BE BUILT OVER RISING FARM PRICES. IF WE PERMITE PRICE PEAKS TO DEVELOP, PRICE VALLEYS ARE INEVITABLE.

AND THAT BRINGS ME, GENTLEMEN, TO WHAT I CONSIDER THE MAJOR DEFECT OF THE BILL NOW BEFORE YOU. IT IS A DEFECT WHICH I CONSIDER SO GREAT THAT IT WILL UNDERMINE THE EFFECTIVENESS OF THE BILL TO PROVIDE FOR EFFECTIVE CONTROL OF FARM PRICES. AND WITHOUT A CHECK UPON FARM PRICES, IT IS USELESS TO LOOK FOR A CHECK UPON INFLATION.

I WANT VERY MUCH TO SEE A HEALTHY DEVELOPMENT OF FARM PROSPERITY, AND WITH THAT OBJECTIVE I HELPED TO INITIATE OUR AGRICULTURAL PROGRAM AND HAVE CONTINUED TO SUPPORT IT. HOLDING FAST TO THAT OBJECTIVE, I AM CONVINCED THAT WE MUST NOT IGNORE THE DANGER SIGNALS AHEAD.

NOW WHAT ARE THOSE DANGER SIGNALS AS THEY APPLY TO OUR FARMS. THE MOST SERIOUS OF THEM IS A RAPID RISE IN PRICES WHICH IS HASTENED TO A LARGE EXTENT BY THE ARTIFICIAL WITHHOLDING OF HUGE SUPPLIES FROM THE MARKET. IT IS HASTENED ALSO, TO SOME EXTENT, BY THE CONTINUANCE OF UNREASONABLY HIGH TARIFF RATES THAT KEEP FOREIGN SUPPLIES FROM OUR SHORES. YET IF WE WERE INTELLIGENT IN SEEKING TO PREVENT FURTHER PRICE RISES, WE SHOULD BE MAKING EVERY ATTEMPT TO BRING IN SUPPLIES FROM OTHER COUNTRIES, PARTICULARLY THOSE SUPPLIES IN WHICH SHORTAGES ARE ALREADY OPERATING. WE SHOULD NOT HESITATE TO CUT TARIFF RATES WHEREVER SUCH RATES OPERATE TO KEEP PRICES UNDUPLY HIGH OR THE GOODS UNDUPLY SCARCE. ABOVE ALL, WE SHOULD BE MAKING FULL USE OF THOSE SUPPLIES THAT ARE AVAILABEL HERE IN THE UNITED STATES.

I DONT WISH TO BE MISUNDERSTOOD IN MY COMMENTS ON AGRICULTURAL PRICES. I AM GLAD THAT SOME OF THE AGRICULTURAL PRICES THAT HASKXX HAD BEEN TOO LOW HAVE ATTAINED A REASONABLE LEVEL. I AM NOT DISTURBED BY THE GENERAL LEVEL OF AGRICULTURAL PRICES NOW PREVAILING, BUT WHAT I AM DEEPLY CONCERNED ABOUT IS THE DANGER THAT AGRICULTURAL PRICES IN GENERAL WILL CONTINUE TO RISE UNTIL THEY ARE OUT OF HAND. AS THE SECRETARY OF AGRICULTURE STATED ONLY A FEW DAYS AGO. "THERE ARE SOME WHO THINK AGRICULTURE SHOULD CHARGE ALL THAT THE TRAFFIC WILL BEAR, TO GET WHILE THE GETTING IS GOOD, WITH THE HOPE THAT SOMEHOW THE AFTERMATH CAN BE AVOIDED." FOR HIS PART HE WARNED HIS AUDIENCE THAT "TO TIE UP STOCKS IN AN EFFORT TO CREATE AN ARTIFICIAL SCARCITY AND UNREASONABLE PRICES IS NOT IN THE INTEREST OF THE FARMXX FARMER, THE CONCXN CONSUMER, OR THE GENERAL WELFARE."

AT THIS TIEXX TIME WHEN AGRICULTURAL PRICES ARE IN THE MAIN AT OR NEAR A SATISFACTORY LEVEL, WHEN THE COUNTRY IS FACING A MAJOR THREAT OF INFLATION, AND WHEN IT IS MORE IMPORTANT THAN EVEP THAT THERE SHOULD BE NO UNDERNOURISHMENT, WE SHOULD NOT INCREASE STILL FURTHER OUR RESERVES OF AGRICULTURAL COMMODITIES IN THE WAREHOUSES OXX FOR THE PURPOSE OF RAISING PRICES.

I WONDER IF THE HOUSEWIFE KNOWS, WHEN SHE PAYS 20 PER CENT MORE THAN SHE DID A YEAR AGO FOR A BAG OF FLOUR, THAT OUR SUPPLY OF WHAT IS THE LARGEST ON RECORD, AND THAT 450,000,000 BUSHELS OF TWO YEARS CROPS ARE STORED IN CANADA. I WONDER IF SHE KNOWS, WHEN SHE PAYS 15 PER CENT FOR A POUND OF SUGAR THAN A YEAR AGO, THAT THERE ARE HUGE UNTOUCHED RESERVES OF SUGAR IN CUBA. I WONDER IF SHE KNOWS, WHEN SHE SXX PAYS 25 PER CENT MORE FOR BUTTER, THAT WE HAVE FORTY MILLION POUNDS OF BUTTER IN XXXXXXXXXXXXXXXXXXXX THAT WE HAVE FORTY MILLIONS XXXXXXXXXXXXXXXXXXXX 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 MANY KINDS WHICH SHOULD BE RELEASED FOR CONSUMPTION AS RAPIDLY AS IS NECESSARY TO PREVENT UNREASONABLE PRICE RISES.

THE GOVERNMENT NOW HOLDS SEVEN MILLION BALES OF COTTON. COTTON PIXX PRICES HAVE RISEN FROM 92 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. IN TIMES LIKE THESE, THE HOUSEWIFE OUGHT NOT TO BE MADE TO PAY TAX TRIBUTE TO PROFITIZERS AND SPECULATORS WHEN SHE BUYS A COTTON DRESS FOR HERSELF OR A SHIRT FOR HER HUSBAND OR A SUIT FOR HER CHILD.

THE EFFECT OF GOOD BOOXXX FOOD ON NATIONAL DEFENSE HAS BEEN STATED ASXX SO WELL IN THE AUGUST ISSUE OF FORTUNE MAGAZINE THAT I SHOULD LIKE TO READ ONE PARAGRAPH TO YOU. IT SAYS,

"TIX 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 HIGHEST POTENTIAL BY THE RIGHT FOOD. COURAGE AND THE 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."

I THINK THAT OUR DEPARTMENT OF AGRICULTURE HAS REASON TO BE PROUD OF THE PROGRESS THAT IT HAS MADE IN FORESEEING THE SCARCITY OF SOME OF THE AGRICULTURAL COMMODITIES AND IN TAKING EFFECTIVE STEPS TO INCREASE THEIR PRODUCTION. THEY ARE ALSO UNDERTAKING A PROGRAM OF ENCOURAGING POWDER MILK AND CHEESE FACTOIXX FACTORIES SO THAT THERE SHALL BE MORE OF THOSE PRODUCTS AVAILABEL TO THE CONSUMER.

BUT STILL MORE EFFORT SHOULD BE MADE TO PUT MORE DAIRY PRODUCTS ON THE MARKET. WE COULD EASILY EXPAND OUR PRODUCTION OF DAIRY PROCCXX PRODUCTS FOR OUR OWN USE, AND YET LEAVE AMPLE AMOUNTS TO BE SENT OVERSEAS.

I KNOW FROM EXPERIENCE ON MY OWN FARM WXX THAT WITHIN TWO MONTHS WE COULD SUBSTANTIALLY 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 PULTXXX POULTRY RATION HAS INCREASED 60 PER CENT SINEXX SINCE THE WAR BEGAN. WE COULD FEED OUR SURPLUS GRAIN TO HOGS AND GET MORE PORK AT PRICES WHICH THE MCCXXX AMERICAN HOUSEWIFE COULD PAY. YET THE GOVERNMENT IS WITHHOLDING 200 MILLION BUSHELS OF WHEAT AND 300 MILLION BUSHELS OF CORN.

