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MEMORANDUM

To: Secretary Morgenthau

September 4, 1941

From: Mr. Sullivan

Re: White House Conference Wednesday
evening, September 3, 1941, on
Tax Amortization Legislation JHS

Present for the White House: Judge Samuel Rosenman, Mr. Ben Cohen, and Mr. James Rowe; for the Bureau of the Budget: Mr. Gladeox and Mr. Crane; for OPN: Mr. Wayne Coy and Mr. Oscar Cox; for the War Department: Lt. Col. Edward S. Greenbaum and Mr. Bayard Schieffelin; for the Navy Department: Mr. H. Struve Hensel and Mr. Richard Kyle; for the Treasury Department: Mr. John L. Sullivan and Mr. Robert E. Eichholz.

The conference was called for 9:00 P. M., in order to attempt to arrive at an agreement between the various agencies concerned on the best means for speeding up certifications under Section 124 of the Internal Revenue Code, particularly with reference to certificates of nonreimbursement. Under Section 124 of the Internal Revenue Code, every corporation which desires to secure the benefits of five-year amortization for tax purposes in lieu of the depreciation deduction must secure from the War and Navy Departments and the Advisory Commission to the Council of National Defense, a certificate that the facilities which are sought to be amortized are necessary in the interests of national defense during the emergency period. Such certificates are commonly known as necessity certificates. In addition, if the taxpayer has a contract with the United States which reimburses it for the cost of any such emergency facility "because the price paid by the United States (insofar as return of cost of the facility is used as a factor in the fixing of such price) is recognized by the contract as including a return of cost greater than the normal exhaustion, wear and tear," no amortization will be allowed with respect to such facility. A certificate by the War or Navy Departments and the Advisory Commission that there is no such reimbursement in a particular contract is conclusive upon the Commissioner of the Internal Revenue for the purposes of this statute. Such certificates are commonly known as non-reimbursement certificates.

Judge Rosenman suggested that the statute be amended to give authority for issuance of certificates of necessity to QPM only and to give authority for issuance of certificates of nonreimbursement to the Treasury Department only. In view of the necessity for speedy action he inquired as to the possibilities of securing such an amendment as part of the pending tax bill.

Mr. Sullivan explained that the bill had already passed the House, had been reported out by the Finance Committee of the Senate and was now being debated on the floor of the Senate with good prospects for passage by the end of the week. He expressed his fears that the interjection of so controversial an issue as amortization at this late stage would result either in greatly delaying passage of the bill or in securing no legislation whatsoever with respect to amortization. He explained that so-called isolationist senators, such as Senators LaFollette, Walsh, and Clark (of Missouri), all members of the Finance Committee, would wish to make full inquiry into the reasons for the transfer of authority from the defense agencies to the Treasury Department. Even assuming that an amendment were secured on the floor of the Senate, the House conferees might well reject it on the ground that they had been given no opportunity to study the matter.

Other alternative solutions were then discussed and Colonel Greenbaum suggested renewing a request for legislation to eliminate the duties of the Advisory Commission and to eliminate the necessity for certifying contracts other than with the War and Navy Departments and contracts for less than \$15,000. Mr. Sullivan stated that he was very much afraid that even this legislation would be difficult to secure in connection with the pending tax bill. He thought that the maximum that could be secured from the Congress at this time would be an amendment merely eliminating the functions of the Advisory Commission, on the ground that the Commission was all but formally a dead agency. The War and Navy Departments were inclined to favor this suggestion but Mr. Coy and Mr. Cohen feared that, since it appeared to have been the purpose of Congress to use the Commission as a check on the Service Departments, the Congress would wish to replace the Commission with some other agency. Mr. Cohen felt that the same objective could be accomplished without the legislation by securing the resignations of the members of the Commission and replacing them by a board of three men familiar with amortization problems. Colonel Greenbaum felt that this was no solution at all since the chief difficulty from the point of view of the Service Departments was dual authority to certify conferred by the present statute. He stated that he would be very glad to use the advice and experience of the Commission in certification matters but he felt that there should be one final authority to resolve conflicts of opinion and that that authority should be the War and Navy Departments. Mr. Hensel expressed the opinion that in most cases involving specialized military

and naval equipment only the Army and Navy Procurement Officers were competent to form a judgment as to whether a particular price included reimbursement or not. Mr. Cox, on the other hand, felt that the Bureau of Internal Revenue was best equipped to handle such questions. Mr. Sullivan and Mr. Eichholz explained that the Bureau had a great deal of data relating to normal depreciation, built up on the basis of past experience, but that they were not presently equipped to handle factors of economic obsolescence relating to items as to which there is no past experience. They said that if nonreimbursement certificates were issued by the Bureau, the Bureau would have to build up almost from scratch a technical staff to handle them.

Mr. Coy stated that if the suggestion of Colonel Greenbaum were followed and the authority of the Advisory Commission eliminated, the Commission would not wish to participate in decisions of particular cases. Mr. Gladeox stated that the Bureau of the Budget would have serious reservations respecting legislation which merely eliminated the Commission from the certification field. The representatives of the OCM and the War and Navy Departments then stated that they were inclined to look favorably upon the proposal to transfer nonreimbursement certificates to the Treasury and necessity certificates to OPM. Mr. Sullivan pointed out that this would create triple authority rather than the present dual authority which Colonel Greenbaum found so objectionable. The War and Navy Departments would be making the contracts, but the taxpayer would be forced to secure agreement as to the OPM, their terms from the Service Department, and the Treasury. He also pointed out that the Chairmen of the Congressional Committees would not consider any legislation upon which all the agencies concerned were not in complete agreement. As to the suggestion to transfer nonreimbursement certificates to the Treasury, he would not wish to give an immediate opinion. He asked time to consider the matter.

Judge Rosenman stated that in order to give the Treasury this time, and because complete agreement had not been reached, the meeting might well adjourn until the following evening. Accordingly, the meeting adjourned at 11:40 P. M.

September 4, 1941
11:00 a.m.

RE EXCESS RESERVES

Present: Mr. Currie
Mr. Bernstein
Mr. Ransom
Mr. Goldenweiser
Mr. Stewart
Mr. Viner
Mr. Haas
Mr. Murphy
Mr. Bell
Mr. White

H.M.Jr: We have taken your request seriously.

Ransom: Thank you.

H.M.Jr: We were working on it yesterday, and I got the message from Mr. Gaston that Eccles was interested in this thing and we put our boys to work right away. As soon as the rest of the people come, I would like, if it is agreeable to you, to ask the Federal Reserve Board to state its case. Is that agreeable?

Ransom: Entirely.

(Mr. Currie entered the conference).

(Mr. Bell entered the conference).

H.M.Jr: Well, that is where we are now.

Ransom: Mr. Secretary, the purpose in asking for a conference with you this morning was to make two requests on behalf of the Board of Governors, first that if possible any long-term financing or any announcement of any long-term financing that the Treasury may

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want to do be deferred until, say, the fifteenth of October.

The reason for the request is that we would like in the intervening time to be given an opportunity to thoroughly explore with all of you people the question as to what should be done about raising reserve requirements and also what, if anything, should be done regarding the question of such additional powers as may be needed, in the opinion of all of us, to prevent an inflationary rise.

Starting from the assumption, first, that the first objective is the early and complete defeat of Hitler, secondly, that in the process of doing that we are all interested in keeping the country from getting into more inflation than is absolutely necessary; now, you suggested a moment ago that you would like at this time to have the case stated for the Federal.

It had been my thought - I am perfectly willing to give it in that direction, but it had been my thought that if the Treasury could defer any announcement in the matter until the time stated, we would have considerable time in which we could go over the whole thing and find out what, if any, points of difference there may be between the Treasury and ourselves, if any, and secondly, what suggestions as to the operation of this thing, the timing of this thing, would be appropriate.

I will be very glad at this time to ask Mr. Goldenweiser to state the whole background of the thing for your record, if you would like that done.

H.M.Jr:

Now, let me just ask a question.

(Mr. White entered the conference).

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Ransom: Yes.

H.M.Jr: Dan, could we go along as is until the fifteenth of October?

Bell: Yes, sir.

H.M.Jr: We could?

Bell: Yes, sir.

H.M.Jr: What, roughly, would our balance be, dropping those notes to a hundred million a week?

Bell: I will have to get my figures, but roughly, we ought to have a billion seven hundred million, I should think, a billion and a half to a billion seven hundred million going out of September, and we might lose as much as seven or eight hundred million dollars in the first fifteen days of October, so we would still have close to a billion going in to October fifteenth, or at least seven hundred fifty million, I should think.

H.M.Jr: Well, I had a preliminary meeting. This is the way I feel. If Mr. Roosevelt's administration is going to do something about reserve requirements, as far as the Treasury is concerned, I doubt whether during the balance of his term we will have a better time to do it than right now.

Ransom: That is our feeling, Mr. Secretary.

H.M.Jr: Because we are in nice shape financially, and if we are going to do something after careful consideration - well, I would like to do it now.

(Mr. E. M. Bernstein entered the conference).

(Mr. White left the conference).

Therefore, we in the Treasury are willing to sit around and discuss it until we have a meeting of the minds on whatever it is. I don't want to set the fifteenth of October. We might get together next week or we might not get together until the twentieth of October, but I am willing to postpone the thing until we can get together, provided that both agencies sort of concentrate on this thing.

I started it, and I would kind of like to get it out of my system one way or the other. As you know, I pride myself that I have no monetary hobbies, so you don't have to dynamite me one way or the other. I am ready to listen, and that is why - you (Bell) feel that way, don't you?

Bell: Yes, I do.

H.M.Jr: That if we are going to do the thing, it is now or never? Now is the time if ever.

Bell: Let's see what we can do, what we ought to do now, while we have got the chance.

H.M.Jr: Now?

Bell: That is right, yes, sir, and I think you might announce that there will be no financing in September. I wouldn't want to put it off further than that.

H.M.Jr: Well, I told the men this morning that we are studying this whole question of financing, I put it, in conjunction with the Federal Reserve Board. I don't see them until Monday, and if they ask me again, we are still studying it.

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Bell: I see. But that might mean you are studying financing with a view to having an issue here within the next week or so. That sort of keeps the market --

H.M.Jr: Let's see what happens. I won't see them again until Monday afternoon.

Bell: All right.

Ransom: There are two things I think ought to be said at that point, first, that it is the unanimous opinion of all the present members of the Board that something should be done.

Secondly --

H.M.Jr: Is that unanimous?

Ransom: Unanimous.

Secondly, that if it is to be done, as you suggest, this is the time when it should be done.

And thirdly, that it should not and must not be done, of course, without the fullest consultation with the Treasury, cooperation with the Treasury. That would seem to me to be required in any event, and under existing conditions, to be imperative, so that there is no difference of - there can be no difference of opinion about that. However firm our present convictions may be, it has to be related to the over-all problem of the policy of the Administration in relation to the emergencies which they face. I think it might be a very good time to have Mr. Goldenweiser state the position of the Board, with which he is fully conversant and which has been gone over any number of times by all the Board members and Mr. Goldenweiser. Now, if that --

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H.M.Jr: That is what I would like.

Ransom: I would be glad to have him do that right now.

H.M.Jr: Do you mind being interrupted or would you like to go through the whole statement first?

Goldenweiser: I would just as soon be interrupted, Mr. Secretary. I haven't any prepared statement of any kind. The facts of the situation, I suppose, are familiar to everybody in this room. The situation has changed from the way it has been in the past because of the fact that we have got a very strong demand for goods, arising from the very large expenditures for Defense.

We have shortages in a great many lines and I don't want to elaborate on this, because that is all too familiar to you, to make it worth your time. As a consequence, there is a very clear case of price advances on a rapid scale in a lot of fields, and this Administration, as I understand it, is committed to try to limit that as far as it can.

A number of things, as you know, are done about it. The tax bill is one thing. The attempt of the Treasury to sell as many of its securities to private owners rather than to banks and creating additional deposits is another. The proposal for price control is another. The recently inaugurated regulation of installment buying is still another. It is the Board's view, I take it, that all these things are important and necessary in this situation, but that in addition to that, it would be supplemented very effectively if the very large amount of funds available to the banks for all kinds of expansion were reduced in some way.

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The amount of excess reserves at this time is five billion dollars. The limit of legal authority for increasing requirements is about one seventh of the present reserve requirements, or something like a billion point two. If the Board should raise reserve requirements to the limit authorized by law, there would still be three billion eight left, which of course means that the problem cannot be solved or even approached - an approach to the solution reached by that method alone. But it would nevertheless have two effects. It would indicate a willingness to act on all fronts, and it would reduce the inducement to the banks for buying securities.

Issuing a large number of securities that are not available for banks is a good thing, and I take it the Board has been very much pleased and very much in favor of this policy of the Treasury in their Tax Anticipation Certificates and Savings Bonds, and all those things. But at the same time, so long as the banks have this very large volume of funds at their disposal, they will be in a position to buy such securities as are already outstanding from present holders and have the present holders buy the new securities.

In other words, bank expansion through the purchase of Government securities is not likely to be stopped so long as the amount of funds at the disposal of the banks is as large as it is at the present time.

For these reasons, the Board would like to exercise its present power for raising reserve requirements to the limit, and it would also like to have considered the question as to when and by what method, if any, the authority for additional control of reserves

should be acquired from, either under Executive Order or under legislation.

Those are the fields that the Board would like to explore. It raises the question as to whether there would be any possibility of that in any way interfering with the possibility - or with the Treasury's financing of its program. The best judgment that we have been able to form on that is that it would not, because the amount of funds available for investment in the hands of investors is very large.

The banks as a possible buffer in case any security shouldn't go will still have a very large amount of funds at their disposal and I take it that the Board which constitutes the majority of the Open Market Committee is prepared to take a position definitely that by raising reserve requirements at this time it takes a responsibility which - that nothing unforeseen nor untoward should ever be permitted to happen in the Government security market.

I think, Mr. Secretary, that perhaps it is just as well if I would stop right there and then we can answer any questions that would work that out in more detail. Does that statement correspond to your ideas?

Ransom: The statement is correct and expresses my own views, and I believe the views of the entire Board, Mr. Secretary.