THIS HS XXX HAS BEEN HISTOPICALLY A LAND OF MILK AND HONEY. THERE IS STILL PLENTY OF MILK AND HONEY, BUT TOO MUCH OF IT IS IN THE WAREHOUSES. LETS MAKE IT FLOW. IF WE WERE TO LET IF XXX 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.

THE TREASURY PROPOSES TO DO EVERYTHING IN ITS POWER TO PREVENT INFLATION, THROUGH ITS TAX AND BORROWING POLICIES. IT PROPOSES TO DO THIS BECAUSE ON THE ONE HAND, IT HSXXX HAS A RESPONSIBILITY TO THE PUBLIC, AND ON THE OTHER HAND, ITS OWN FINANCING WILL BE DEFINITELY MORE DIFFICULT IF INFLATION DEVELOPS.

AS THE NATIONS LARGEST PURCHASER, THE GOVERNMENT IS CONCERNED WITH THE PROBLEM IN A VERY DIRECT WAY. 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 WITOXXXX 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 PROPORTION.

FURTHERMORE, AS THE NATIONS LARGEST EMPLOYER WE ARE ALSO CONCERNED. APART FROM THE ARMED FORCES, THE GOVERNMENT EMPLOYES MORE THAN ONE MIKXXX MILLION PEOPLE WITH A PAYROLL NOW RUNNING AT THE RATE OF \$22 BILLION A YEAR. A SUBSTANTIAL RISE IN THE COST OF LIVING WILL RAISE FOR US AS AN EMPLOYER 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.

WE ARE DETERMINED TO BATTLE AGAINST WXX EVERY THREAT OF INFLATION. EVERY CITIZEN, EVERY WAGE EARNER, AND EVERY HOUSEWIFE HAS A VITAL INTEREST IN SEEING THAT THIS BILL PASSES AND IN SEEING THAT A PROGRAM BE PRESSED OF INCREASING THE SUPPLY OF FOOD AND OTHER CIVILIAN GOODS WHOSE PRODUCTION DOES NOT ITERFERE WITH OUR DEFENSE PROGRAM.

SOME OF OUR PEOPLE TIXX THINK THAT THEY WILL BENEFIT FROM RISING PRICES. THEY ARE WRONG. NO GROUP IN A COMMUNITY PROFITS FROM INFLATION EXCEPT THE THREE HORSEMEN - THE SPECULATOR, THE PROFITITXXX PROFITEER, AND THE HOARDER. INFLATION DOES MORE THAN MERELY TO ROB THE WAGE EARNER OF A PORTION OF HIS EARNINGS. IT IS MORE DESTRUCTIVE OF MORALE THAN EXX 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.

NOTE. WE WOULD LIKE TO KNOW IF IT WILL BE NECESSARY FOR AGENT TO WAIT FOR ANSWER IF HE SHOULD INQUIRE.
WILSON END

MON PLS

DO WE UNDERSTAND CORRECTLY THAT INSTRUCTIONS ISSUED BY MR MURPHY T TO THE EFFECT THAT THE ABOVE IS TO BE RETURNED TO YOUR OFFICE BY IT AT 7 AM, EST, TOMMOROW AFTER CORRECTIONS BY MRS ROOSEVELT IS TO BE DISREGARXXXX DISREFARDED
DISREGARDED

GA

MON PLS WHEN MESSAGE IS DELIVERED TO HYDE PARK THE AGENT SHOULD INQUIRE FOR FURTHER INSTRUCTIONS.

GA

Page - 351 (continued)



OFFICE OF THE CHIEF
U. S. SECRET SERVICE

TREASURY DEPARTMENT

WASHINGTON, D. C.

August 13, 1941

Memorandum for Mrs. Klotz

From: Assistant Chief Murphy

This is to advise that the teletype message was delivered to Miss Thompson, Mrs. Roosevelt's Secretary, at 5:15 P.M., Eastern Daylight Saving Time.

A handwritten signature in cursive script, appearing to read "J. M. Murphy".

KNOW YOUR ENDORSERS
Do not cash Checks for Strangers

STANDARD FORM No. 14 A
APPROVED BY THE PRESIDENT
MARCH 10, 1926

TELEGRAM

OFFICIAL BUSINESS—GOVERNMENT RATES

353 ✓

TREASURY DEPARTMENT

WASHINGTON

CHARGE TREASURY DEPARTMENT, APPROPRIATION FOR
Official

H. Morgenthau, Jr. - ~~Personal~~

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

U. S. GOVERNMENT PRINTING OFFICE

2-14117

AUGUST 18 1941

MRS FRANKLIN D ROOSEVELT
HYDE PARK NEW YORK

THIS DRAFT WHICH I HAVE SENT YOU IS STILL NOT IN ITS FINAL
FORM PLEASE KEEP THIS IN MIND WHEN YOU READ IT I WILL
TELEPHONE YOU TONIGHT ABOUT EIGHT DAYLIGHT SAVING TIME

HENRY MORGENTHAU JR

ST

354 <

Treasury Department

TELEGRAPH OFFICE

39

ST
NY 85 PX 17

1941 AUG 13 PM 2 32

POUGHKEEPSIE NY 159P AUG 13 1941

HENRY MORGENTHAU JR

TREASURY DEPT

YOUR WIRE MRS ROOSEVELT JUST RECEIVED I DO NOT EXPECT HER TO ARRIVE
HOME TONIGHT UNTIL LATE

MALVINA THOMPSON

229P

TREASURY DEPARTMENT
WASHINGTON

CHARGE TREASURY DEPARTMENT, APPROPRIATION FOR

H. Morgenthau Jr - Official

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

U. S. GOVERNMENT PRINTING OFFICE

2-14117

AUGUST 18 1941

MRS FRANKLIN D ROOSEVELT
HYDE PARK NEW YORK

JUST RECEIVED WORD THAT I WILL NOT HAVE TO TESTIFY UNTIL
SEPTEMBER FIFTEENTH SO PLEASE DO NOT BOTHER TO READ MY
STATEMENT AS BETWEEN NOW AND THE FIFTEENTH I HOPE TO
GREATLY IMPROVE IT, AND THEN HAVE A CHANCE TO GO OVER IT
WITH YOU IN PERSON STOP THIS TELEGRAM IS IN LIEU OF
TELEPHONING YOU TONIGHT BEST REGARDS

HENRY MORGENTHAU JR

THE UNDER SECRETARY OF THE NAVY
WASHINGTON

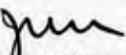
August 13, 1941

Dear Henry:

I thought your statement before
the Senate Finance Committee was excellent.

Don't bother to acknowledge this
note.

Sincerely yours,


James Forrestal

The Honorable
The Secretary of the Treasury
Washington, D.C.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE August 13, 1941

TO Secretary Morgenthau
FROM Mr. Kuhn

This is in answer to your inquiry of this morning about the Irving Berlin song.

The song with colored cover is already out, and 250,000 copies have been printed. I attach a copy, and also a copy of the band arrangement and the orchestra arrangement.

Our two million post cards started moving on the first of August and will all be out by the 25th of this month. Through yesterday 1,099,000 have been mailed. Each of our State Administrators has received 50 of the band arrangements and 50 of the orchestral arrangements, and has been told that he can requisition as many as he needs for high school bands and orchestras in his State. Texas has already asked for 300.

Every American Legion band is receiving a copy of the band arrangement so that it can be played on Baseball Defense Bond Day in 142 baseball parks on August 28.

Every dance band in the United States has already received a band arrangement. Eight hundred radio stations are using the record on an average of four times a day.

Mr. Berlin himself has written to me and to Mr. Duffus to say that he is just delighted with the way we are exploiting his song. He told me so personally when he came into the office the other day.