Bell: You don't think that the using of this authority that you have will materially affect the bond market? Or the interest rates?

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Goldenweiser: The existing authority? I should say very slightly. It might conceivably have some effect on the very short term rates, but I doubt whether it would have any material effect on long term rates.

Bell: Then from that standpoint it would not be a deterrent to the banks to loan money? I mean the increase in interest rates would not be a deterrent? It would lessen the supply of funds, but would that be much of a factor?

Goldenweiser: Well, it would be some factor. I think that there is the point of an important distinction, that between the cost of money and the availability of money. I think that the cost is not going to be materially affected and I don't think that the cost, aside from the Treasury cost, is an important deterrent for anything, that the Treasury is a separate problem. I mean I don't think that whether the borrower for non-defense purposes has to pay four per cent or four and a half percent or five percent is going to make very much difference to the extent to which he is going to borrow. When he foresees the possibility of a large profit, that is.

But the extent to which banks are willing to lend indiscriminately does depend somewhat on what they have in the way of idle funds, and that is a much more important factor in the situation, in my judgment, Mr. Secretary, than interest rates. Now, the absorption of a billion and a quarter, a billion two of excess reserves, is not going to hamstring the banks materially, but a considerable part of that, perhaps half of that, will be in New York, and New York is the place where excess reserves have been diminishing somewhat, owing to currency withdrawals, and the banks in New York will be definitely

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less inclined to shop for all kinds of outlets for their funds if as much as a half a billion was moved out of their excess reserves picture.

Ransom: I would like to make clear, Mr. Secretary, speaking for myself, and I again think I speak for the Board, that it isn't with the idea that this action will raise interest rates, but that it will stabilize interest rates. I think our concern goes more to the question whether or not we may not see a more rapidly diminishing interest rate than we have even had in the past, and I think our concern, certainly my own concern, is not with the question of raising the whole interest rate structure, but the effect on the whole economy of an interest rate which may, due to all these circumstances, be pressed down further and further until it in itself becomes a very serious problem with which we will have to deal. There is some point along the line at which I think we should pause and see if we can't check it.

H.M.Jr: Well, the thing that isn't quite clear in my mind - it most likely is in Goldenweiser's mind - you talk about interest rates and inflation. Then you talk about banks making too many loans because interest rates are low. It doesn't seem quite consistent to me. Let's just take one segment of this thing. If you don't think interest rates are going to go up, how are you going to stop the banks from seeking loans by increasing your excess reserve requirements?

Goldenweiser: That, I think, is the exact point on which I --

H.M.Jr: Just let's take the one thing. If you are worrying about unsound banking practices, now on the one hand you say you don't think interest rates are going up. On the other

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hand, you say you think because interest rates are so low the banks are making too many loans.

Goldenweiser: My answer to that, Mr. Secretary, is that it isn't the interest rate I am concerned about. I think the availability of funds, a very large supply of funds, quite independent of the interest rate, is making the banks very anxious to find outlets for it. It isn't that the rate would go up, but that they would be less willing to consider all kinds of propositions if they haven't as much cash in their tills or on deposit with the Federal.

Bell: You cut down the supply of funds.

H.M.Jr: I appreciate that. How about the - what effect will it have on the business man who has a defense contract and wants to get a loan?

Goldenweiser: Well, I think that that is the important question to be sure of. Our judgment on that is that such loans as are needed for defense will be made, that there is not in contemplation cutting down the supply of bank funds to the point where they will have none. It is a question of making them somewhat more moderate so they would be more willing - or less willing to consider speculative loans and unnecessary non-defense loans. When anybody comes with an authentic defense requirement, the banks will have ample funds for it and I don't believe that anyone has any contemplation to cut it down to the point where they wouldn't.

Ransom: Certainly that isn't the position of the Board, Mr. Secretary, and I think most obviously that if the evidence would support the view that even increasing reserve requirements within our present statutory limits would interfere with business financing the defense

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program, that that is the strongest argument which could be made against action at this time, but it is our judgment, as Mr. Goldenweiser says, that that isn't the situation and wouldn't be the situation. Now, I think that is one of the things that we should explore most carefully.

H.M.Jr: He doesn't know.

Ransom: No, you can't know. You can only reach a conclusion on your best judgment, weighed against his best and the present situation.

H.M.Jr: Confining ourselves again to a weak bank structure, have you considered the possibility, if that is one of your worries, of changing the bank examination rules, do it through bank examination?

Goldenweiser: I don't know that that has been considered in this connection. You mean tighten the requirements?

H.M.Jr: I mean, if you are worried about a weak banking structure, how about taking a new look at what our bank examiners are doing?

Ransom: I am not personally disturbed about a weak bank position because it seems to me our banking position is stronger than it has been at any time within my recollection. I see no danger on the front there. There may be isolated instances, but the over-all picture of banking today in this country seems to me to be particularly strong.

Goldenweiser: What we are concerned about, Mr. Secretary, is the constant increase in the funds available to private individuals for spending. They already have the largest

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amount that there has been in the history of the country.

H.M.Jr: No argument about that.

Goldenweiser: The amount of goods is diminished and we don't want to further increase the buying power.

H.M.Jr: I agree with you a hundred per cent, but what hasn't been able to filter through my brain yet is that the price of sugar or the price of wheat or the price of cotton goods or the lack of steel or the lack of ships or the slowness of our guns - I mean that by locking up additional - a billion or two billion dollars, is going to help. That is the thing that hasn't been able to filter through.

Goldenweiser: That isn't going to solve the problem, Mr. Secretary. Now, all these are such controversial subjects that you can't ever be sure you speak for anyone but yourself, but I don't believe there is any very great difference of opinion in the Board. My opinion is that it cannot anywhere near solve the problem you are talking about, but it can contribute its share toward diminishing the amount of money that the people have to bid those goods out. If the banks should buy six more billions of Government securities as they bought something in that general neighborhood during the past year, and if they should make another three or four billions of loans of non-defense nature, that would add another ten billions of deposits in the hands of all the people who get the proceeds of that money, and that additional ten billions would, added to the existing seventy billions or so, or whatever the figures are, be a further

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invitation for bidding up prices. That is the way I figure it.

Ransom:

I think, Mr. Secretary, that there is one thing that I would like to see very thoroughly examined by the Treasury and ourselves. It seems to me we have a choice of using one or the other of two mechanisms for controlling credit or perhaps, and this is my own opinion, we are going to have to use both. That is, the over-all control of the total volume of available credit which is affected by the control of excess reserves or the selective credit control such as this consumer credit thing which we are now trying to operate. The further we get into that, the more I am impressed with the fact that you are getting further and further involved in tremendous administrative difficulties, in questions of discrimination between the various trades involved, to say nothing of the rights of consumers which come up to perplex you every day. While I think that is necessary, and I think under existing conditions we have got to experiment with it, got to try it out, I think we ought not to forget that as part of the whole program we should give very serious consideration to whether or not the most effective method is not to control the total available credit through your banking system. It seems to me that we are in a somewhat awkward situation, having stepped out to regulate consumer credit and having authority to do something on the over-all side of the picture, and not doing anything, so that I think we have got to balance those two things out and decide whether we are going to direct most of our attention to selective credit controls or whether we are going back to the more well established method of an over-all control, about which we know

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a great deal more than we can know at the present time about this other.

Goldenweiser: You don't mean that they are alternatives, exactly. They supplement each other.

Ransom: I said I thought we had to use both, Mr. Goldenweiser, and I don't think we can avoid, under existing conditions, the use of both of them. Actually, the Board has used up to a percentage of all of its power to control excess reserves. Now, there is a remaining balance there that we can use and it at once raises the question as to whether or not we should stop at that point if we now go that far or whether we should consider perhaps, the psychological effect, a united front, asking the Congress or perhaps asking the President in an Executive Order if it can be done that way, to give us authority to move further if it should develop that it is necessary to move further. I don't want to give you the impression for a moment that I have anything like a dogmatic conclusion on any of these questions. They are controversial. There isn't any doubt about that. But the best judgment that I can give you at the present time is that it seems to me we should be doing both at the present time. As against that, we are tremendously interested in the views of the Treasury, of course.

Goldenweiser: I would like to add one more word if I may right there, and that is that as far as I am concerned, I wouldn't recommend action on the reserve requirements if I couldn't have the assurance on the part of the Board that, along with taking some action, they would take the responsibility of a -- a double kind of a responsibility.

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In the first place, to step in firmly and courageously in the market if there is anything unforeseen, if our analysis is all wrong and we find that things do happen, that we won't hesitate to step in.

In the second place, that the whole thing has got to be flexible and it has got to be reviewed so that if it is a mistake we would have the courage to correct it.

H.M.Jr:

The last statement was the most important one, but to go back to your other one about the stepping in and one of the parts, if you don't mind, that I liked the least of your memorandum was this idea. You say, what you are practically saying is, you think the two and a half per cent rate for the long-term bonds is too little, but the Federal Reserve is going to step in and at a definite rate "We are going to fix it at that."

I mean, for you people to assume the responsibility that you are going to say, "Well, the two and a half is too cheap, we will put it three per cent. Why, we will buy two billion dollars' worth of bonds if necessary to stabilize it at that."

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Ransom: Let me say that I don't like the way you state that and I don't think it is wholly fair to us. I don't have the memorandum you referred to at the moment. It isn't mine. But can I express my own view about that?

H.M.Jr: Sure, but that is the interpretation I put on it.

Ransom: I couldn't tell you what is a fair rate for the Treasury to finance itself in the present market. I thought last December that two and a half seemed to be about the rate where it could be done throughout the period of this emergency. I would have said that in the light of developments since then that that rate would seem to be above the figure at which it seems to me the Treasury can finance for a considerable period.

Now, I don't know whether that rate is going to firm up by letting it alone and doing nothing, or whether it is going to continually decline. It is my own view that it will continually decline. That is a thing about which I am personally concerned. Now, I think that the Treasury would have to have some feeling of assurance that if such action as we are suggesting is taken, that we must stand ready, as Goldenweiser says, to come in at the appropriate time and protect the situation that may develop either as a result of what we do - I don't think so - or from other causes now beyond our control. And if that means that - I think under the existing emergency that there is an obligation on the Government, including us, to see that this financing is done at a fair and reasonable rate. I say yes, I think that is an obligation on all of us.

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Now, the effect, I don't think, has been emphasized in what either Goldenweiser or I have said of a situation which might develop from a continually declining interest rate which might very well be offset on the other side by such inflationary rise in prices as would in the end cost the Government, as the largest individual buyer of the things which would be affected. That is why at the present time it seems to me that we are all looking at inflation not only for the effect on the whole economy and all the people of this country, but the effect directly on Government faced with its present dilemmas. Now, you get an offsetting of your declining interest rate, undoubtedly.

H.M. Jr:

Well, Ronald, let me make two statements so that at least you know where I stand. When it comes to keeping prices down, increasing production, I won't take second place with anybody. I mean, we are as much interested and we have done as much work on it as anybody and we think it is terribly important. I am going to be rash enough to make a speech about it on Tuesday night. The other thing, so that we can have a clean cut understanding about the question of financing and raising the money, I feel that as Secretary of the Treasury it is my responsibility to raise the money. If I fail in it I can't say it is because the Federal Reserve didn't support my bond market, so I take that responsibility and - I am being a little bit blunt but I think it is a little bit better to be blunt now and have a good feeling afterward - you people, whatever we do, you have got to support the Treasury bond market when it is necessary.

Ransom:

I agree fully.

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H.M.Jr: Because I can't have any alibis. I can't say --

Ransom: Neither can we.

H.M.Jr: ...That the Board didn't support me, and so forth and so on. The stock ticker tells the public every day whether I have or have not made a success of my financing and I have got to assume that responsibility and when I can't do it, I go home. So when it gets to final analysis, as far as the bond market is concerned, you people have just got to support it when it is necessary.

Ransom: I don't know any alibi we could have for not supporting it.

Goldenweiser: I think that is a unanimous agreement.

H.M.Jr: If we have that --

Goldenweiser: Absolutely.

H.M.Jr: ...Then I am sure we can arrive at what is best for this hundred and thirty million people.

Ransom: I feel quite sure that the principal objectives of both the Treasury and ourselves are not different. Now, it is a question of what must be done to arrive at the best possible solution of a very difficult situation.

H.M.Jr: I would just like to ask - if he doesn't want to answer he doesn't have to, if he would rather not get in on it - Lauch, whether you think the statement I just made is proper or not.

Currie: I agree heartily and absolutely on that

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statement, Mr. Secretary. It seems to me you have put your finger on two rather important points in the consideration of this whole matter. One is, arriving at some agreement, as far as we can, on the interest rate policy through the emergency. As you know, the British Government financial authorities have taken as a conscious, deliberate policy the policy of keeping interest rates down, financing a little bit lower in successive issues. The Canadians are trying to do the same thing.

I don't think we have ever had a full discussion of the long range interest policy through the emergency. It is one point. The second point which you mentioned which clicked with me was that I take it this move on the part of the Federal Reserve now is really in the nature of a precautionary move. You don't expect it to have any effect on interest rates or on buying power at the present time.

Ransom: I don't personally think what we can do within the statute would produce an appreciable effect. You can't be dogmatic about it, Lauch, but I would like to say that I agree so fully with your first point that there is an obligation on Government during the existing emergency to finance itself at a reasonable rate and that to me is a low rate. I start from that point.

Currie: Then I was leading up to the point that if this is a precautionary measure, as I think it is, that eventually through the emergency you will probably feel it necessary to mop up substantial parts of the excess reserves. I think this, as the Secretary

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says, is as good a time as we probably will get.

Ransom: Frankly, it looks to us as though it is going to be about the only time for some time to come.

Goldenweiser: Mr. Secretary, may I say another word about this interest rate? I think you were referring to the memorandum which I sent George Haas day before yesterday. I would like to - if I gave you the impression that you got out of it, it is a fault of my expression rather than my intention. I did not intend at all to indicate that the Federal Reserve System certainly would fix a rate and that at that rate it would support the bond market and at another rate it would not. If any such impression got out of that memo, it was a poor use of language on my part.

What I meant to say is that the Treasury and the Federal Reserve together - when they get together, and the Treasury taking the leadership, because it is the Treasury's responsibility, decide that for the time being this is the rate, that for the time being that is the rate that the Federal Reserve is under obligation to support and that if the situation changes and the Treasury and the System decide that the rate should be lower or should be higher, then that re-opens the question. I haven't any intention to indicate that, in the first place; very distinctly I want to disavow any intention of the System's having the responsibility of fixing it. That is not in my mind at all.

H.M.Jr: You missed the point, Goldenweiser. What I

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was trying to say is, the impression I got from your memorandum was that if we do this the interest rates will have to rise but when they reach a certain point, then the Federal Reserve is going to step in and we will hold it there.

Goldenweiser: At any point that you - that we make. It may be that all that we wish to do is to see that the rate doesn't go down any lower. It may be that we - what we wish to do is to see that if the rate is to go up, if you wish it - to have the adjustment - natural adjustment take it up, that we see to it that the rise is gradual and orderly. Whatever decision is made about the rate, I maintain that you and the System together are in a position to make it effective. That is all I intended to say.

Ransom: It certainly is not the duty of the Federal Reserve to fix a rate. Its obligation is more complex than that, but I think you have stated it and that I would agree with your statement of it, with which Lauch agrees, so I don't believe there is an issue on that front.

Now, I think this is quite possible, that if we use the existing authority and we should get additional authority and we should use some of that, a point might be reached where a

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reversal of that action might be obviously to the public interest and if I didn't believe - I don't anticipate it under existing circumstances, but I don't think we can see too far these days, but I would like to make it clear, speaking for myself, that if at such a point a reversal of policy was necessary, I would be greatly distressed if we wouldn't reverse that policy because the primary objective is to accomplish certain things to get the Treasury financed through a terribly trying period, and secondly not to permit the existing situation to produce an inflationary rise over which we may be able to exercise some control.

I have tried to state that in a very cautious manner because I must have some reservations all along the line of that view, Mr. Secretary, but I think that we obviously face two dangers, one of which I don't think is acute. I don't see why it should be acute. That is that the Treasury must finance a tremendous debt through a great and trying period. Secondly - that through - for entirely different reasons, we may find that there is an inflationary rise here over which we should be exercising some control beyond those we are now using.

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Viner:

There are a few points I would like to bring into the discussion that I think have not been brought in or not emphasized enough. My own opinion - my thinking hasn't been as intense on this as it deserves, but my own opinion is that the new requirements, new problems, are more significant than the use of the present powers. That the executive in a situation like this ought to have all the powers it has any conceivable use for any time and ought to get them when the getting is good and that in general it ought to be the policy to gather into the executive now all the emergency powers which under any conceivable circumstances it might have to use and use quick, so that I would be certainly for an increase in the powers of the Federal Reserve Board over reserve requirements, even though I might be strongly against the use of their full present powers at this present moment, but I would get those powers in where they are available and do it quick. Secondly, I think that the Federal Reserve ought to study the question that was already touched on by you, I think, as to alternative means of handling the reserve requirement problem through banking devices and particularly the capital ratio phase and the use of the FDIC because there you may simultaneously get a sort of happy compromise between the difficulties of selective control and quantitative control and get them both at the same time. Third, I think it is a serious mistake to count on the selective controls as being genuinely available quickly enough to meet an emergency which may develop rapidly. My own guess is that the consumers' control that has already been installed is not yet a real control and that if the volume of installment credit shrinks in the next six months or a year - I am not sure it will shrink - it will be due to priorities and the lack of automobiles and

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not to the control, that the change in the income situation has made the new terms already terms more generous than lots of installment people would voluntarily give to their customers. They are already beginning to move on to more severe terms and they are not real restrictions at the present time. You may ask, "Why don't they impose real restrictions?" When you start imposing a selective control on any sector you soon find it is a delicate matter. You run into all kinds of business competition and rivalries and prior interests and groups and you have to move carefully and cautiously. Then on the housing control, are you sure - I mean, before we say we needn't - we don't need to increase powers over reserve requirements, are you sure that the Treasury will be able to get the restrictions of the housing credit if it wants to? There are strong powers on the other side. I would say don't count on that until you have it in your hands. So far they are advertising now on a big scale, trying to extend their field of credit. Can you stop it? Maybe you can, but I bet it will take a major wrangling here to get any restrictions on that, so that you will find that in every step of selective control. It is difficult to administer. It is delicate and tough to administer, and the powers of resistance on every sector are very great.

Goldenweiser: It always leaves an uncovered territory.

Viner: And it leaves an uncovered territory and the problems of equity arise there in a very acute fashion and it is very hard to handle.

Now, the nut of this is that I think that certainly one thing that I hope you can - everybody concerned can agree is that there is no objection to having on the statute books more

powers than you have now over reserve requirements.

Secondly, I think that whole question of bank capital ratios to shrinkable assets ought to be looked into and see whether moves can't be made on that line. There is another item that I wanted to bring up, and it has slipped my mind, although I know I think it is important, so maybe if it comes up later I will come back with it.

Ransom: I find it myself impossible this morning to take issue with anything you have said because you have pictured the problem of trying to regulate consumer credit quite mildly. I would say that it is even more difficult than you would suggest.

H.M.Jr: Walter, do you want to say something?

Stewart: I have a little to add to what I said yesterday. I regard the threat of inflation as sufficiently serious to justify taking precautionary steps. We have taken some. I think we will have to take more. I agree with Mr. Ransom that the probability is that you need more control on general funds than the specific selective control, and I think my chief concern is that in the talk upon alternative methods the action be postponed to the point where it either becomes more and more embarrassing or doesn't take place at all.

Viner: I have thought of my forgotten point and that is on the interest rate, that I think once you have gotten for a time on a particular level for the long-term rate, it is very embarrassing to have that rate rise. It creates all sorts of difficulties and yet it

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may be that in order to stop inflation you need a rise in the interest rate structure, and I just want to bring to your attention the fact that you can raise the level of interest rates without raising the level of the long-term rate and that you can starve the market with long-term securities and shift into the short-term and let that rate go up and that what happens to the short-term rate within requirements is really of not very much importance; and when it goes up, it eases lots of situations, but it does not create collapses of capital values. It doesn't create a new problem of bank solvency. The rate now is abnormally and inconveniently low on the short terms, and you can't keep the long-term rate at approximately its present level within limits with a big expansion of Treasury financing by moving out of the long-term market and staying out of it, and if you can rely on the Federal Reserve's open market operations to come in to help you whenever you need that, then you know that you can support your short-term market if necessary and that at any time if there are any difficulties there you can be tidied over on them, so that the short-term rates - the rates may have to rise, but they can rise on that level. I mean on the short-term from bills to two-or three-or even four-year notes. It doesn't much matter within limits what happens to those rates from the point of view of the effect on the economy, whereas the long-term rates you have got--

Bell: That wouldn't hurt our feelings any if they rose in that area.

Viner: That is what I am arguing, and yet it may be important to keep the long term rate from rising because of what it does to all the previous structure of long-term securities

you have outstanding where capital values are so important.

H.M.Jr: There are two things that Stewart stated yesterday. One was, he raised the question, is the present Government bond market inflated? That was one question he raised, and then the other one was the question of the soundness of the bank structure when this was over, how could it take the shock when this thing is over? I mean, avoiding the 1920 episode. Those were two things you raised yesterday which haven't been touched on here. What I would like to do, Dan, is this. I don't see why this thing has to go on until the fifteenth of October. I couldn't stand it. I wondered if, as long as these people are here - are you busy for the next hour?

Bell: I have an appointment at twelve fifteen, but I can postpone it.

H.M.Jr: If they wanted to continue and then set up a little committee.

Bell: That is what I would like to do.

H.M.Jr: And then I would like to sit in again next Wednesday and then talk the thing over just as long as it is necessary. We can decide. This isn't going to take until the fifteenth of October. I mean, we ought to be able to settle this, with the talent in this room--

Bell: I just wondered, Mr. Secretary, if - say George and I, if we couldn't work with Ronald and the doctor, if they want to represent the Board, with their various staffs, the two staffs, and then--

H.M.Jr: I would like somebody from White's shop also.

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Bell: Well, that would be part of the staff I was thinking of. Do you want White on the committee?

H.M.Jr: No.

Bell: I was using Bernstein.

H.M.Jr: That is all right.

Bell: And maybe from time to time we could agree on points, and then we could come to you and - or anybody else in the Board and say we have agreed on these steps.

Now, whether the action should be taken at that time on those steps would be a matter for decision at that meeting. We certainly are agreed on the objectives here, and I think we are all agreed on the housing thing, and maybe that is one thing that action should be taken on pretty promptly.

Ransom: I would like to say that I think the consumer control thing doesn't make the sense it should make, leaving housing out of it. Now what heroic process we get it in, I don't know, and I am not at all afraid to undertake it because I think it is so important it ought not to be overlooked, and I really don't anticipate quite the opposition in Government that we might have found at one time.

H.M.Jr: I mentioned two months ago to Jones--

Bell: It was longer than that, Mr. Secretary. It was way back in either March or April that you told Jones that the limit ought to be reduced substantially, and I thought he agreed.

H.M.Jr: I thought he agreed.

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Bell: He said, "I am going to take it up right away."

Ransom: At our suggestion you gentlemen and Mr. Jones and the OPACS people are on a sort of advisory committee for us, and I can go direct to Mr. Jones and tell him what the problem is and get his immediate reaction to it and try to get that thing. I think that no program is complete without that.

H.M.Jr: That is right.

Currie: Of course, what you really need there, Ronald, is over-all powers. If you just do FHA, you will only throw more business to the non-FHA.

H.M.Jr: You can't just limit it to them. It will break out somewhere else. That is the trouble with the selective credit thing. You stop it here and it will break out somewhere else.

Bell: Certainly the banks are not loaning up to eighty or ninety percent on a piece of property.

Ransom: Some of these small financing companies and loan companies and what-not are doing some very fancy financing. If you stop it one place and don't stop it at the other --

H.M.Jr: Well, and as you go along I think you will have to talk to SEC about selective loans.

Viner: New issues.

H.M.Jr: You see, at the suggestion of Jerome Frank, I recommended - you ought to get that out and show it to the people - a committee to do just this sort of thing, and Jerome Frank is very much interested in it. It was pigeon-holed in the Budget, and we might dust that off, and we can do it informally, and then maybe some day the President may formalize it, and if he doesn't, we will go ahead anyway.

Bell: I think that is a subject for discussion in this committee.

H.M.Jr: But there is that thing, you know, that Jerome Frank was so interested in and the President - I mentioned it to him and he was interested. And then the Bureau of the Budget wasn't because it didn't originate there, I guess.

Viner: Mr. Secretary, I think that if the Treasury and the Federal Reserve can work together, there is something to be said for having it between those two agencies and calling in any special agency that is affected rather than setting up another committee.

H.M.Jr: I am sorry, Jake, but I didn't hear what you said.

Viner: I said that if the Treasury and the Federal Reserve can work together satisfactorily on this, I think there are substantial advantages in their working together on that and calling in representatives of other agencies where the problem touches them particularly, but not taking them into the over-all problem which isn't really their business.

Bell: You couldn't do that on a control of capital issues.

Viner: On the control of capital issues you would call in SEC and on that thing you would have them participate to the full, but you wouldn't call them in on housing or reserve requirements.

Bell: I agree with that.

Currie: Mr. Secretary, following up the point that you

made about October 15, I should think it awfully desirable to come to a fairly early decision on this. I don't know if you would agree with me, Ronald, but I think one of the criticisms we could make of the '37 action was that it was much too late. We discussed it a long time and then we set the date way in the future when it would take effect.

Ransom: We have no objection at all, Mr. Secretary, to disposing of it early. I just want to be sure --

H.M.Jr: No, it has all been out in the press, how you people feel about it.

Ransom: Yes, everything is in the press.

H.M.Jr: But I mean this whole thing of how you people feel - what is that fellow's bond letter?

Bell: Goldsmith?

H.M.Jr: Goldsmith and Miss Sylvia Porter in the New York Evening Post had the whole story, so somebody had a loose tongue.

Ransom: I don't take them quite that seriously. But the reason I suggested October 15 was not the idea that that - that the issue couldn't be disposed of sooner, but that I wanted to be sure this time we had enough elbow room between us to be reasonably sure our conclusions were sound and not rush into a situation. But when all of us have given so much thought to it, I don't see why it can't be brought to an end much sooner, and the sooner the better from our point of view.

H.M.Jr: I have set aside Wednesday afternoon at three

o'clock, and if you fellows can make some progress - just a minute, please, I have a call.

(The Secretary left the conference temporarily and returned.)

H.M.Jr: Well, are you satisfied?

Ransom: Entirely. I thank you very much and appreciate your interest.

H.M.Jr: Are you going to continue talking with them now, Dan?

Ransom: We can continue, Dan, at any time that suits you.

H.M.Jr: Don't you want to make use of this talent now? I don't know whether Lauch is free now or not.

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(This is not strictly a verbatim report).

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September 4, 1941
11:00 A.M.

RE AID TO BRITAIN

(Conference held in Mr. White's office).

Present: Sir Frederick Phillips
Mr. Childs
Mr. Bewley
Mr. Keyes
Mr. Chance
Mr. Robinson
Mr. Brown
Mr. Kades
Mr. White
Miss Kistler
Mr. Hicks
Mr. Mack
Mr. Ladick
Mr. Cochran

Phillips: I was going to bring one of the Australian men with me. Australia has a hard core, as we do, miscellaneous machinery, etc. Main point which arose in discussion about Australia was this: they find it extraordinarily difficult to get any clear or general decision out of the Lease-Lend. They are always told that the way to get the decision is to put in a specific requisition. They are asked to answer a great number of questions and give a lot of statistical information about how much for civilians, how much for the Army, for civilian work, etc. They have to set up complicated trade controls in Australia, collect a mass of information if they hadn't it already, bring it over here, fill out the requisition, and get turned down.

Brown: Have they been turned down?

Phillips: Not exactly, but they feel very strongly that they will. Before they started some of these controls, they would like very much to have some kind of idea about refusal.

Brown: I would like very much to see them and find out the type of thing that they will ask about. They will find that there is a certain general pattern — type of information we would need to have. As you will appreciate, this Lend-Lease has been expanding and expanding.