J. K.

ANY BONDS TODAY?

words and music by IRVING BERLIN



THEME SONG OF THE
NATIONAL DEFENSE SAVINGS PROGRAM

U. S. Defense Savings Bonds
and Stamps

WRITTEN BY HENRY MORGENTHAU, Jr.
SECRETARY OF THE TREASURY, WASHINGTON, D. C.

ANY BONDS TODAY?

Words and Music by
IRVING BERLIN

Moderato

The piano introduction consists of two staves. The right hand features a rhythmic melody with eighth and sixteenth notes, while the left hand provides a steady bass line with quarter notes. The tempo is marked 'Moderato' and the dynamic is 'f'.

VOICE

The tall man with the high hat and the whisk-ers on his chin Will soon

mf

— be knock-ing at your door— and you ought to be in The

tall man with the high hat will be com-ing down your way Get your

Copyright 1941 HENRY MORGENTHAU Jr., Secretary of the Treasury, Washington, D. C.

All Rights Reserved including the Right of Public Performance for Profit.

International Copyright Secured.

Made in U. S. A.

sav-ings out when you hear him shout "an-y bonds to-day?"

CHORUS
 AN-Y BONDS TO-DAY? Bonds of free-dom that's

what I'm sell-ing AN-Y BONDS TO-DAY? Scrape up the most you can

Here comes the free-dom man Ask-ing you to buy a share of free-dom to-day

An-y stamps to-day? We'll be blest if we all in-vest in the
 Bonds to-day? All you give will be spent to live in the

U. S. A. Here comes the free-dom man
 Yan - kee way Scrape up the most you can

Can't make to-mor-row's plan Not un-less you buy a share of free-dom to-day
 Here comes the free-dom man Ask-ing you to buy a share of free-dom to-day

1. 2. To Interlude Fine
 AN-Y

Interlude

First came the Czechs and then came the Poles And then the Nor-we-gians with three mil-lion souls

Then came the Dutch the Bel-gians and France Then all of the Bal-kans with hard-ly a chance. It's

all in the Book if on-ly you look It's there if you read the text. They

fell ev-'ry one at the point of a gun A - mer-i - ca must-nt be next. An - y

D.S. al Fine

TREASURY DEPARTMENT

WASHINGTON

August 13, 1941

Memorandum for THE SECRETARY:

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

July 1-August 11	\$30,025.55
August 12	<u>522.15</u>
Total	\$30,547.70

GRAVES

UNITED STATES SAVINGS BONDS

CONFIDENTIAL

Comparative Statement of Sales During
First Ten Business Days of June, July, and August, 1941
(June 1-12, July 1-12, August 1-12)

(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	\$ 18,311	\$ 21,617	\$ 17,494	-\$ 3,306	\$ 4,123	- 15.3%	23.6%
Series E - Banks	<u>33,425</u>	<u>35,792</u>	<u>25,175</u>	- <u>2,367</u>	<u>10,617</u>	- <u>6.6</u>	<u>42.2</u>
Series E - Total	51,735	57,408	42,669	- 5,673	14,739	- 9.9	34.5
Series F - Banks	10,148	10,293	15,368	- 145	- 5,075	- 1.4	- 33.0
Series G - Banks	<u>64,181</u>	<u>70,617</u>	<u>101,484</u>	- <u>6,436</u>	- <u>30,867</u>	- <u>9.1</u>	- <u>30.4</u>
Total	<u>\$126,064</u>	<u>\$138,317</u>	<u>\$159,521</u>	- <u>\$12,253</u>	- <u>\$21,204</u>	- <u>8.9%</u>	- <u>13.3%</u>

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

August 13, 1941.

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

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

UNITED STATES SAVINGS BONDS

CONFIDENTIAL

 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
11	2,683	3,686	1,187	4,308	9,181	6,370	1,187	4,308	11,865
12	873	2,281	488	4,908	7,676	3,153	488	4,908	8,549
Total	\$ 18,311	\$ 33,425	\$ 10,148	\$ 64,181	\$107,753	\$ 51,735	\$ 10,148	\$ 64,181	\$126,064

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

August 13, 1941.

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

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

UNITED STATES SAVINGS BONDS

Comparative Statement of Sales During
First Nine Business Days of June, July, and August, 1941
(June 1-11, July 1-11, August 1-11)

(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	\$ 17,438	\$ 19,944	\$ 16,139	-\$ 2,506	\$ 3,805	- 12.6%	23.6%
Series E - Banks	<u>31,144</u>	<u>32,981</u>	<u>22,964</u>	- <u>1,837</u>	<u>10,017</u>	- <u>5.6</u>	<u>43.6</u>
Series E - Total	48,582	52,926	39,102	- 4,344	13,824	- 8.2	35.4
Series F - Banks	9,660	9,433	14,577	227	- 5,144	2.4	- 35.3
Series G - Banks	<u>59,273</u>	<u>63,270</u>	<u>95,948</u>	- <u>3,997</u>	- <u>32,678</u>	- <u>6.3</u>	- <u>34.1</u>
Total	<u>\$117,515</u>	<u>\$125,629</u>	<u>\$149,627</u>	- <u>\$ 8,114</u>	- <u>\$23,998</u>	- <u>6.5%</u>	- <u>16.0%</u>

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

August 12, 1941.

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

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

UNITED STATES SAVINGS BONDS

Daily Sales - August 1941
On Basis of Issue Price

(In thousands of dollars)

Date	Post Office Bond Sales	Bank Bond Sales				All Bond Sales			
	Series E	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
11	2,683	3,686	1,187	4,308	9,181	6,370	1,187	4,308	11,865
Total	\$ 17,438	\$ 31,144	\$ 9,660	\$ 59,273	\$100,077	\$ 48,582	\$ 9,660	\$ 59,273	\$117,515

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

August 12, 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.

DEFENSE SAVINGS STAFF

ADVANCE NOTICE RADIO PROGRAM

WEDNESDAY - AUGUST 13, 1941

Time: 4:45 - 5:00 P.M.

Program: "Treasury House" Quiz

Station: WRC - Washington, D. C.

Time: 6:15 - 6:30 P.M.

Program: Mr. Keen, Tracer of Lost Persons

Station: WMAL and NBC Blue Network

Time: 7:05 - 7:15 P.M.

Program: Commissioner Guy T. Helvering
Speaks on Tax Savings Plan.

Station: WINK - Washington, D. C.

Time: 8:00 - 9:00 P.M.

Program: TREASURY HOUR - "MILLIONS FOR DEFENSE"
Starring, Al Jolson, Bidu Sayao, Martha
Scott, Henry Fonda, Maurice Evans, Barry
Wood, Ray Block's Choir and Al Goodman's
Orchestra.

Station: WJSV and CBS Network

THESE PROGRAMS PROMOTE THE SALE OF DEFENSE BONDS AND STAMPS.

August 14, 1941

My dear Mr. President:

I am sending you herewith a statement showing the most recent figures on delivery of airplanes, on the chance that they may not have been brought to your attention.

I would like to point out to you that in June there were 775 trainers delivered, leaving only 699 military planes. This compares with July when there were 829 trainers delivered, leaving only 626 military planes.

Sincerely yours,

(Signed) Henry

The President,
The White House.

Copies to: Secretary of State,
Secretary of War,
Secretary of Navy.

Enclosure

By Messenger *Steen*
5:05

Deliveries of Airplanes, Monthly, July 1940 to date

STRICTLY CONFIDENTIAL

Month	Military						Total military airplanes delivered	Commercial transports	Total airplanes delivered
	Flying boats	Bombers		Pursuits	Other military tactical airplanes	Trainers			
		4-engine bombers	2-engine bombers						
July 1940		2	112	162	42	251	569	25	594
Aug.		9	70	149	55	276	559	23	582
Sept.	2	9	13	152	54	367	597	75	672
Oct.	4	17	29	192	65	411	718	43	761
Nov.	5	7	66	250	92	349	769	39	808
Dec.	10	11	132	262	28	421	864	21	885
Jan. 1941	20		122	261	78	520	1,001	27	1,028
Feb.	12	13	165	203	103	452	948	24	972
Mar.	12	10	205	232	85	575	1,119	42	1,161
Apr.	12	27	244	286	110	696	1,375	31	1,406
May	19	12	255	253	78	703	1,320	22	1,342
June	25	9	249	226	190	775	1,474	16	1,490
July	41	1	248	202	113 134 *	852 829 *	1,457 1,455 *	16 18 *	1,473

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

August 12, 1941

Source: Office of Production Management, Aircraft Section.

* A clarification - figures given to
Dr. Rubin by OPM after our telephone

Deliveries of Airplanes, Monthly, July 1940 to date

Month	Military						Commercial transports	Total airplanes delivered	
	Bombers			Pursuits	Other military tactical airplanes	Trainers			Total military airplanes delivered
	Flying boats	Other 4-engine bombers	Other 2-engine bombers						
July 1940		2	112	162	42	251	569	25	594
Aug.		9	70	149	55	276	559	23	582
Sept.	2	9	13	152	54	367	597	75	672
Oct.	4	17	29	192	65	411	718	43	761
Nov.	5	7	66	250	92	349	769	39	808
Dec.	10	11	132	262	28	421	864	21	885
Jan. 1941	20		122	261	78	520	1,001	27	1,028
Feb.	12	13	165	203	103	452	948	24	972
Mar.	12	10	205	232	85	575	1,119	42	1,161
Apr.	12	27	244	286	110	696	1,375	31	1,406
May	19	12	255	253	78	703	1,320	22	1,342
June	25	9	249	226	190	775	1,474	16	1,490
July	41	1	248	202	134	829	1,455	18	1,473

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

August 14, 1941.

Source: Office of Production Management, Aircraft Section.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE August 13, 1941

TO Mr. White

FROM G. A. Eddy

gae

Subject: Verification of \$2 billion expenditure for agriculture

(Millions)

Appropriation for the Commodity Credit Corporation

Increase in lending power of Commodity Credit Corporation in conjunction with order to lend up to 85 percent of parity of five basic commodities (and other amounts on other commodities). (The amount that will actually be used during the 1941-42 crop year is, of course, as yet unknown, but this provision of funds may be taken as a conservative estimate.)

\$1,250

Appropriation for the Department of Agriculture for 1942

Conservation payments	499
Sugar payments	48
Parity payments	212
Surplus commodity disposal	100
Permanent annual appropriation of 30 percent of customs receipts (figure given here is the 1941 appropriation)	<u>100</u>

\$2,209

Total

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

For Miss Chauncey

DATE August 13, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

Mr. Bewley telephoned me yesterday evening that Sir Otto Niemeyer will arrive in Washington this evening, Wednesday, and would like to come in to pay his respects to Secretary Morgenthau on Thursday or Friday. Will the Secretary indicate to me an hour, if possible. It is probable that Sir Otto would be departing for China before Secretary Morgenthau returns from his holiday.

The Secretary will see Sir Otto
at 3:30 today, Thursday

370

See letter sent
to Hays at
Montreal filed
in Albis under
date of 8/23/41 -
see also 9:30 meeting
8/15/41 -

THE BRITISH SUPPLY COUNCIL IN NORTH AMERICA

Box 680
Benjamin Franklin Station
Washington, D. C.

13th August, 1941.

Dear Cochran,

I enclose copies of a memorandum which we should have liked submitted to the Treasury Committee if it had been possible to hold a meeting.

The difficulty, as you will see, is that the Ordnance Department is reluctant to make payment for the parts in question at rates more than 5% in excess of price list values, although those values are, as I understand it, now really out of date, being substantially below replacement values.

The memorandum, drawn up by the British Purchasing Commission requests authority to make payment of \$494,424, and perhaps of an additional \$165,089 out of British funds. I am sure, however, that you will agree that it would be very difficult for us to accept the view that because the prices asked for are in excess of certain list prices, British funds should bear the charge. We have, of course, no responsibility regarding the prices paid for articles delivered to us under Lend-Lease, and for us to accept liability in this case, for the reasons given, would, it seems to me, be contrary to the basic principles of the Lend-Lease procedure. Moreover, for all I know, there may be many other instances in which the same sort of point may arise, so that we cannot treat this as an isolated case.

I shall be most grateful for anything you can do to help in this case. You will see that it is a matter of considerable urgency.

Yours sincerely,

/s/ T. K. Bewley

Mr. H. Merle Cochran,
United States Treasury,
Washington,
D. C.

Copy:mew 8/13/41

C
O
P
YMUFFIELD LIBERTY ENGINEParts held by The Vimalert Company Ltd.

- (1) For some time past, the British have been endeavouring to increase their output of Cruiser Tanks, which are equipped with the Muffield Liberty Engine; this is a revised type of the Liberty engine which at one time was built in quantities in the United States.

In December 1940, the British Purchasing Commission purchased a quantity of parts (value \$153,797.50) for the Muffield Liberty Engine from The Vimalert Company Ltd., of Jersey City, and these parts were shipped to England. In addition, under authority from London, arrangements were made with The Vimalert Company for the manufacture of 1,000 complete Muffield engines. The contract in respect of these engines was being drawn up when, owing to the general financial position, signature of such a United Kingdom contract became impossible. Ultimately it was agreed that these arrangements for the manufacture of the engines should be abandoned, and that, instead, the parts held in stock by Vimalert (which would have been used for the manufacture of the engines) should be sold. Some five requisitions have been lodged under Lend Lease, as and when Vimalert sorted out its stock. All the parts covered by these requisitions are mostly urgently required in England for the construction of engines, and the delay which has arisen in the procurement of these parts is having a serious effect on the cruiser tank program.

Apart from the above, the British Iron and Steel Corporation has ordered various forgings (some machined) in the U.S. in respect of parts for the Muffield engine. These orders have been placed partly out of British funds and partly under the Lend Lease mechanism.

- (2) In connection with this matter, it will be appreciated that:-
- (a) There are considerable differences in design between the Liberty engine and the Muffield engine. Only certain of the parts for the Liberty engine can be used in the Muffield variation.
 - (b) Worn parts are of no use.

- 2 -

It should also be pointed out that Vimalert have been engaged in the Liberty engine business for some twenty years. It is understood that their stocks originated in purchases of engines and parts, effected mostly fifteen or twenty years ago, probably at very low prices. Obviously these engines, etc. have been dismantled and the parts sorted out and stored over a long period.

- (3) The prices submitted by Vimalert in respect of the items covered by the Requisitions have been examined by the Ordnance Department. It is understood that the Ordnance Department is prepared to purchase parts for which the Vimalert price does not exceed the prices quoted in one of the Ordnance Price Handbooks (S.N.L. G.13 March 30, 1928), plus 5%. However, it appears that the Ordnance Department is not prepared to purchase items at higher prices than the S.N.L. figures plus 5% and it has been suggested that, as a way out of the difficulty, the British Purchasing Commission should carry out the purchase of these latter items. A revised offer has therefore been made by Vimalert to the effect that the whole of the stocks which it has available should be purchased either by the Ordnance Department or the British Purchasing Commission. The figures involved may be summarised as follows:-

<u>Date</u>	<u>Number</u>	<u>Total</u>	<u>New Offer.</u>	
			<u>Ordnance</u>	<u>B.P.C.</u>
Apr. 11/41	B.S.C. No. 195	406,150.00	193,560.00	119,795.00
July 2/41	" " 2975	140,000.00	96,780.00	—
May 1/41	" " 881	188,265.00	5,240.00	202,302.60
July 2/41	" " 2973	100,000.00	109,500.00	—
July 2/41	" " 2974	<u>235,535.00</u>	<u>110,682.89</u>	<u>172,326.92</u>
		<u>\$1,069,950.00</u>	<u>\$515,762.89</u>	<u>\$494,424.52</u>
Additional Items, not covered by Requisitions already lodged			<u>3,360.50</u>	<u>165,089.00</u>
			<u>\$519,123.39</u>	<u>\$659,513.52</u>

It is thought that the additional items, not covered by Requisitions already lodged, are suitable for the Huffield engine, but their acquisition (either by a Lend Lease requisition or a British Purchasing Commission purchase) is subject to confirmation from England. Authority is therefore sought for the expenditure of British funds to the extent of \$494,424.52, and, contingent on approval from England, for the expenditure of a further sum of \$165,089.00, also from British funds.