Phillips: For instance the problem with South African mining machinery.

White: Try to get them to develop the defense aspects of the case.

Phillips: They find it very difficult to concentrate on that aspect of the case. He would be very pleased to give them the background and as much of the picture as we can.

White: Would it serve your purpose best if some of the gentlemen had a meeting?

Phillips: Might have a few minutes talk with Brown which would clear up difficulties.

Brown: This would apply to others besides Australians. Use them as a guinea pig.

White: Have you reference to gold mining machinery in South Africa?

Brown: No, steel mill equipment.

White: First item here is by Mr. Brown on the progress of the transfer of plant and supply contracts.

Brown: It was brought out in a meeting with the Maritime Commission that the ships involved in the Todd Shipbuilding contract, though the hulls were the same, the power plants were different. British ships are coal burners and our ships are oil burners. The Maritime Commission says it cannot use coal burning ships. It is impossible, therefore, for us to work out a plan of taking over British orders and having the British defer their orders to a later date. If they were the same kind of ship, it would not present any problem -- the Maritime Commission could lease them to the British under terms of the appropriation act. But being different kinds of ships, if and when they get them back they would have the difficulty that they could not take coal burners which they do not want to use.

White: Might they consider having the British changing their ships to oil burning ships?

Brown:

It is too late for that. The first have already been launched and they have ordered the equipment for these and most of the subsequent ships. The sum involved for the remaining ships is so small that Powell does not feel it is worth while.

White:

Should mean a very substantial sum.

Phillips:

When the Maritime Commission put in their appropriation bill, they had planned to transfer ships as ships to the British or release to the British . . . Committee amended this clause and left it in a form that the only way ships could be used was that they remained U.S. property and were leased for the time being. The original idea was that they should be handed over. Consequence is that ships must now remain definitely U.S. property and only be leased to Britain. On top of this was the coal-burning difficulty.

White:

Does the Maritime Commission feel that it could not use coal-burning ships after the emergency is over?

Brown:

They feel they could not use coal-burning ships.

White:

Insofar as the ships are being leased to the British, it would be preferable in the point of view that coal is less scarce than oil for the British. Is there any possibility of working out an arrangement that they could lease these with the understanding that upon cessation of the emergency the British might buy the ships at the then prevailing value? The Maritime Commission would not then be confronted with the need for taking back coal-burning ships.

Brown:

They have not the authority to sell them.

White:

I don't know whether this would fit in. If you think of some other suggestion which might be worth exploring.

Phillips:

It might be well worth trying. There is \$67 million involved.

White:

Would the ships be worthless? The depreciation from the point of view of supply and demand for ships in the war—the market value will be substantially less and the net loss would seem to me to be similar to the net loss on other armament equipment which would be absorbed by Lend-Lease.

Brown: Lend-Lease could not do anything about it at all. You can only transfer according to specific Congressional authority. The Maritime Commission has only the authority to lease.

White: Let me ask two questions: (1) Is there any law which prohibits the Maritime Commission from using coal burners?

Brown: No.

White: Therefore they could use coal burners. However, if they couldn't see fit to use them (a) Is there any reason to believe that if they possessed coal burners they didn't want, they couldn't get authority to sell them?

Brown: They couldn't use the appropriation for the specific program to buy the specific ships of the kind they didn't want.

White: There should be some flexibility in the arrangement. They could say that if it could be worked out this way, the ships could be purchased at the end of the war— what they would in effect be doing would be providing ships for the emergency and not being saddled with a lot of ships that would rot in the waterways.

Brown: Only the Maritime Commission could decide this. I would be glad to ask Mr. Scull if this could be worked out.

White: I think it should be explored.

Brown: Prices are all different — Maritime Commission has not raised any administrative difficulties about taking it over. I will take that point up with them today.

Phillips: I will get Mr. Scull to ring you up during the day.

White: It is so large a sum that if we think it could be worked out, it would be to the interest of the British Treasury for releasing dollars now — and at the same time desirable from the point of view of American taxpayers at the end of the war.

Brown: To the extent that they take over the British contracts it means less ships for the Maritime Commission than they want.

White: I find difficulty in accepting that theory. The objective is the same. The ships are going to be made full use of. They are going to be used in a way which would be in harmony with the wishes of both Governments. It is not a question of depriving ourselves of ships.

Brown: It would be. You have an appropriation which would have to be spent.

White: I am pursuing this as a suggestion. The difficulties are apt to be insurmountable. The objective is the same and ways and means are to be sought of introducing flexibility. The technical difficulties can easily be insurmountable. I am setting forth my point of view. Unless there is disagreement around this table -- I would be glad to talk with the Commission if you think it would be of any help.

Brown: I will find out what the reaction is.

White: Naturally the agency which has the work and which is in a sense being worried about the criticism would be more meticulous. But, we all have to be careful that statements do not underestimate or lose sight of the general objective.

Phillips: We should get out a statement of various questions. Status of possibilities.

Brown: On the question of plant contracts, the Defense Plant Corporation is now ready to go ahead and take over these \$79 million worth of facilities which would net about \$52-\$55 million.

Robinson: The program is going along all right. Probably will be completed in less than four months -- whole \$79 million. Judging by past experience, this first group will yield \$55 million when it is completed.

Brown: The principle was that they would take them over and charge a rental so long as the British supply contract ran. They charge the same rental that they would to anyone in this country, a rental that is based on a depreciation figure -- 5% for building, 10% for tools, etc., depending upon what is in the factory. Most of the British contracts are fairly short-lived. One is about ten years.

Phillips: We have no objection to the rental, but in the case of the Tennessee Powder Plant the first year's rental was payable on the first day.

White: I suppose there will be a reimbursement to the extent that the full year is not up. You feel that it would be four months before you have actually been paid for the cost of these facilities?

Robinson: Machine gun contracts are in the process of being wound up. Engineers have to go over the plans, decisions have to be made. Engineers get out and check over the facilities — somebody else doing cost accounting — normal inertia. We are doing two at a time and there are 11 of them altogether. If we can get the first two moving, we can suggest they get started on the next two, but some of the accounts are enormously complicated, especially aircraft.

Phillips: We hope that in four months the program will be completed. We have discovered other plums . . . amounting to theoretically \$31 million... ship-building yards, etc.

(Passed around printed lists).

The fourth item on first page.

White: Why are these in a different category?

Robinson: Because the 11 have been under discussion since the beginning of the year. A good many others hadn't come into line. Todd Shipbuilding wasn't thought available. Crucible and others were not committed until after January 1 and the other two didn't seem big enough to worry about.

White: Is there any reason to believe that if the 11 go through that the others won't go through?

Robinson: The War Department has agreed on the clearance of the first 11. It is a matter of time. The first 11 were the biggest and were the least complicated.

White: Well, the \$31 million may be regarded as potential source of revenue during the coming year.

Phillips: You must not take the figure of \$31 million. That is the most that could be obtained.

Robinson: If we got into small amounts we could dig up considerably more. The individual items are so small that it hasn't been thought wise to tabulate them yet.

White: This will be brought to our attention on your schedule when you get around to it — but about the \$31 million. Who should first suggest that these be acquired?

Childs: On the first program, the initial suggestion came from the Secretary.

Brown: Wouldn't it be just as well to concentrate on the program we now have?

Robinson: It wouldn't be bad to start these others and get at least a general agreement.

Brown: I will ask the Maritime Commission whether they are interested in these shipyards.

Robinson: Todd is very reluctant to have anything to do with Government facilities and if it were confronted with the possibility of Government ownership, it might be willing to buy the British facilities itself.

White: Well the alternative would be selling to Todd.

Phillips: Do we first approach the Defense Plant group or do we go to the Maritime Commission and the Navy Department? We will raise the question — get it in the mill.

White: I take it there are several stages to be reached before the accountants begin to operate. Do you have anything special in mind that this would delay now?

Brown: There has been so much reluctance it might be just as well not to raise this with the Defense Plant Corporation now.

Childs: We could let them know there is a backlog.

Brown: But the other contracts are larger.

Phillips: There is a danger, isn't there, that if the four months elapse they will say that we have done a terrific job of work for you and you should have told us about these others?

White: They will say, what is the end of this process? There is something to be said on both sides.

Robinson: In starting the \$31 million program you will be dealing with only the top-flight people. Does McGloy's commitment really cover anything except the first group?

Brown: I will have to check.

White: I see the justification of your comments, Mr. Brown, but in line of the general situation it might be better to get the other program started.

Brown: If it were done from Sir Frederick to Mr. Jones it would be more effective.

White: Is it understood Sir Frederick that you will present this?

Phillips: Yes.

White: This next item, would you want this raised?

Childs: I have discussed the matter with Mr. Kades. The action now lies in the State Department.

White: No, it lies with the Secretary. It was on the agenda last time but he passed it by. Nobody seemed to object so it was passed by.

Phillips: Well, we are not paying them. ... The problem is that they could get nasy with the contractors.

White: It can well rest in abeyance for the time being.

Childs: The older it gets the less urgent it is.

Kades: The only question concerning the Secretary is that of revoking the British license if they are forced to ask for a license.

White:

We are not likely to be confronted with that problem, particularly since everything has gone along this far. The decision one way or another would be easy when the time comes. All the preliminary work has been done. I think that if it is agreeable to you, Sir Frederick, we will leave it off the agenda.

Phillips:

What I would like to have gotten from the Secretary was a statement that, were the proposal put up to him, he would act. Alternatively, we would be perfectly satisfied with a general assurance that if the French were to create disturbances resulting in the holding up of important contracts that the U.S. Government departments will deal with the situation by requisitioning, etc.

Childs:

I always felt that we had that assurance. If any difficulty arose that the U.S. will assist in the situation.

White:

Mr. Kades is there any indication that the Government would not be of assistance?

Kades:

... The only thing on the Secretary's desk was about the license. The assurance rests with the Lend-Lease department. It is a question of requisitioning the plants. It would simply be a question of whether the President would requisition the plants by executive order. I feel personally that it isn't going to get to that point. I think that Mr. Childs agrees with me that no court would issue an injunction to restrict the deliveries.

Childs:

June 17 of last year I was very much worried. Now I am less worried. They might attack us about paying them. We haven't the license to pay them. We can always say that we won't go to jail for ten years in order to pay them. Secondly, they might go to the manufacturers and stop delivery. They could say that we have fallen down on our payments and have no right to these planes. You might then requisition this stuff and get it to us on Lend-Lease. Those problems diminish from day to day. I do not feel concerned about it now, Sir Frederick.

White:

If you would like, we will put it on the agenda and would raise it. I would suspect that the Secretary's reply would be that if you are not paying on the contracts we might as well wait. Whatever your choice in the matter is. When did you stop paying on those?

Childs: April or May.

Kades: About \$20 million of it is not a case of French contracts any longer. Your contract is direct with the manufacturer so that the French would simply have a cause of action against you instead of the manufacturer. \$55 million left — may be even less. As the deliveries are made, their ability to stop production lessens.

White: This third item — gold mining machinery for the Belgian Congo.

Phillips: Someone called on me from the Belgian Embassy and said that they had an output of gold from the Belgian Congo of approximately one-quarter million a month. The Belgian Congo is part of the sterling area. They put in a requisition for needed machinery to continue operation.

Brown: We have no record of such a requisition for machinery.

Phillips: It wasn't a big order. They were met by the reply that gold was not essential for continuing the war and that no steel would be made available for this machinery.

Brown: I understand that it is the OPM that raised the priorities question.

Phillips: The Belgians have bought most of their mining equipment here, and so have the South Africans. My question is, what if the same decision should be made on a South African request for mining machinery?

White: Let us wait until the question comes up to us as it probably will. In an item of that kind it probably would come to us, and I am not sure what our position would be. The amount of gold production involved in the present case is small. But the statement that machinery is being sent to the Belgian Congo with which to produce gold which comes to us can be made the subject of discussion which I should think we would like to avoid if possible until there was something more at stake. In other words, we wouldn't want to be confronted with the necessity to defend our position that we are either encouraging gold production

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or discouraging gold production. The Treasury would like to avoid this. I am afraid that is what would happen here. Export control, priorities, lend-lease...

Brown: They were trying to buy it. It is OPM's problem.

White: I think that it does raise an issue.

Brown: Sir Frederick is asking the Treasury to bring influence.

Phillips: In view of our production of gold, the purchase would involve . . . finances of the sterling area -- mining machinery must be kept up. We would like to refer them to the U.S. Treasury.

White: I don't know that our answer would be any different, but OPM should have referred to us. It affects sterling assets. It doesn't come under Lend-Lease anyway.

Phillips: You are probably quite right. But if South Africa requests such machinery it will come up later under Lend-Lease.

Mack: Your man Grey would be able to help on that. Isn't he on the Army-Navy Priorities Board?

Phillips: Yes, I will have him find out. It looks like the forerunner of a serious problem. That is why we brought it up.

Brown: Has your reply gone back to OPM?

Phillips: The Belgian's has, I believe.

White: The next question has pertinence aside from the general problem in anticipation of the Secretary's appearance on the appropriations for the Lend-Lease bill. I feel almost certain that somebody will ask him for a duplicate of the statement which he submitted in the first Lend-Lease bill. The Secretary will probably want this. It was my thought that we might anticipate that and work out something and assemble the list. Then we would get together with you men and work out a statement that would report the situation to your satisfaction.

Phillips: Go over a few points.

- White: I can't say whether there will be more interest in some details or less. One or two will be more interested. The remainder will be less. It may be that one or two may push the Secretary around a bit and the quickest way to handle that situation would be to be possessed of all the facts.
- Phillips: August 30, balance of gold was \$195 million. If deliveries on our contracts hold up for the next six months, we shouldn't have any cash at all. There is the question of the trust funds. We haven't made any progress on this. The lawyers advise us to do nothing about it ... \$300 million out of the old estimate ... I don't think that direct investments show any enormous divergence.
- White: The question of \$300 million would have to be gone through thoroughly because someone at the hearings may ask why it was not foreseen on January 1, and why it was ascertained later that it wasn't legally possible. Those arguments will arise from those who are not in sympathy. I think that on that point we had better prepare as much material in answer as we can in anticipation. Would it be all right if we went ahead with the preparation of a balance sheet and if you will appoint someone to act -
- Phillips: I would suggest that you get hold of the press notice that Jesse Jones issued at that time. Came up to well over \$400 million. . . . But value on some other direct investments which he made very high would amount up to \$500 million. Add Viscose and Brown and Williamson - some quote about trust funds - and it wouldn't be far off at \$900 million.
- White: We will try to work that out. Would it be possible for someone on your staff to prepare a memorandum dealing with trust funds, setting forth the salient points?
- Bewley: We have a great deal of material on this.
- White: Since it is American law that causes the difficulty, the problem of defending it before the Committee is simpler.
- Bewley: We will prepare a memorandum, certainly.
- White: We will go over it with you boys to make it acceptable. That takes care of item 4.

Phillips: What is basis of forecast for six months?

White: We have to make forecast that these are your cash assets and these are your needs for the coming six months, and these are your resources. The first thing they are going to ask for is how much you are going to need, and don't you have any resources? I think we would sooner or later have to present that to them. We would prefer to present, as formerly, your estimates representing your statement of your cash position and of your needs and resources, and the only thing that we will do is put it in a form which would most easily be followed by the Committee. But there may be closer questioning on some items than there was last time by virtue of some discussions. There may be none at all. They may not be interested any longer.

Phillips: Six months is about right?

White: It would seem that six months would be the logical period that we could presumably estimate ahead. Certainly the British Treasury must look six months ahead on the picture.

Kistler: They might like to compare the cash position during this year with the forecast that was made of it on January 1.

White: Had deliveries been as rapid as anticipated, etc? I believe that is what Sir Frederick had in mind. The more information we can give them and the more information we have, the easier will be the appropriation.

Brown: Very much so.

White: It probably will be a duplication of the questioning based on such statement as would be available so that we should get at least as much as we can in anticipation.

This fifth item, coal for bunkers at West Indian ports. It was mentioned in the last meeting.

Brown: We are taking care of it. Strike it out.

White: How much does it amount to -- less than a million?

Bewley: It depends upon how long a period you are considering.

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- White: In the next six months?
- Bewley: Considerably less than a million.
- White: Are there any other points?
- Phillips: To return to the first item on the agenda, we didn't say much about the War Department, but you will see on our paper that there was very little good news about important items. I did have a word with Mr. McCloy and he said that approximately \$100 million of the War Department appropriation was available for this job. Certainly no real progress has been made since the Secretary saw the figures last.
- White: There has been no progress?
- Phillips: No.
- White: With whom is it awaiting a decision? Is there some investigation being made?
- Brown: I talked with Mr. McCloy before our last meeting and he said he was going to see the Secretary that afternoon. It was a very delicate situation. He feels it is up to him to see that something is accomplished. He was to see Secretary Stimson. I haven't heard that any answer was given. I am absolutely convinced that he feels it is on his shoulders.
- Robinson: As recently as yesterday there was nothing.
- White: The money they were to have spent for that was what they missed in the appropriation.
- Robinson: I don't know that that \$40 million is still there. It is the first item on page 2 — contracts placed since March 11. Four months ago apparently General Burns arranged to have \$40 million which represented allocations in excess of requirements to take over British contracts and advised Army Ordnance. If that \$40 million is still there, we don't know that it is, it could reasonably be applied to March 11 contracts which are now reduced to \$30 million. That item as well as these other items all seem to be very black as far as any progress is concerned. Not in principle, but in practice. Cutting appropriations has contributed to ... if they can possibly avoid.

Brown: Under Lease-Lend it can't be done.

White: I don't want to appear obtuse, but I know the Secretary would ask, where is the block? Who does the decision rest with and what is that person waiting for? Does the decision rest with Secretary Stimson?

Phillips: Yes, it does.

Robinson: Certainly the Army has it.

White: It would appear that reasonable time has elapsed that such information should have been gathered. No uncertain elements are in the picture. Then do you think it would be appropriate at this time, or at the next meeting, that the Secretary take up the matter with Secretary Stimson? In the light of the history of this, it would appear to me that none of us can do anything.

Brown: McCloy says he is working hard. That is as far as he can go.

Robinson: It has been two months or six weeks with the Ordnance and air people. ...\$44 million and as much aircraft as we can get.

Brown: Around \$35 million ...

Phillips: I have \$40 - \$44 - \$30

White: Over \$100 million. Unless there is some view to the contrary, when it comes up at the next meeting with the Secretary, we will indicate as far as possible that no progress has been made and that commitments give no promise of being handled soon.

Brown: He should make inquiry of McCloy.

White: I will speak to the Secretary about calling him before the meeting. It is a very good suggestion. As far as this committee is concerned, the ball is in his lap.

Bewley: Mr. Keyes has some white sheets and these are the things that have been done by the missions themselves ... \$500 to \$5,000 ...

White: We would like a copy. I will look it over later. Is there anything on these that you would want to bring up?

Bewley: Nothing that I know of.

Childs: Simply as a forewarning, I should like to say that a telegram came in before this meeting there there is going to be a crop shortage in the Near East. We are going to be faced with the possibility of supplying the entire Near East. Because of shipping and other considerations, we will have to ask for some help here. It covers several countries — Turkey, Iran, Sudan, Abyssinia.

Brown: What would be the basis for supplying Turkey? How is the U.K. concerned?

Childs: Iran and Turkey because they need grain. Turkey is pro-Ally. ...Iran has a different political situation.

Brown: Doesn't it mean much as to the why and how of getting supplies to Turkey?

Childs: There is a Middle Eastern Supply Center which handles civilian population demands. Perhaps through the Turkish Government. Whole supply system has not been clearly defined.

Phillips: What has happened to Turkey under Lend-Lease?

Childs: We have requisitioned for it — handled it straight.

Brown: Defense of Turkey has not yet been found essential to our protection.

White: This problem will be a part of Lend-Lease judgment ... would in part be political as well as monetary consideration. It is a matter which would play a role in your valuation.

Brown: Yes. It seems to boil down to purely a shipping problem. The supplies are in India and Australia but are not available as ships are on the Atlantic route.

Childs: Shipping was a consideration. I didn't know it was the sole.

Brown: Let us say transportation. I don't see any difference in taking it from Australia and taking it from the U.S.

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Childs: It is not an immediate problem. Will be most urgent though when it comes.

(Mr. Cochran came in as the group was breaking up. White assured him they had discussed the question of gold-mining machinery in the Belgian Congo.)

PRESENT STATUS OF POSSIBILITIES FOR DOLLAR RELIEF
(Figures are in millions of dollars)

August 29, 1941.

CAPITAL FACILITIES

Tennessee Powder 21 already paid.

Machine Gun Plants 24 total, of which about 3 paid--
Rest progressing satisfactorily.

Plants discussed with DPC on which War Department has certified
necessity for national defense and agreed on take out.

Total cost -- 79

Estimated recovery -- 55

Approximate annual rental while

British contracts continue -- 5.5

Discussions held and take-over agreed in principal --

Going ahead with 2 plants with aggregate cost of about
23 (based on 79). Others to follow.

Plants not yet discussed with DPC but proper subjects for take-
over.

Total cost -- 31. Recovery probably somewhat less. Rental
would be about 10% during contracts.
These consist of:

Todd Shipbuilding -- 9

Crucible Steel -- 6.6

Savage Arms -- 7.5

Oerlikon (including 5 recently authorized) --

6.6

American Type Founders -- .6

National Pneumatic -- .7

There are probably many others not involving large amounts

CONTRACTS

4 Machine Gun Contracts--Total Dollar Relief subject only to
working out details -- 28. Of this 6.6 will be repayment of
advances and balance relief from commitment.

Paid to date 5.4 No difficulty is expected in recovering the
balance.

Contracts prior to March 11.

Matched orders or Deferred deliveries

Ships--Todd contracts 37. The power to lend-lease
vessels under the new Maritime Commission Appropriation
was limited by Congress to powers to lease vessels which must
remain United States property. The effect is that if the
Maritime Commission take over the Todd ships they can lease
them to the U.K. under lend-lease but cannot deliver them as
defense articles. The Maritime Commission now say that they
cannot agree to the purchase of this type of ship for their
own account.

Tanks and Tank Engines--Continental and Baldwin 44.
War Ordnance was to place orders for same products out of
non-Lend-Lease funds. British would cancel contracts and
similar products would be Lease-Lent from pre March 11 Army
contracts and charged to billion three fund. War Department
has done nothing about this for about two months although
repeatedly urged and agreeable in principal. Does not want

its own funds for this purpose and cut in appropriations contributed to reluctance.

Airplane Engines--These amount in total to about 250. The theory as tanks and tank engines. Army Air and BAC have conferred but unable to discover any funds for the purpose. Subsequently it was thought 40 might be found in non-Lend-Lease funds but Army Air has done nothing for about two months although repeatedly urged. It is now stated that the 40 is not available.

Contracts placed since March 11 for ordnance items (including letters of intention not considered commitments)

It was understood that 40 of Lend-Lease funds was earmarked from Ordnance allocations for take-outs of British contracts. This represented over-allocations on certain Lend-Lease Ordnance items. It is not known whether this is still available since it was set aside more than two months ago and at that time War Department agreed in principle to take-out. No action has been taken since in spite of repeated efforts. Reluctance probably due partly to cut in appropriations.

British Ordnance contracts since March 11 consist principally of three large tank contracts on which the recoverable amounts, after agreement with Lend-Lease representatives, may not total more than 30.

Contracts placed since March 11 for Naval Bureau of Ships items.

There is only one substantial item in this class (Sterling Admiral Engines) which amounts to 1.25. Although a Lend-Lease requisition has been filed it is understood that there are no Lend-Lease funds available for the purpose in the Navy allocations.

Contracts and amendments since March 11 for Aircraft items.

One large contract amounting to 2 and four large amendments aggregating 7 fall into this category. It is understood that Lend-Lease funds are available for the take-over of the contract although no action has been taken by the Army as yet. As to the amendments there has been an unwillingness to consider take-over of these because of the stringency of funds and the administrative difficulties involved.

Cancellation of Vultee Contract

This will involve dollar relief of about 11 and it is understood that the Army contract has now been signed.

Cancellation of Remington rifle contract

This will provide dollar relief of about 32. Funds have been allocated and directives given but little progress has been made due to the company's failure to quote prices. It is expected that this will work out, however.

Cancellation of Savage rifle contract

This will provide dollar relief of about 24. It is in the same position as Remington but seems to be considerably further advanced and the Army contract should be let in due course.

Machine Tools

There are various contracts for machine tools which have been made since March 11 and, since Lend-Lease funds seem to be available in the categories within which these fall investigation is proceeding to determine whether any of these contracts can profitably be taken over under Lend-Lease.

DOLLAR RELIEF TO THE BRITISH TREASURY

Plants and Supplies Contracts taken over and to be taken over (amounts are in millions of dollars and represent approximate aggregate amounts of cash refunds and relief from commitments).

| | <u>Certain or almost Certain</u> | <u>Probable</u> | <u>Possible or Unlikely</u> |
|---|--------------------------------------|-----------------|---------------------------------|
| Plants taken over or to be taken over: | | | |
| Tennessee Powder | 21 | | |
| 4 Machine Gun Plants | 24 | | |
| Other Plants discussed with D.P.C. | | 55* | |
| Other Plants not dis- cussed with D.P.C. | | | 31 |
| 4 Machine Gun Contracts transferred (product) | 28 | | |
| Contracts placed prior to March 11th: | | | |
| Ships | | | 87 |
| Airplane Engines | | | 40 |
| Tanks & Tank Engines | | | 44 |
| Contracts placed since March 11th for Naval items | | | 1 |
| Contracts placed since March 11th for ordnance items (in- cluding letters of intention not considered commitments) | | | 30 |
| Contracts and amendments since March 11th for aircraft items | | | 9 |
| Cancellation of Vultee contract | 11 | | |
| Cancellation of Remington Rifle contract | 32 | | |
| Cancellation of Savage Rifle contract | 24 | | |
| Total | 140 | 55 | 242 |
| Certain or almost certain | 140 | | |
| Probable | | 55 | |
| Possible or Unlikely | | | 242 |
| Total | 437 | | |

* Provisional estimate of recovery out
of total cost of 379,000,000

3rd September, 1941

September 4, 1941
2:45 p.m.

RE AID TO BRITAIN

Present: Mr. Graves
Mr. Mack
Mr. Stettinius
Mr. Nelson
Mr. MacKeachie
Mr. Cox
Mr. White
Mr. Young

H.M.Jr: I had a chance to show this to Hopkins, and he is up now so high he can't be bothered with these details, but he thinks it is all right. I mean, that you (Mack) should have the fifty million dollars. You haven't got any copies of this?

Graves: I have a copy here.

H.M.Jr: That is all right.

Now shoot at me on the other thing, will you. It is a good memorandum. And when you get out of this meeting, will you take a look at that clipping. Don't bother with it now. You might give Chick Schwarz an answer later in the day or tomorrow morning.

Mack: All right.

Well now, this memorandum has to do with the frozen funds. That is where the priorities comes in.

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H. H. Jr:

Hopkins never left here until two-thirty.

Mack:

And this has to do primarily - well, exclusively with metals, that is, steel, zinc, copper, pig iron, and so on. We have requisitions from the British that specify deliveries over a period of several months. We get the - the money is allocated for the entire purchase. OPM has followed the policy of making an allotment in - an allotment or priority rating, in most cases, on a monthly basis. Therefore, we have these lags of the balance of each requisition beyond one month. As you will notice from some of these instances I have here, the first one, eighteen million dollars is the amount that is required to cover the entire purchase for all the deliveries, but the amount allocated, which is the amount that has been purchased, is about three million nine, or a balance of fourteen million odd that runs into that frozen fund total.

The same way on zinc. Now, we have requisitions for zinc that call for deliveries over a period of a year and we had a clearance from OPM. For example on zinc, the orders call for deliveries for twelve months. We get allocations by the month. We accordingly may purchase three and a half millions. We have sixteen and a half millions that go into that frozen fund total.

Now, the suggestion I have in mind is this: that first we get straightened out with these requisitions that are on the fire, that is, that need to be straightened out on an allocation basis, and I am sure that that falls within the picture that Nelson is now trying to work out to make immediate allocations of everything they have over there.