Detailed Schedules are available in respect of the above.

(4) It seems necessary to give some explanation as to why the purchase of certain parts out of British funds is recommended when the Ordnance Department has refused to effect the purchase of such parts at the prices offered; the reasons are as follows:-

- (a) The S.N.L. prices (taken as a basis by the Ordnance Department) do not appear to correspond at all to current replacement costs. Page 87 of the S.N.L. gives the value of the Liberty engine as \$3,128.99, as against estimates of cost obtained from several sources of \$6,500 to \$7,000.
- (b) There are no other considerable stocks of parts which can be purchased. One source (a Mr. H.M. Grant of Detroit) has been discovered, but an examination carried out by our Inspection Department shows that most of the parts submitted for examination by Mr. Grant are either not suitable for use in the Huffield engine or are in a used condition.
- (c) The prices at which the British Purchasing Commission purchase of parts was put through in December 1940 (with the approval of London) are higher than those now offered.
- (d) In those instances where machined parts are being procured in the U.S., a comparison of the prices with those asked by Vimalert shows that the latter are lower than current replacement costs; details are as follows:-

- 4 -

Crankshafts

S.N.L. Price	\$ 345.58
Current Replacement cost	\$ 409.50
Vimalert offer	\$ 250.00

In this case, as the Vimalert price is lower than S.N.L., the Ordnance Department is prepared to effect the purchase.

Cam shafts

S.N.L. Price	\$ 25.93
Current Replacement cost	\$ 102.00
Vimalert Offer	\$ 35.00

In this instance the Vimalert price exceeds the S.N.L. price and consequently the Ordnance Department refuses to effect the purchase, in spite of the fact that the Vimalert price is only a third of replacement cost. In this connection, it should be noted that the price of \$102, given as replacement cost, represents that of a Lend Lease contract which is being placed by the U.S. Treasury as a result of a requisition lodged by the British Purchasing Commission.

A calculation of the value of all the parts at S.N. L. prices, plus 5%, gives a total of \$1,084,852.49, as against \$1,178,636.91 (\$519,123.39 and \$659,513.52) asked by Vimalert.

In conclusion:-

- (a) The parts are most urgently required.
- (b) We consider that the prices asked by Vimalert are fair and reasonable, being less than replacement values.

Washington, D.C.
8 August, 1941.

BY: mwd e:alm - 8/13/41

376✓

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE FOR EMERGENCY MANAGEMENT
WASHINGTON, D. C.

August 13, 1941.

Dear Secretary Morgenthau:

Here's the proposed letter which we discussed yesterday morning.

Sincerely,

ASC

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

Attachment

August 13, 1941

Secretary Hargraves

Mr. Cochran

Messrs. Devley and Cox have approved the attached letter as drafted and read to them by me. Mr. Cohn, General Manager of Northrop Aircraft Incorporated telephoned me last night and called this forenoon. He said the situation of his company is so serious that they will not be able to meet their payroll unless some arrangement with the bankers is made within one week.

I have spoken to Mr. White of this case, but he did not have time to consult with me thereon. I have sent him a copy of this draft.

In my opinion this letter should be cleared urgently.

This must have O.K. of White and Foley before it goes.
--H.N.Jr.

4 o'clock

(Letter)

Rec'd. from Mr. Foley, duly initialed
by him and Mr. White at 3:05 p.m. and
sent by me to Mr. Jones 3:15 p.m.
H.N.C.-8/13/41

ENC:lap-8/13/41

AUG 1941

Dear Mr. Jones:

The British Purchasing Commission has presented to me a memorandum concerning the Northrop Aircraft Incorporated, of which I have pleasure in attaching a photostat copy. From this memorandum it appears that Northrop Aircraft Incorporated, with which the British have a contract for 200 "Vengeance" Dive Bomber airplanes, plus 20 percent spares, is urgently in need of cash and that the R. F. C. has been approached for a loan. Mr. Cohn, General Manager of Northrop Aircraft Incorporated, telephoned the Treasury Department confirming the difficult position in which his company finds itself, and requesting the Treasury's cooperation.

As you are aware, it has been the Treasury's constant desire and effort to assist in improving the dollar exchange position of the British Treasury. The changes contemplated in the proposal outlined in the attached memorandum would impose increased payments upon the British at a time when their dollar resources will be under considerable strain. According to the calculations of the British Purchasing Commission, such a proposal would mean that over the period from November 1941 to May 1942 their cash outpayments would be greater by approximately \$2,000,000 than they would be if the terms of the original contract were followed.

Appreciating the importance of insuring delivery of the planes under reference, as well as continued operations of the Northrop Aircraft Incorporated on other Governmental contracts, it is agreeable to the Treasury that the British should meet the requirements of the R. F. C. for the 25 percent "overpayment" described in the attached memorandum, in case the R. F. C. may not see its way clear to proceed with the loan in the absence of such an arrangement. On the other hand, if some other arrangement can be made, the Treasury would naturally desire to see the dollar exchange resources of the British conserved.

Very sincerely yours,

Secretary of the Treasury.

The Honorable
James Jones,
Federal Loan Administrator.

HMC:dm:8/13/41

(init.) H. M. C. ERF Jr EDW

MEMORANDUM RE NORTHROP AIRCRAFT INC.

The Northrop Aircraft, Inc., has approached the R.F.C. in connection with a loan to carry them over a period of shortage of working capital which cannot apparently be met by any other means. The R.F.C. have approved the loan but only on the understanding that the firm takes certain measures to restore their cash position as soon as possible. One of these measures is that the payments arrangements on B.A.C. contract A-1555 (for 200 "Vengeance" Dive Bomber airplanes plus 20 per cent spares) be modified on the following lines:

- (a) The existing contract provisions are that 50 per cent of the total contract price has been paid (approximately \$8,500,000). As each airplane or lot of spare parts is delivered, the balance of 50 percent of the contract price of such airplane or lot of spare parts is paid.
- (b) The R.F.C. in effect propose that instead of paying the balance of 50 percent against each delivery, we should in respect of the first 100 airplanes (or equivalent in airplanes and spares) pay 75 per cent of the contract price, i.e., as compared with (a) above, an "overpayment" of 25 per cent. This overpayment would be adjusted by paying only 25 percent of the contract on deliveries after the first 100 airplanes.
- (c) The effect of the proposal at (b) is that over the period November 1941 to May 1942 our cash outgoings would be greater by approximately \$2,000,000 than they would be otherwise. The spread is roughly as follows:

<u>Nov. 1941</u>	<u>Dec. 1941</u>	<u>Jan. 1942</u>	<u>Feb. 1942</u>
95,000	nil	250,000	305,000
<u>March 1942</u>	<u>April 1942</u>	<u>May 1942</u>	
400,000	600,000	350,000	

Adjustment of the "overpayment" would be spread over the period May 1942 - August 1942 in approximately equal proportions.

We should not normally be willing to agree to a modification of the contract on the lines proposed. On the other hand, we are advised that Northrop's position is desperate, and if they cannot obtain R.F.C.'s approval for the loan, they will be unable to carry on - a contingency which must obviously be avoided at all costs. R.F.C. is understood to be obligated to take all possible steps to safeguard any loans that they approve, and the conditions they have imposed in this case represent the only solution they and the firm have been able to arrive at.

Advice is sought -

- (a) Whether other arrangements could be made by the U.S. Government which would provide the temporary safeguard needed by the R.F.C. without calling for increased payments by H.M.G. in the earlier months; and
- (b) Whether, if such different arrangements cannot be made, any steps can be taken to ensure that the Northrop Company will be able to carry on after the first 100 airplanes, on which the heavier payments would be made, have been delivered, at least up to the final completion of the contract.

TKB:KF

Washington, D.C.,
August 11, 1941.

C
O
P
Y

PLAIN

PEIPING VIA N.E.

DES

Dated August 13, 1941

Rec'd 4 p.m.

Secretary of State,
Washington.

Circular August 13, 1 p.m.

Reference Embassy's circular today repeating Department's 139, August 11 in regard to freezing regulations. As it will doubtless be of timely interest, please radio in plain language to the Department a report on the regulations and restrictions imposed by the Japanese and their sponsored authorities on Americans residing in your respective districts along the lines of the Department's report on regulations applicable to Japanese nationals in the United States. In stating sums of money give both local currency and equivalent in United States currency.

In a separate paragraph report any additional restrictions on Americans beyond those applied to Japanese nationals in the United States.

Sent to all consuls except Kunming, repeated to Department and Chungking for the Ambassador.

BUTRICK

CSB

Copy: hbr: 8-27-41.

TK

382

GRAY

Swatow via N. R.

Dated August 3, 1941

Rec'd 3:10 p.m.

Secretary of State

Washington

August 3, 3 p.m.

The local vernacular press reports regulations made by the Japanese military effective August 1st summarized as follows:

- (1) Movement of all goods, currency persons between the occupied and unoccupied areas is prohibited.
- (2) Permits issued prior to July 31 are cancelled.
- (3) Regulations are applicable to all persons regardless of nationality.
- (4) Violators shall be executed.

The paper states that the regulations were made to strengthen the blockade. No information on the subject has been received.

Sent to Peiping, repeated to Chungking, Department.

YEARNS

KLP

Copy: hbr: 8-27-41.

TELEGRAM SENT

PLAIN

August 11, 1941.

AMEMBASSY

PEIPING (CHINA) VIA N.R.

INFO: AMEMBASSY, CHUNGKING

AMERICAN CONSUL, SHANGHAI

139, Eleventh.

For your information following is text of
Department's 487, August 9, 1 p.m., to Tokyo:

(Please see full text of Department's 487,
August 9, 1 p.m., to Tokyo.)

Inform Consuls.

Sent to Peiping. Repeated to Chungking, Shanghai.

Hull

(MMH)

FE:GA:FRE FE PA/H

TELEGRAM SENT

KD

PLAIN

August 9, 1941

1 p.m.

AMEMBASSY,

TOKYO.

RUSH.

487.

Any Japanese national, including members of the consular and diplomatic corps, may under a general license issued by the Treasury Department, but without specific license or application, withdraw \$500 in any one month from banking institutions in the United States if such is needed for living, traveling, and similar personal expenses in the United States. Specific permit is required for withdrawals in excess of this amount.

Japanese nationals are not repeat not at present required to obtain a permit to leave this country.

Japanese nationals are not repeat not required to obtain a permit to purchase tickets either for travel within the United States or for travel abroad. Upon specific application the Treasury is granting specific

licenses

-2-

licenses for the withdrawal of funds sufficient for travel to Japan.

Customs formalities in connection with the departure of Japanese nationals are similar to those which have been and are customarily employed with incoming travelers, except that customs authorities, due to complicated problems involved, have often required interviews one or two days prior to sailing. Customs authorities are empowered to make reasonable search of persons and effects of departing travelers not possessing diplomatic status and to act upon their own discretion. The baggage and persons of Japanese nationals possessing diplomatic status who departed on the Tatuta Maru and the Heian Maru were not made subject to inspection and you may inform the Japanese Government that exemption from inspection will continue to be granted to persons possessing diplomatic status.

Japanese nationals are not required to obtain permits in order to send their ordinary personal effects out of the United States.

Departing Japanese nationals generally may take out of the country up to \$200 United States currency without license or other formality and members of the Japanese
diplomatic

diplomatic or consular corps may take out of the country up to \$1,000 without license. Specific license required for any larger sum or for any securities or for any other things of abnormal value, exclusive of reasonable personal effects. This procedure was followed in the case of travelers departing on the Tatuta Maru and the Heian Maru.

HULL.
(DA)

FE;JMJ;MJK/HES

FE

PA/H

Copy: hbr: 8-27-41.

PAPAPHASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro

DATE: August 15, 1 p.m.

NO. 1 1069

387

The Ambassador informs the Department that word has reached him from a reliable source that a Foreign Service secretary of the Vichy Government left Vichy on July 9. On August 9 this secretary arrived in Rio de Janeiro on the S.S. Bergeplante. According to information received by the Ambassador, this man, who will later be transferred to the French Embassy at Caracas, had with him when he arrived in Rio de Janeiro a package containing 1,000,000 dollars in United States bank notes. The notes were mostly \$1,000 notes and there were also \$5,000 and \$10,000 notes. He has, it is said, turned over the package of notes to the French Embassy in Rio de Janeiro, so that French Missions in Latin America may have it as an emergency fund.

The Ambassador states that the person who gave him this information is extremely nervous about having given such information to the Embassy, and he must be fully protected. The informant suggested that (one) if it is decided to take steps to prevent the sale of these bank notes, at least 45 days should elapse before any announcement is made. Secondly, the informant suggested that, should the Treasury Department wish to cut down the monthly allowances for maintaining the Missions of France in South America, the
statement

-2-

statement that French dollar assets are available in Montevideo should be offered as the excuse for such action. The Ambassador is told that there is no fear of the notes being used during the 45 day interval suggested. Finally, the informant urged that, if the package of bank notes has to be mentioned, the Department should state that ~~the~~ Portugal was the source of the information received by the Department in this case.

CAFFERY

EA:GD

1941 AUG 12 AM 11 23

RECEIVED

PARAPHRASE OF TELEGRAM RECEIVED**FROM: American Embassy, Rio de Janeiro, Brazil****DATE: August 13, 1941, 2 p.m.****NO.: 1080**

Reference is made to the Embassy's telegram No. 1080, 9 p.m., of August 9, 1941.

As stated in the Embassy's previous telegram, the Bank of Brazil was persuaded to reject future use by the Japanese of dollar credits for the purpose of purchasing strategic materials in the American republics. The Bank of Brazil holds a small dollar balance for the Mitsui Bank. Therefore, the Bank of Brazil sent a telegram to the Mitsui Bank which is along the lines of the letter that was sent to the Yokohama Specie Bank by the Director of Exchange. (The letter referred to was to have been delivered on August 11, 1941 to the Rio de Janeiro branch of the Yokohama Specie Bank.)

GAFFNEY**EAI PAK****640.51 Frozen Credits/2982**

NO. 1113
 10 AUG 15 1941
 WBA
 WRI

REV 11 21
 WRI

10 AUG 15 1941
 640-5130

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Bucharest, Rumania

DATE: August 13, 1941, noon.

NO.: 743

This telegram is for the Undersecretary's attention.

Letters dated May 10 and July 2, initialed F. T. have been written by the National City Bank, addressing the Argentine Minister in Bucharest as Mr. Enrique J. Amaya, concerning payments from his account with that bank to be made in New York City, Rochester, New York, Buenos Aires, one Izekial in Switzerland, and the Credit Suisse. The letters state that, before the Bank can charge his account, they must have information as to the nature of each payment - this being necessary on account of his Rumanian "domiciliation". According to these letters, the Bank has written to the payees asking the purpose and nature of these "underlying transactions", besides writing to the Minister himself. The Argentine Minister telegraphed the Bank and received the reply, dated July 30, that the Treasury Department required information as to the purpose and nature of the payments to Switzerland mentioned in the bank's first letter.