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The second thing that I think is - provides a control as to - and we can do this in Procurement if you want us to. We asked the British Purchasing Commission in charge of defense supplies to tell us before they submit a requisition, or tell Lend-Lease, what their requirements for metals will be for the next three, six, and nine months. Then we will take that schedule, go to OPM and say, "Now, here is what they want. How about the priority ratings or the allocation?" and they say, "Well, we can give them fifty percent of this, seventy-five percent of that, and so on." Then the requisitions can be made out by the British Purchasing Commission or the China Defense people only for what has already been cleared by OPM.

Therefore, we don't have any loose ends hanging. We get the money for that amount. We buy that amount because it has been cleared.

H.M.Jr: I think it would be much better.

Mack: That is the suggestion I have in a nutshell.

H.M.Jr: That would be much better.

Mack: And I think Nelson would be tickled to death to do it.

H.M.Jr: In other words, they would let you know informally what their needs are?

Mack: Yes.

Graves: May I put in two cents worth on this?

H.M.Jr: I wish you would.

Graves: I did not understand from Mr. Gaston's memo

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to me that there had been any criticism of Procurement on anybody's part. The statistics looked bad, and it was Mr. Gaston who noticed that and called Mr. Mack in, and said he had better make an explanation of those low percentages.

H.M.Jr: I told Gaston to do that.

Graves: Yes. I simply wanted you to know that according to Mr. Mack none of the people that are present at this meeting have pointed any finger of criticism--

H.M.Jr: You want me to be a softie, do you?

Graves: I don't think it would be wise to give them the impression that we have been criticised, because I don't believe we have been.

(Mr. White entered the conference.)

Mack: Nelson has been very cooperative. Of course Stettinius is new over there.

H.M.Jr: But by going into this thing, I have got something to complain about.

Graves: That is different.

H.M.Jr: I have got something to complain about, and I am going to say, "Now there is a new deal and new people and I want to - I don't want to be mixed up in something that takes forty-two days to clear from the day they give us the order until the day we buy it."

Mack: Yes.

H.M.Jr: I am sick and tired of going around and doing every job four times. They had better do something about it.

We find, Harry, that from the day the English placed an order until it reaches us, it is thirty days.

White: Between the time they place it and the time it reaches you?

H.M.Jr: From the time the requisition comes out until it gets to Mack is thirty days.

White: Where is that delay due?

H.M.Jr: Well, we have got a memorandum here. I will read it out loud.

White: Maybe they will do better. I should give them a chance before the new group. I don't think they will, but I say--

H.M.Jr: Well, the whole new group is going to be here. The whole new group is coming here.

White: I saw a couple of them outside. I mean rather than laying down the law--

H.M.Jr: Oh, you fellows are a lot of sissies. Good God! Everybody around here wants me to be--

Graves: I don't think there is anything wrong with your laying down the law with respect to this new routine. I think that is swell. All I say is that I don't think we ought to let them believe that we have found them critical.

H.M.Jr: No, I am taking the offensive.

White: All right. Before we had a half dozen and now we have got six.

H.M.Jr: Six what?

White: I say before the new set-up there was a half

dozen and now there is six.

H.M.Jr: Well, this man Stettinius is in charge of Lend-Lease and MacKeachie does the buying, and Nelson does the priorities.

Mack: That is right. It is thirty days from the time the requisition is issued by the British until we get authorization to buy it, funds allocated.

White: Have you got a constructive suggestion as to how it should be done?

H.M.Jr: Sure, he is in the Treasury, isn't he?

White: Oh, yes. There is nothing like giving them a good start. If you have got a way to shorten it--

H.M.Jr: We have. He is going to take ten from now on. He ought to be able to do it in ten.

Mack: I don't think from that record that we have done as well as we should.

H.M.Jr: No, I don't either. I think you could do better.

Mack: Yes.

Now, four days in getting these forms through - of course we have to get estimates and all that, but that should be shorter.

H.M.Jr: Was the four days on us?

Mack: Four days on us.

H.M.Jr: No, I think a week - you ought to be able to clear an order in a week.

White: This average that you have arrived at, is it fairly representative or is it some kind of a--

Mack: We got it as quickly as we could. We had our fellows take a spot, nineteen requisitions, and follow them through.

White: Out of how many?

Mack: Out of a whole case full.

White: What does that mean, a thousand?

Mack: Oh, it would be several hundred, yes. But otherwise it would take weeks to get tabulations on them.

White: I would be inclined to say that you took a test sample rather than the average time required.

H.M.Jr: It says so.

Mack: In the next to the last paragraph, I say it.

H.M.Jr: It is a good memo. You can't find anything the matter with it.

(Mr. Stettinius, Mr. Nelson, Mr. MacKeachie, and Mr. Cox entered the conference.)

H.M.Jr: Well, gentlemen, the reason I asked you to come over here was this: You may know we do a certain amount of buying under Lend-Lease, and I took a - had Mack take a look at it, and I think the quickest way to do it is to read you a page and a quarter. It says:

"As requested, the following are the steps taken with respect to Lend-Lease purchases,

together with the average time required for each step:

"(1) Requisitions are written and dated by the British or China Defense Supplies and submitted to Defense Aid Reports; thence copies are sent to Procurement Division and O.P.M. From date of requisition to receipt in Procurement average lapse of time is two days.

"(2) O.P.M. examines for availability of commodity, method of purchase, and whether supplying will interfere with our own defense program; then clears to Procurement, four and one-half days.

"(Note: This average time will probably be extended by three days when priority ratings are to be indicated by O.P.M.)

"(3) Form LLA-3--"

Mack: That is the request for the allocation of funds.

H.M.Jr: "...is prepared by Procurement for submission to Defense Aid Reports. From date of clearance by O.P.M. to date of submission of Form LLA-3, four days" - which Mr. Mack says is two days too long.

"(4) Letter is prepared by Defense Aid Reports for signature of the President, approving allocation of funds and transfer of commodity to the foreign government. From date of submission by Procurement of Form LLA-3 to date of letter to be signed by the President, twelve days.

"(5) After signature by the President, transfer directive submitted to Procurement, eight days.

"(8) On receipt of transfer-directive - " which totals up to this point, it totals thirty days. At that point, "on receipt of the transfer-directive Procurement proceeds to make purchase." It takes them an average - we just picked out nineteen different requisitions and the average of those nineteen was thirty days from the time the thing was dated at the British Purchasing Mission until it reached us. "On receipt of transfer-directive, Procurement proceeds to make purchase. From receipt of transfer-directive to date of contract, twelve days," and Mr. Mack says that that is too long. "The figures above showing average time required were arrived at by taking the records on nineteen requisitions which are believed to be representative of the usual requisitions received in Procurement. This procedure requires an average of thirty days from the date of the requisition before we are authorized to make the purchase, of which total twenty days is taken up with routine having to do with allocations for each requisition."

This is what we would like to do, if you gentlemen would approve. It is suggested that the present revolving fund of ten million be increased to fifty and authority granted to use this fund in order that immediate purchase may be made or that such other steps be taken to reduce the time now required for obtaining allotments.

We felt that if, after considering, you would give us that kind of a thing, and I take it this goes to you (Stettinius) doesn't it? that we could do business and cut the thing at least by two thirds.

Now, Hopkins was here for lunch today, and he

read the thing, and he said he liked it.

Nelson: Well, we can get the priority at the same time that they are clearing. That was the procedure we have been setting out to try to do, you know.

Mack: That is right.

Nelson: So at the time of getting the priority, when it comes into OPM, we would be working on the priority at the same time they are clearing for the other things, so that that would eliminate that three and a half days.

H.M.Jr: Could you get rid of it that quickly.

Nelson: That would eliminate that three and a half days for priority.

H.M.Jr: But, Don, if, while you are doing all this thing, twelve days at the White House and so forth and so on, if you would give us the fifty million dollars to operate, somebody, then we will just go to town, and we will let the red tape catch up with us a couple of months later on.

Nelson: I have always felt that that should be done, Mr. Secretary. I have talked about that consistently. That takes too much time.

H.M.Jr: Harry Hopkins said he thought if you did it for us, you should do it for the Army and Navy too.

MacKeachie: I think the procedure is even slower when it goes through the Army and Navy.

Nelson: Much slower. It goes through seventeen other steps when it goes through Army and Navy.

MacKeachie: Ninety days.

Cox: That is right.

White: Mack says only about five percent of those were eventually turned down.

(Mr. Young entered the conference.)

Mack: We now use a ten million dollar supply fund for purchases that are to be put through in a hurry, and it is working very well, and that is the reason for suggesting the same thought but at an increased amount of fifty million because now, of course, that ten million is out of commission when we put through nine and a half or nine and three-quarters million dollars worth of requisitions. We are stopped until we can replenish the fund, but with a larger fund we can keep it rotating constantly. That is the whole thought.

White: Supposing you go ahead and order these requisitions and the requisition is not finally approved. What machinery would you have for - how would you handle it?

Mack: We have a control in this sense, that we wouldn't ask approval to use the rotating fund until we have an approval from OPM.

White: Which is up to what period?

H.M.Jr: The first four days.

White: Then you save twenty-five days.

H.M.Jr: What is the matter with it?

Nelson: I am all for it. I believe it is the only thing to do.

H.M. Jr: What do you think, Ed?

Stettinius: It sounds all right to me. Oscar says it is all right. Phil of course is the one that--

Young: I missed the first part of it, for which I am sorry. Is this the same idea you were talking to me about last night?

Mack: Yes.

Young: On blanket requisitions or on--

Mack: On all requisitions. I think with the full work we now have, fifty million dollars would be enough to take care of all requisitions, because we would have to figure only for a sufficient length of time in order to replenish the fund, you see, which would be a matter of - well, two or three weeks.

Young: Using the revolving fund for all requisitions?

Mack: Yes, and the routine that is now being followed to be used for replenishing the fund and crediting the allocations to bookkeeping and accounting.

Young: Why don't you use the revolving fund now in every case where it is required within the two weeks' period or whatever time it takes?

Mack: Well, we use it now. We use it now for transactions that are hurry-up transactions, but I am speaking in terms of using it for all requisitions.

Young: Well, it - you are using it now for all requisitions in which you have to place an order before the time you get an allocation made, ordinarily.

Mack: Well, I think it is this, that we use it now for all requisitions that the British Purchasing Commission say they want expedited. They want them handled immediately. But I am thinking in terms of stepping up the whole procedure, you see.

Young: Yes.

Mack: That is the thought I had in mind.

H.M.Jr: I always go on the theory if Sears-Roebuck can get an order in the morning and fill it and get it out every day--

Nelson: Ninety-five percent of them.

H.M.Jr:we ought to be able to do it within a week.

Nelson: Yes, sir.

H.M.Jr: That is what I would like to do and, of course, holding the thing at the White House twelve days, sending it back to Budget and all the rest of it, is ridiculous, and if you fellows will give us this thing and then - I don't care about the red tape. You can work it out afterward. It comes over, we send it to OPM, and somebody says, "O.K.", go ahead and buy it, we will buy it and we will do it within a week.

MacKeachie: Mr. Secretary, we are going to put a man over with Mr. Mack who will clear those on the spot, a very large part of them, and I think--

Mack: To take the place of John Sanger? Fine.

MacKeachie: We will put him right over there.

Stettinius: What do you think, Phil?

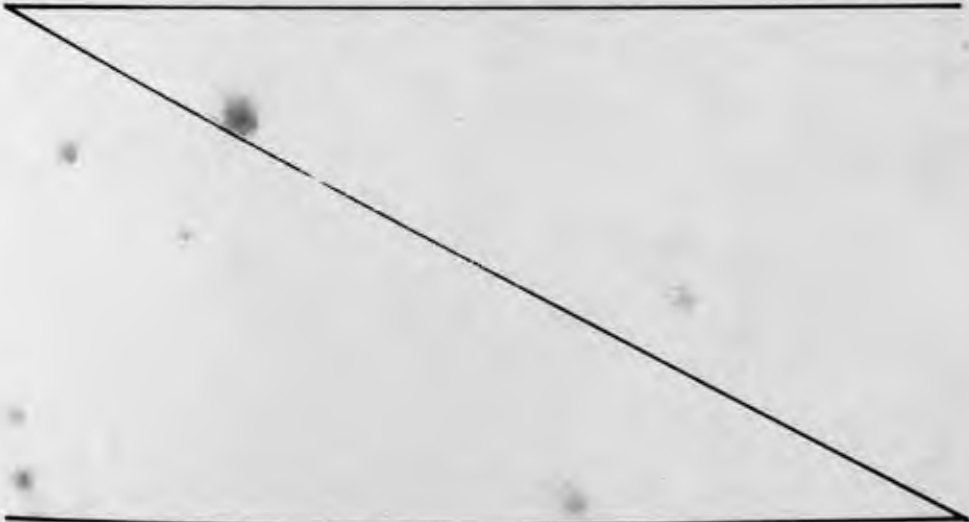
Young: Well, I don't think we ought to settle the fact now that we are going to do that particular thing. I think that we can work it out so the thing will go through speedily as possible to put it through.

H.M.Jr: Phil, if you people can't give us the orders quicker than you have been doing, you are going to have to get somebody else to do your buying.

Young: Can't do what, sir?

H.M.Jr: If you can't do it better than you have by far, I am not going to be mixed up with this thing, because I don't want to be mixed up with something that fools around for thirty days to get the thing cleared. There is no reason in the world why we shouldn't have this revolving fund.

Young: No, you have it.



H.M.Jr: No, I want it so we can go ahead and operate. Everything has to be done four or five times and if the British want something, they ought to be able to get it and the day they sign the requisition they ought to have it within a week. I don't want to be mixed up with something that is done so badly.

Young: We are quite in agreement on that, on this twenty-day lag between the time Cliff sends the form back to us and the time he gets the allocation funds. That is a situation which is done with the full knowledge and approval of you (Mack) and the various other departments.

Mack: That is right.

H.M.Jr: It was?

Young: Yes.

H.M.Jr: But it isn't any more.

Young: No, we aren't doing it any more. It was originally decided we would hold those requisitions on a cumulative weekly basis, which was agreed to by everybody.