The American Minister states that only the good neighbor policy has kept the Argentine Minister from losing his faith entirely. However, his patience is wearing thin on account of the

-2-

continued delays in telegrams and letters. As is natural under present conditions, some of the letters, at least, have been lost. Apparently the Argentine Minister ought never to have been included under the order, any more than the American Minister himself. The American Minister states that this is only one of many cases among his colleagues, many of whom have been irritated by the bureaucracy's invasion of their bank accounts. He has received frequent complaints from both the Iranian and Swiss Ministers, but he has urged them to take the matter up in accordance with procedure through their own legations in Washington. In the case of the Argentine Minister, therefore, the American Minister is making an indicated exception.

GUNTHER

RR

EA:GD

10 JAN 2 1954
RECEIVED
STATE DEPT
JAN 15 1954
RECEIVED

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE August 13, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£43,000
Purchased from commercial concerns	£34,000

Open market sterling was steady at 4.03-1/2. The reporting banks sold a total of £5,000.

Due to a lessened tourist demand for Canadian dollars that currency weakened from a discount of 11-1/8% at yesterday's opening to 11-1/2% discount at today's close.

The Federal Reserve Bank of New York received an order from the Bank of Sweden to sell 500,000 Argentine pesos at best. The Federal disposed of the pesos at rates from .2385-1/2 down to .2382. As a result of this order the peso declined from .2390 to .2382.

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

Brazilian milreis (free)	.0505
Colombian peso	.5800
Mexican peso	.2070
Uruguayan peso (free)	.4380
Venezuelan bolivar	.2700
Cuban peso	1-7/32% discount

In Shanghai, the yuan was slightly lower at 4-29/32¢. Sterling was off 3/4¢ at 4.03.

There were no gold transactions consummated by us today.

The fixing prices in London for spot and forward silver were 23-7/16d, off 1/16d. The U. S. equivalent of this price is 42.55¢.

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

Under the Silver Purchase Act we made three purchases of silver totalling 175,000 ounces, all of which were new production for forward delivery.

RESTRICTED

MILITARY INTELLIGENCE DIVISION
WAR DEPARTMENT
Washington, August 13, 1941

TENTATIVE LESSONS BULLETIN
No. 144
G-2/2657-235

NOTICE

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

This document is being given an approved distribution, and no additional copies are available in the Military Intelligence Division. For provisions governing its reproduction, see Letter TAG 350.05 (9-19-40) M-B-M.

EXPERIENCE OF GERMAN PIONEER
TECHNICAL ELECTRICAL UNIT IN WAR

SOURCE

This bulletin is based largely upon a translation of an article which appeared December 12, 1940, in Electrotechnische Zeitschrift, a German technical magazine. The translation was incorporated in a report submitted on March 26, 1941, by an American official observer in Berlin.

The article describes the experiences of a special electrical company which was organized, trained, and equipped to perform tasks in connection with the supply and maintenance of electrical powers.

CONTENTS

1. GENERAL
2. DEVELOPMENT AND TASKS OF THE TECHNICAL COMMANDS
3. METHODS OF THE ELECTRIC COMPANIES AND TROOPS
4. RESTORATION OF POWER NETS
5. SUMMARY

RESTRICTED

RESTRICTEDEXPERIENCE OF GERMAN PIONEER TECHNICAL
ELECTRICAL UNIT IN WAR1. GENERAL

On order of the Oberkommando of the Wehrmacht, specialized technical commands were organized by the Technische Nothilfe - Emergency Technical Assistance Organization - in cooperation with the district offices for technical matters and for armament inspection, and with similar industries. This new type of specialized troops found many kinds of important service during the advance in the West, and it performed tasks of great value to the armed forces.

Specialists from all branches of electrical engineering are at present serving the country in the army, navy, and air force. Their comrades in civilian life work with doubled zeal in electric companies, in distributing installations, in electro-technical industries, and in other branches of business. Still other electricians are wearing the field grey uniforms in enemy territory, serving in the technical commands. In this newest technical army unit, these men can make use of their entire specialized knowledge, their experience of many years, and their organizational and technical ability.

2. DEVELOPMENT AND TASKS OF THE TECHNICAL COMMANDS

While to all outward appearances the organization into companies, platoons, and divisions is purely military, the specialized organization of the battalion, as well as the coordination of personnel in companies, is accomplished according to the experience and recommendation of the Technische Nothilfe. Construction, coordination, and equipment are such that a technical command can supply the widely different demands of all military services. It is immaterial whether employment takes place in an industrial section or in a section devoid of any industries; whether modern water of steam power stations are to be put in operation, or only small, old, village power stations. The organization of the technical commands is so elastic that up to the present time there has been no failure to perform any service required in Sudetenland, Poland, Holland, Belgium, or France.

The sphere of duty of the technical commands is that of technical assistance to the troops. For the reconnaissance staffs, that means that the technical commands must obtain, as soon as possible, all economic and technical information concerning newly occupied territories - in order to prevent sabotage and damage to industries of military value - and must seize and store raw materials important to the troops or the homeland. It is the task of the companies to occupy, continue management, and restore to working order all technical installations which the

RESTRICTED

RESTRICTED

troops desire to use. First of all in this category are electric, gas, and water works, which are of vital importance to life and to opportunities for labor. It would take too much time, even if it were desirable, to list all industries restored to working conditions by the various specialists through the delivery of gas, electricity, and water; but these men, among others, have been responsible for the reopening of bakeries, slaughter houses, mills, cotton spinning factories, textile factories, tanneries, light bulb factories, chemical works, paper factories, machine tool industries, auto repair shops, and oil wells. The supervisory and repair troops have made countless repairs on high, medium, and low tension nets, on cables, and gas and water mains, and on sewer pipes. In order to accomplish this, poles had to be erected, emergency crossings made, and ditches and trenches filled in. The demands of the present military posts were, however, not limited to purely specialized work. Heating installations, and transport and shipping facilities had to be put in working order; all kinds of motors and machines had to be repaired; Diesel motors and locomotives for emergency use had to be constructed. Wherever technical commands were employed under the leadership of specialists, they made themselves useful in every way possible as assistants to the armed forces in the field and the troops of occupation.

3. METHODS OF THE ELECTRIC COMPANIES AND TROOPS

In Poland, the electric companies, with a few exceptions, were given smaller assignments. Each technical command could work on its own initiative in its designated sector, since associations of labor organizations assigned to various technical commands were unusual. In the West, however, quite different circumstances prevailed. The advanced development of associated labor organizations prevented the various companies from working completely independently of each other, since they were dependent upon one another for information concerning the completion of repairs on certain installations and for keeping the installations constantly in operation. The sphere of action of the technical commands was by no means limited to definite localities; when necessary, it was extended to the high tension system of modern long distance service. Often enough an equalization of power became necessary in order to reach army units across a border. If electrical power was originally received from Germany, it was returned later on.

After reconditioning the large storage plants, steam power-stations were harnessed to save coal, or were stopped, and the large water power plants in the mountainous regions were enlarged for producing electricity. To accomplish plans of such magnitude, a very close cooperation was necessary, over and above all political, military, and economic differences. In this way, in addition to its local and military importance, the activity of the electric companies took on great importance for European electrical economy. In this

RESTRICTED

RESTRICTED

connection, if the work of the gas and water companies in Holland, Belgium and France is considered thoughtfully, it will be realized that the technical commands have been pacesetters for a total European power organization.