White: Do you have some other suggested way which would eliminate the twenty-five days delay without the use of a larger revolving fund, Phil?

Cox: There is a way, and that --

Young: We have spent four solid weeks working on this. We have had a man out in the field, as you know. We also have additional authority from the President to Burns, Mr. Stettinius now, I imagine, to make necessary adjustments,

switch allocations, increase or decrease quantities, substitute articles, in other words, to give it flexibility which cuts out the White House lag of a week in there.

H.M.Jr: But that doesn't interest me. What is the matter with the idea of giving us enough money so we can go ahead and do business?

You fellows can fool around with the red tape while we do the buying.

Young: I have no objection to giving you enough money to go ahead and buy it as long as the thing can be handled so that it makes sense on the records, which I think it can.

H.M.Jr: What I would suggest, give us the money and we will do the buying and then you try to keep pace with us on your records.

Young: On this revolving fund business, it was designed to be used for any purchase which you wanted to make which in the normal course of events had to be or should have been placed before the time to get an allocation.

H.M.Jr: Well, it doesn't work to my satisfaction.

Young: Then there is some reason for it. Either it isn't large enough or else it is not being used for those purchases.

H.M.Jr: It is not large enough. We want to use it all. I am sure that when these gentlemen get into this thing they are going to change this thing. Nobody can run a business. When a man is at war he certainly needs a thing a damn sight quicker than when a fellow is in a peacetime business, and these people are at war.

Cox: Well, I think, Mr. Secretary, the two practical ways to cut down the time are, one, to have the allocation of funds, the directives, made at one time, and not by the President, but by Mr. Stettinius, so that you don't get the pile-up of requisitions and the delays --

H.M.Jr: I mentioned that to Hopkins at lunch, and he thinks that is good.

Cox: That is one thing.

The second thing, it seems to me, is to increase the revolving fund but at the same time keep sufficient checks so that in terms of policy, not red tape, you are buying the kind of things that you won't regret later on. Now, for example, all those questions of re-export and - such as cotton for example, you have policy questions involved which Cliff might or might not know about.

H.M.Jr: Well, Oscar, we can't go ahead and don't want to go ahead until somebody, and I take it when it goes over to the OPM somebody over there says "O.K. go ahead and buy it."

Cox: But OPM doesn't determine that, you see. They don't test the policy. They cover availability of supplies and how it will measure with our own program, but the policy as to whether it should be bought will be Mr. Stettinius' job. Now, I would say as a purely practical matter in ninety-five per cent of the cases the policy has been revolved and you can probably map it out so that revolving fund can be used for those purposes.

As to the policy questions, you just handle them in the regular way, except it doesn't go to the White House.

- H.M.Jr: Well, Oscar, why isn't the practical thing - I mean for the policy to be settled in the first instance?
- Cox: I agree. I think it ought to be. That is the way to do it.
- Nelson: That is the way I have always felt about it, that when that requisition issues from Lend-Lease, policy should have been settled so that everybody goes on it. Sometimes we have worked on these things two or three times.
- H.M.Jr: That is my complaint. We go over and over the same ground.
- White: I still don't see the objection to the larger revolving fund in the light of - Mack says that he doesn't begin to operate until the end of the six and a half days, when he gets your requisition.
- Cox: No, but you see the present procedure now, there isn't necessarily a final policy decision on the requisition by the time it goes to OPM and by the time Mack would want to operate. If you decide the policy in advance through the Lend-Lease organization before it goes out to OPM or other agencies for other kinds of determination, then Mack as a practical matter, can operate.
- White: Isn't it possible to have somebody during that six-day period flag those things about which there may be a doubt? You say it constitutes five per cent. Those things about which there may be a doubt, Mack can just wait until it is resolved, but the ninety-five per cent of the cases can be taken care of.
- Cox: I should think so, and either they ought to be flagged or the policy determined.

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White: Yes.

H.M.Jr: When I come back to what I said, it seems to me that Mr. Stettinius in the first instance should say we do or don't want to buy the thing. It would save a lot of trouble. If he says it is O.K. and OPM says it is O.K. --

Stettinius: Of course in many instances, Don, we have to check with you for release.

Nelson: No, what happens there Ed - I mean, if you decide them for policy, then of course we send them back in case there is any question about availability. Now, however, you have got - I won't institute an entirely new procedure with the appointment of this Board. What has happened, of course, when we can't supply it or we have to take it away from our own military services, then it goes back and then it takes a long time to resolve. Probably some of these nineteen requisitions were some that we had difficulty on. That really takes time, Mr. Secretary.

Now, I have been thinking that that ought to come right up to SPAB if it is turned down by OPM. Then instead of going through all that cumbersome procedure, going back to you (Cox) and back and forth, it ought to come right up to SPAB and be decided.

H.M.Jr: What is that?

Nelson: That is this new agency. I haven't learned yet.

Cox: Supply, Priorities and Allocations Board.
(Laughter).

H.M.Jr: Society for the Prevention of Cruelty to Animals?

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Nelson: I will be invoking that, I am afraid. But you see then, Mr. Secretary, if it came right up then we could get those resolved in much less time than it has been taking now, Phil. It just takes you months on some of these where the Army objects.

H.M.Jr: Well, do you think you gentlemen, as far as we are concerned, could put the thing in Mack's hands so when it comes to Mack, the policy has been settled and he can go ahead and do his buying, and then give him enough money that he can have a revolving fund?

Stettinius: We can agree on that in principle, can't we, Phil?

Young: Yes, as far as the Lend-Leaseability of the requisitions is concerned, we are doing that now. On the money end of it, I am perfectly sure we can work out the revolving fund operation so that it can move as fast as it is possible to do so.

H.M.Jr: How long will it take you to make up your mind, Phil?

Young: I think I am about ready to jell. (Laughter).

H.M.Jr: Well, I didn't expect you to crystallize that quickly. But you are in the process of jelling?

Young: Yes.

H.M.Jr: Well, who do I get an answer from, from you?

Nelson: He is the man to give it to you.

Stettinius: Sure. Oscar and Phil and General Burns and I will discuss it and give you an answer when?

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H.M.Jr: Monday morning?

Cox: Yes.

Stettinius: Monday morning all right, Phil?

Young: Yes.

H.M.Jr: Now we have got one other thing, if I may, please. I will read this. This is on some of the future orders.

"The allocation of lend-lease funds as of July 31, 1941, included "frozen" funds to the extent of \$98,930,860.72. As of August 31, 1941, the total of "frozen" funds was \$101,886,225.33. "Frozen" funds represent allocated money to cover lend-lease requisitions specifying future deliveries of from three months to longer periods up to twelve months for which we can make purchases only on a month-to-month basis because OPM priority ratings or material allotments are, as a rule, for but one month. The following requisitions are illustrative:"

Then it goes into steel, zinc, copper, and so forth. Allocated a hundred million dollars to be purchased, and thirty or forty million dollars is the balance.

"In order to overcome the duplication of work necessitated by monthly allocations and monthly purchases against requisitions for deliveries extended over a period of several months, the following recommendations are made.

"1. That allocations be made, to the extent possible, to cover these requisitions for which we now have only partial allocations and that the unrequired balances of funds be cancelled.

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"2. It is also recommended that the British Purchasing Commission and China Defense Supplies, Inc., be requested to provide a forecast of their future metal requirements for supply allocation or priority rating determination and that requisitions then be submitted for the quantity approved by OPM. Such a procedure would avoid the necessity for repeating allocations month by month and the repetition of making purchases month by month against long-term requisitions and one allocation and one purchase would be the result."

You see, on the books it looks as though we had a lot of orders which we weren't filling and I would just like to have enough orders to do business, but if informally the English say, "Over six months we need so much steel," then we would have something to gauge it by.

Nelson: That is right, and that is the way it should be, Mr. Secretary.

H.M.Jr: You like that?

Nelson: Yes, sir.

H.M.Jr: And then it doesn't look as though we had a lot of orders on our books that we weren't executing.

MacKeachie: It would make the allocation easier, as a matter of fact.

Nelson: It would make it much easier. The thing would be much easier for us to allocate if it were done that way.

Mack: As a matter of fact, I think that in that memorandum that I probably plagiarized your

own idea because this is something you have talked about a good deal.

Nelson: That is right. I have taken it up with others, too.

Stettinius: May we analyze this, and Phil, can we come back Monday with the answer on this one?

Young: Yes, surely.

H.M.Jr: Well, I will tell you what you do. I may not be here Monday, so if one of you gentlemen will call a meeting and then Graves and my people will come to you, because I am not sure I will be here. They will come over to see you.

Stettinius: Why don't we set a definite time in your office, Phil, on Monday and then we can have a roundup in this whole business. Is that all right, Oscar?

Cox: Yes.

Stettinius: What time, Phil, Monday afternoon?

H.M.Jr: Any time you say.

Young: Yes, I think Monday after lunch will be a good time.

Stettinius: How about two thirty in Phil's office Monday afternoon?

Mack: Fine.

H.M.Jr: Have you got anything you would like us to do that we are not doing?

Nelson: As far as the end of it that I am connected with, I think it has been working very satisfactorily. Mr. Mack has worked cooperatively

a hundred per cent, and things have been going back and forth. I think we have had very little waste of time.

H.M.Jr: If anybody has any complaints or suggestions, I would like to have them.

Stettinius: I am pretty green, I think, but in ten days I might want to knock on your door.

H.M.Jr: Quick cured, is it? Ten days, that is pretty good. They will have to apply the heat.
(Laughter).

MacKeachie: Mr. Mack, you have authority now to go out and negotiate when it is necessary, is that true?

Mack: We don't have, no.

MacKeachie: That is one thing, Mr. Secretary, that is becoming more and more necessary. As these things get tighter, sending out regular invitations to bid will really do a lot of harm.

H.M.Jr: Didn't you try to get a bill on that, Oscar?

Cox: We tried to get some language in the next appropriation act.

H.M.Jr: What happened?

Cox: Well, the next appropriation request hasn't gone up yet.

H.M.Jr: Is that being taken care of?

Cox: Budget thinks it ought not to go in, and Foley talked to their lawyer over there. My own personal feeling is it is not necessary, but if the Treasury feels it is, it ought to go in.

H.M.Jr: Does Ed think it is necessary?

Cox: Yes.

H.M.Jr: You might speak to Foley, Mack.

Young: Budget said this morning they didn't feel it necessary and they are, I gather, planning on getting a written memorandum from the Comptroller General on it saying that it is not necessary.

Nelson: That is very important, Mr. Secretary.

H.M.Jr: I know it is.

Nelson: Many of these things where they are very scarce, we have to really tell Mr. Mack from now on you can buy it from so-and-so, because he has it --

Mack: Don't have the justification.

H.M.Jr: Well, the General Counsel holds we haven't been able to do that, isn't that right?

Mack: Well, we can buy outside of statutory authority provided we have sufficient justification and Mr. Nelson has given us justification in those cases where it should be done, but that means a special job in each case.

Nelson: Each case.

Mack: In other words, you build a case for the Comptroller General.

Nelson: You have to build a case.

H.M.Jr: Anything else we can do that we are not? Philip? Have you got any suggestions?

Young: We still get repercussions from the British which I just pass on for what it is worth, because I don't know anything about it, to the effect that the personnel organization of Treasury Procurement is still not spread far enough so that they can handle requisitions concurrently instead of consecutively.

H.M.Jr: Those are two dollar words.

Young: That is exactly what they told me. I am quoting them.

White: They can't handle more than one requisition at a time?

Young: They say the Treasury Procurement keeps building up a backlog of requisitions for future attention, because they are forced to take the most urgent items as they come along. Therefore you are accumulating more and more of a backlog all the time, which ought to be handled concurrently.

Nelson: I think it is your bidding that does that. If you were negotiating, most of that would disappear, because you have to handle each one now and negotiate a bid. Naturally, you have to make out your papers and file them and so forth, and give them a number. That is what happens, why they have to go consecutively, rather than being able to negotiate. You can negotiate a dozen at a time, and he would rather do it.

Young: I think they were speaking of the angle of just not having sufficient personnel of the proper caliber to handle all the requisitions on a smooth flow through. I pass it along for what it is worth, Cliff. I don't know what there is to it.

Mack: We have heard more or less along the same lines from this source. There is a group with the British Purchasing Commission that handles chemicals and acids, for example. They have been contacting our sources, that is, going to our sources on these chemical acid requisitions. Now, their suggestion has been that we take over the personnel in the British Purchasing Commission, that is, certain ones from each of the groups, and we are reluctant to do that because we feel that we should use American personnel within our own organization. That is about what it boils down to.

Whiter: Well, don't you have enough personnel to prevent an accumulation of a backlog?

Mack: We are increasing personnel all the time. As the work increases, we increase personnel.

Whiter: Is this charge correct, that you are building up a backlog because of personnel?

Mack: I wouldn't think so, no. Of course, our backlog is increasing with our work load, of course. The more requisitions we get, the more our total is and negotiations would help, there is no doubt about that. But I don't think that - I don't think it would serve any good purpose to take on a number of these commodity men that are now with the British to spread them in our organization because they merely tell us what they think we should do and then we do the work. I would rather get Americans to supplement our force as we need them. Of course, we are putting them on all the time.

Nelson: Do you think it would help any, Mack, if Mr. MacKeachie took a few of those into the Division of Purchases? I have had that

in mind for some time, that as the work of the Commission died down, we might take them into the Division of Purchases and have a closer relationship with them.

One of your difficulties now is that they go out and do a lot of preliminary work. Then you have to come in and duplicate all that work.

Mack: That is right.

Nelson: You may not agree with them.

Stettinius: That is, the British, Don?

Nelson: The British do a lot of preliminary work.

H.M.Jr: I think Morris Wilson is going to lay a lot of those people off.

Nelson: There are a few of them that are good people.

H.M.Jr: I think he is going to do that, particularly in New York.

Stettinius: Yes, I heard that too.

H.M.Jr: I spoke to him in Montreal, you see, when I was up there. His payroll is too big. They are using too many dollars. He has got, I think, an eleven or twelve million dollar payroll, and they are not doing any purchasing to speak of. It is too big. And he agrees with me. So maybe some of this is people, you know, trying to get jobs.