4. RESTORATION OF POWER NETS

Those who saw the destruction in Belgium can well imagine how comprehensive was the work which was demanded of the troops who were charged with the duty of restoring the high and low tension wires. Many hundred kilometers of wiring had to be broken off and sometimes removed. Cable testing was particularly difficult because of a lack of charts showing the wiring system. Usually, the long distance telephone wires, which had been laid parallel to the high tension cables, were destroyed in the same places in which the latter were destroyed. While this was solely a result of the direct effects of the war - of actual military engagements, or the demolitions carried out by retreating troops - in the case of damages to the open air high tension wires, to the 200-volt high tension net covering all of France, and to the cables, an indirect, unpleasant effect often appeared. For example, it was found repeatedly that broken water pipes and sewers had caused breaks in cables which could not be discovered until the cables were again contracted. It is impossible to cover here the many sides of the different kinds of work performed by the electrical troops, so a few illustrations must serve for all. These show how the technical commands brought about repairs and restoration, both temporary and permanent, through rapid and determined cooperation, and thereby neutralized the efforts of our enemy.

a. Current Supply of a Damaged Air Field

An air field was to be taken over by German combat squadrons by evening of the next day. The safety installations at the air field had been badly damaged, however, by countless direct hits of our dive bombers, and the entire air field was without power. The aviation unit commander ordered the special staff of a front construction organization to restore these installations. Since this staff had no specially trained men at its disposal, it requested assistance from the technical electricity company of a technical command which was working in the vicinity. The company commander realized the necessity for immediate assistance and sent several of his men to obtain information about the air field. On the way to the field these men found the torn ends of a cable in a shell hole. At the air field itself they discovered that several cables had been broken in numerous places by bomb hits, and that one of the two transformers had been razed to the ground. The men returned to their company commander with that information; whereupon a unit with all the necessary specialists and equipment was sent to the air field. The main cable and the distributing cable were repaired in the damaged places, and new pieces of cable were spliced

RESTRICTED

RESTRICTED

in. Necessary ground work was being accomplished at the same time by order of the front construction organization. Temporary wiring was laid to avoid the necessity of using the destroyed transformer. No work in the open could be performed during the night because of the danger from air raids; but, in spite of that, after fourteen hours of work, the provisional restoration of all security installations at the air field had been completed by noon of the next day. The men of the special staff and of the technical detachment were pleased, the former because they were assisted at the proper time, the latter, because they were able to assist. Due to the timely assistance of the technical company, the urgent order of the air force could be carried out promptly, and the air field could be occupied by combat squadrons.

b. Removal of a Dud from a Power Station

In blowing up a bridge of no military value, the English, at the same time, tore up three cables for 70-volt current. This cut off all electricity in the central district of a large city in Holland. Important German military headquarters had been established in this very section of the city, and because of this and of the large number of civilians, great stress was laid on the importance of repairing the damage as quickly as possible. The power plant itself was only slightly damaged and was still able to do business, but the available employees, and natives with specialized training, together formed too small a group even to attempt repairs. Accordingly, a technical command got busy. A bridge was quickly built across the canal, at the side of the destroyed bridge, to act as a conductor for the three cables. During the construction of the bridge the cables were laid bare on either side of the canal, and new conduits were laid. Because of the new pieces of cable, two new cable muffs had to be added to each piece in the system. The six 70-volt cable muffs needed were fortunately found in the electric works, and by dusk the cables had been mended and were again in order. Meanwhile, specialists of the same unit worked with employees of the plant to repair the damage to the command headquarters of the control room. On the other side of the canal, repairs had been made in the 6.6 kilovolt distributing installations by replacement or restoration of oil switches and alternators. But still the electric works could not be started. Close to the large generator an aerial bomb had dropped and stuck, without exploding. The fireman who had been called in from the technical command to remove the bomb had not appeared, so the engineer of the technical company was afraid to start the turbines for fear that the vibration of the starting machinery would cause the bomb to explode.

One of the men, who had worked in the Technische Nothilfe in Poland removing duds, volunteered to remove the bomb. Other volunteers offered to assist, and after taking the necessary safety precautions, the dangerous dud was removed and taken away. The following night the

RESTRICTED

RESTRICTED

the German staffs were again able to work by electric light, and the Dutch families were happy to have the darkness driven out of their homes so quickly; only a few of them even now realize that German technicians in field grey uniforms had done their duty with speed, determination, and silence.

c. Demolitions Preceding the Entry of German Troops

The retreating troops of the western powers caused serious damages not only to the distribution wires, but also to the power plants. Whole power companies were put out of action by the removal of important pieces of machinery. Such was the case with three central stations of a large city in northern France. Fortunately, in one, German turbines were used exclusively and spare parts could be easily obtained. In the other two, the task was more difficult, since they were equipped with French machines.

It might be mentioned here that these acts of sabotage were done by military units, the so-called Sections d'Electriciens de Campagne, an organization similar to our technical companies. At the very beginning of the war certain native members of the labor organizations of important electrical companies were supplanted by members of this organization; in event of a retreat of the French armies they had been ordered to remove important parts of the steering and machinery installations according to a definite plan.

Often the men of the technical commands could detect the work of the specialist by the way in which the plans had been carried out; but sometimes that information was obtained in other ways. The control of a large electrical plant in a Belgian city had been destroyed by the British before their retreat. According to several members of the labor organization who remained behind, an officer and 32 men appeared in the plant, just before the departure of the English. The machines had to be stopped at once, and the workers had to step aside. Then the soldiers began a systematic destruction of the plant. Everything that could be destroyed by hammers and rifle-butts was smashed, not even excluding the window panes. The switch room presented a particularly hopeless picture since all measuring, signal, switch, and registering instruments had been completely demolished. Also destroyed were rapid adjusters, automatic parallel switch installations, et cetera, the initial construction cost of which in itself is large. Even porcelain insulators and conductors had been smashed to small bits.

d. Current Supply with the Aid of an Old Steam Engine

A higher military headquarters, and a large prisoner-of-war camp were in urgent need of electricity. In the town where they were located there was no electric company, since the current had been formerly

RESTRICTED

RESTRICTED

supplied by a 70-volt wiring system from abroad - Ueberlandleitung. Numerous insulators in this system had been destroyed and four poles had been chopped off or torn down. The wire lay on the ground in 38 fields. After reconnaissance, it was estimated that the restoration of the wiring system would take from six to eight days. The staff and prisoner-of-war camp could not wait so long. The company commander of the electricity company, one of the technical commands, told his men and platoon leaders of the situation, reminded them that they were old Technische Nothilfe members, and asked that they rise to the emergency and give their aid. Soon afterwards, an 880 horsepower steam engine was discovered in an abandoned spinning mill, with a dynamo for producing 350 KVA, 550 volts. There was enough coal at hand, and the two double-burner boilers, of approximately 120 square meters heating surface each, were in order. The work was commenced at once. The current produced was directed to the city distributing station, where it was changed by the transformer there to 12,000 volts. This distributing station, which functioned as if under normal conditions, took the place of the only city transformer station, so necessary for the armed forces. In this way not only was current provided, but desperately needed water was also supplied to the prisoner-of-war camp.

5. SUMMARY

A long chain of these stories could be recounted, but they would all go to prove only one thing - the technical commands are an organization of men selected according to plan and led by specialized engineers; they employ their strength and entire specialized knowledge and professional experience of years' duration for strengthening Germany's position in the neighboring countries, and for reinforcing the military security of the occupied territories.

Those few examples of the work of the technical electricity company show the many-sided employment possibilities of this latest pioneer unit. Small in number, but great in accomplishment in dangerous spots, these units work to assure the supply of current not only to our armed forces, but also to the native inhabitants.

RESTRICTED

RESTRICTED

G-2/2657-220; No. 466 M.I.D., W.D. 12:00 M., August 13, 1941.

SITUATION REPORTI. Eastern Theater.

Ground: German troops continue their pursuit operations in the southern Ukraine. Their armored columns are continuing to advance in the direction of Dnepropetrovsk Nikolaev and towards the coast of the Black Sea at a point between Nikolaev and Odessa. The exact points reached by these German columns are not known at this time.

No new information has been received from other sectors of the front.

Air: Berlin reported German night bombing of railway centers west of Moscow. Both British and Russian night bombings of Berlin were claimed. Ladoga was the scene of combat activity.

II. Western Theater.

Air: British. Heavy night attacks on Berlin and other cities. Daylight raids on Kiel, Bremen, Osnabruk, Stettin, Duisburg, and Cologne.

German. Small scale activity both daylight and night.

III. Mediterranean Theater.

No further activity.

RESTRICTED