Mack: Well, we have one man from the British Purchasing Commission on steel. He is a very good man. He is an American fellow, formerly

with Jones and Laughlin, and he is an excellent man. There is a man that you took over with your organization, I believe, on chemicals and acids. He is an American and he is a very capable fellow. And there is one man on machinery that we are thinking of getting into our organization, and he is an American.

Nelson: Yes, he is a good man.

Mack: But we are trying to keep it within those lines.

H.M.Jr: You can't employ anything except American citizens, anyway.

Mack: Well, that is so.

White: It would seem very peculiar for the Procurement Division to have British employees buying goods for Britain.

H.M.Jr: It wouldn't do.

Nelson: Yes.

H.M.Jr: Anything else, Phil?

Young: Not a thing, except Cliff has done a grand job.

H.M.Jr: I am glad to hear it. Well, I appreciate very much your coming over and if you will give us an answer Monday we will try to do better.

September 4, 1941

MEMORANDUM TO THE SECRETARY:

As requested the following are the steps taken with respect to Lend-Lease purchases, together with the average time required for each step:

Av. Time Required

- (1) Requisitions are written and dated by the British or China Defense Supplies and submitted to Defense Aid Reports; thence copies are sent to Procurement Division and O.P.M. From date of requisition to receipt in Procurement average lapse of time is 2 days
- (2) O.P.M. examines for availability of commodity, method of purchase, and whether supplying will interfere with our own defense program; then clears to Procurement 4½ days
(Note: This average time will probably be extended by 3 days when priority ratings are to be indicated by O.P.M.)
- (3) Form LLA-3 (Request for allocation of funds) is prepared by Procurement for submission to Defense Aid Reports. From date of clearance by O.P.M. to date of submission of Form LLA-3 4 days
- (4) Letter is prepared (based on LLA-3) by Defense Aid Reports for signature of the President, approving allocation of funds and transfer of commodity to the foreign government. From date of submission by Procurement of Form LLA-3 to date of letter to be signed by the President 12 days
- (5) After signature by the President, transfer-directive submitted to Procurement 8 days

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Av. Time Required

- (6) On receipt of transfer-directive Procurement proceeds to make purchase. From receipt of transfer-directive to date of contract

12 days X

The figures above showing the average time required were arrived at by taking the records on 19 requisitions which are believed to be representative of the usual requisitions received in Procurement.

This procedure requires an average of 30 days from the date of the requisition before we are authorized to make a purchase, of which total 20 days is taken up with the routine having to do with the allocations for each requisition.

It is suggested that the present Revolving Fund of \$10,000,000 be increased to \$50,000,000 and authority granted to use this fund in order that immediate purchase may be made or that such other steps be taken to reduce the time now required for obtaining allotments.

Clifton E. Mack
Clifton E. Mack
Director of Procurement

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2-11
88
September 4, 1941

Memorandum to the Secretary:

The allocation of lend-lease funds as of July 31, 1941, included "frozen" funds to the extent of \$98,930,860.72. As of August 31, 1941, the total of "frozen" funds was \$101,886,225.33. "Frozen" funds represent allocated money to cover lend-lease requisitions specifying future deliveries of from three months to longer periods up to twelve months for which we can make purchases only on a month-to-month basis because OPM priority ratings or material allotments are, as a rule, for but one month. The following requisitions are illustrative:

| No. | Allocated | Purchased | Balance |
|-----------------------------|-----------------|----------------|-----------------|
| 489-Alloys & Special Steels | \$18,000,000.00 | \$3,990,551.76 | \$14,009,448.24 |
| 421-Zinc | 20,000,000.00 | 3,553,460.60 | 16,446,539.40 |
| 1157-Copper | 13,720,000.00 | 2,142,250.00 | 11,577,750.00 |
| 43-Plain Carbon Steels | 40,000,000.00 | 31,302,376.28 | 8,697,623.72 |
| 467-Pig Iron | 7,680,000.00 | 1,352,715.00 | 6,327,285.00 |

In order to overcome the duplication of work each month necessitated by monthly allocations and monthly purchases against requisitions for deliveries extended over a period of several months, the following recommendations are made.

1. That allocations be made, to the extent possible, to cover these requisitions for which we now have only partial allocations and that the unrequired balances of funds be cancelled.

2. It is also recommended that the British Purchasing Commission and China Defense Supplies, Inc., be requested to provide a forecast of their future metal requirements for supply allocation or priority rating determination and that requisitions then be submitted for the quantity approved by OPM. Such a procedure would avoid the necessity for repeating allocations month by month and the repetition of making purchases month by month against long-term requisitions and one allocation and one purchase would be the result.

Clifton E. Mack,
Director of Procurement

September 4, 1941
4:20 p.m.

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HMJr: Oh, back in March I wrote you a letter about a Mark Grossman of Cleveland, as a possible judge for the vacancy out there.

Francis
Biddle: Uh huh.

HMJr: And I'd just like to bring it to your attention again, if you don't mind.

B: Yes. I think we had rather in mind a man called Freed in Cleveland.

HMJr: Freed.

B: But - do you know Grossman well, personally?

HMJr: Well, I don't, but my son is out there.....

B: Yeah.

HMJr:and he knows him - Henry.

B: Uh huh.

HMJr: And Henry knows both Freed and Grossman.

B: Uh huh.

HMJr: And he talked to me several times about Grossman, and he thinks Grossman.....

B: Would he have political Senatorial backing?

HMJr: I believe so.

B: You think he would?

HMJr: But I don't want you to take it on my say-so.

B: I know. I understand. Oh, we've got the idea.

HMJr: But between Grossman and Freed, I think you'll find - just as to their qualities.....

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B: Yeah.

HMJr:that Grossman's a better man.

B: Yeah.

HMJr: But.....

B: Well, I'll look into it.

HMJr: But, Henry's out there. He's been interested in it.....

B: Yeah.

HMJr:and he knows both the people, and.....

B: Yeah.

HMJr:I wouldn't.....

B: Well, that's just the kind of thing I want to know in case there's some choice.

HMJr: Well, I gather that between the two men, Grossman has a better civics record.

B: I see. I see. Well, that's very important. What's his age, do you know that?

HMJr: Well, my guess.....

B: Is he reasonably young?

HMJr: My guess is he's around forty.

B: Well, that's good, too. All right, Henry, I'll look at that. I'm not going to speak to the President about those vacancies until I get back. I'm going off for about ten days.

HMJr: Good for you.

B: Next week.

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HMJr: All right.
B: Thank you, Henry.
HMJr: Good-bye.
B: Good-bye.

100-111

Draft of Secretary Morgenthau's Speech
to the Advertising Club of Boston, September 9, 1941.

92

A few hours ago it was my privilege to stand at the wooden bridge at Lexington where the men of New England first proved that Americans could defend their homes and their freedom. Today, the people of these States are proving that they are still New Englanders. In hundreds of factories and shipyards from Connecticut to Maine, the men and women of New England are responding magnificently to their country's needs. I am glad to be here tonight to pay my tribute, on behalf of the entire Administration in Washington, to the great work that New England labor and industry are doing to arm America.

I am glad also that my host tonight is the Advertising Club of Boston, for the advertising profession is a mighty force in creating public understanding. We cannot make ourselves the arsenal of democracy and the defender of freedom unless our people understand the tremendous issues involved in this Battle for the

World. In the same way, we at the Treasury shall find it more difficult to accomplish our task of financing the defense program unless the public sees clearly the need for greater sacrifice and for greater effort.

In particular, I think that clear understanding is needed if we are to avoid the economic evils that might otherwise spring from a defense program as great as ours. The worst of those economic evils has been constantly uppermost in my mind as Secretary of the Treasury. This is the evil of inflation and this is the subject which I should like to discuss with you tonight.

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 selfish or shortsighted in facing this issue, the consequences may haunt us and our children for years. But if we look at the problem with clear vision and firm resolve, we can beat this thing. If we keep always in mind the interests of our country as a whole, if we provide promptly the appropriate means and use them vigorously whenever necessary, we can prevent inflation from fastening its grip upon us.

That task calls for alertness and mental toughness on the part of everyone in the executive departments of the Government, everyone in the halls of Congress and every one of us here tonight.

The word "inflation" is cold and lifeless, so cold that even you advertising men here tonight might have difficulty in making it real, but the thing it describes is treacherous and cruel. Memories are so short that I suppose many of us have forgotten what happened the last time inflation struck us 25 years ago, but the effects of that inflation lasted for many years and

brought untold heartbreak and misery in their train.

We are now just where we were in 1916 - on the very edge of inflation.

Let us look at the record to see what happened a generation ago. In 1916 the cost of living began to rise sharply but there were few who saw its significance. It was only when prices had risen by 70 per cent that President Wilson recommended any steps to prevent inflation. In fact, the country was so blind to its dangers that as late as June, 1917, Congress actually hastened ^{the rise in prices} inflation by reducing the reserve requirements for member banks of the Federal Reserve System.

The consequences ^{for} to every American were so serious that there must be many housewives even today who can remember them. By 1920, a ten-pound bag of sugar cost \$2.67, a dozen eggs cost 92 cents, a ten-pound bag of flour cost 88 cents, a pound of butter cost 76 cents and a pound of pork chops cost 50 cents. By that

year prices had skyrocketed to twice the level of five years earlier. 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 half a pound in 1920. The money she paid for a yard of cotton cloth was only enough to buy only 1/3 of a yard in 1920. The consumer found that food, fuel, shelter and clothing which cost a dollar in April, 1916, had risen to almost two dollars by 1920. The family with no increase in income found its purchasing power cut in half.

We have now, as we had then, a moderate rise in the cost of living, a great rise in wholesale prices, and a still greater rise in the prices of basic commodities like wheat, hogs, cotton and lumber. It is the rise in the prices of basic commodities that constitutes our red light, our warning signal, today, for such a rise is always the advance guard of an increase in the cost of living.

If we fail to use the controls at our disposal, if we fail to do the specific things which are in our power now to control inflation, if we allow prices to go on rising as they did from 1916 to 1920, we may find that food, fuel, shelter and clothing which now cost a dollar will once more cost almost twice as much before the process is ended.

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. 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 per cent 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 higher rentals are also on the way for the millions who do not own their homes. In scores of areas where industrial expansion has first

taken hold, rents have already risen 10, 20, 30 per cent, and even higher.

I have brought with me tonight a pictorial chart which I wish the radio audience could see because it shows so plainly the road we traveled once, and the road which we must not travel again. The chart shows how the buying power of your dollar shrank from 1914 to 1920, how your dollar bought less food, less clothing, less shelter, less heat and light because prices were allowed to run away. It shows how your dollar is already buying less in 1941 than in 1939, and it leaves a big question mark for the space showing what your dollar may buy in 1942. The answer to that question is in our keeping as Americans, whether we are officials of the Government or private citizens. And I have written on the chart, around the question mark, the words "The answer depends on us". We can determine now, this year, we in Washington and you in the country at large, whether we shall have the common sense

^{determination}
and self-control to avoid what we went through twenty-five years ago.

Let it not be said of us, as ^{David Lloyd George} ~~a great British statesman~~ said of his people in 1915, that we were "too late in moving here, too late in arriving there, too late in coming to this decision, too late in starting with enterprises, too late in preparing." There is no excuse for us to be too late in meeting this threat of inflation that faces us.

We now know, or ought to know, what is going on; that is the greatest difference between conditions today and in 1916. This time our eyes are open to the dangers that lie ahead of us. We now 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.

There is no need for me to remind this audience in detail of the reasons why prices have already risen. The reasons are plain

for everyone to see. Our economy today resembles an overloaded 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 enlarge the boiler by increasing the supplies of goods available to the consumer.

In speaking of these things I am not being an alarmist or defeatist. We can, as I have said before, defeat this threat, just as we can turn back the forces of evil that have been let loose upon this earth. But we need to understand the issues and we need to see clearly the consequences of inaction or delay. I should like, therefore, to look at the problem quite coolly for a few minutes, to see first what we have done and then what we need to do in order to stop prices from rising further.

In the first place, Congress is on the point of passing a huge tax bill designed to raise almost four billion dollars in additional revenue, thus withdrawing a great amount of purchasing power that competes with the defense effort.

Secondly, the Treasury in its borrowing program is trying to obtain as large a portion of its funds as possible from current consumers' income. Through a new form of note - the tax anticipation note - it is seeking to increase the effectiveness of the income tax as a check on current purchasing power, and I am happy to report to you that more than a billion dollars' worth of these notes were sold in the month of August.

The Treasury has also begun a program of selling Defense Savings Bonds and Stamps to people of moderate and low incomes. The people have responded to a tune of a billion and a quarter dollars in four months, without coercion of any kind; and in making that response possible the advertising profession has been of truly

invaluable help.

The President has recently issued an order authorizing the Board of Governors of the Federal Reserve System to control consumers installment credit. The Congress is considering, and I hope will pass without undue delay, a bill to limit price rises and to supplement the efforts of the Office of Price Administration, to limit price rises by voluntary cooperation.

All these are useful steps to a necessary end, but they are not enough.

We shall have to tax ourselves much more heavily next year than this year, great and far-reaching as the present tax bill will be.

We may have to extend general controls over bank credit and create controls over selected capital expenditures.

I hope that we may extend the social security program so as to increase the flow of funds to the Treasury from current

income during the emergency and increase the outflow of funds when needed in the post defense period. In addition, I have already suggested the creation of what I have called a "separation wage" -- that is, an entirely new form of contribution out of which a worker may draw a regular wage in case he loses his job.

We shall have to reduce the Federal lending and underwriting program such as non-emergency housing expenditures and mortgage guarantees.

We must, as I have said many times, reduce nonessential Federal expenditures. We must also appeal for economy in state and local government expenditure and a curtailment of their borrowing for nondefense purposes. As the President showed clearly a month ago when he vetoed a bill calling for 320 million dollars worth of highway construction, there is a clear distinction nowadays between the spending that is necessary for defense and the spending that can be postponed until a later day. I think the country can

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C congratulate itself on the President's veto of this measure, and also upon the action of the Senate only last week in approving the creation of a joint committee of the taxing and the appropriating agencies of Congress to study the possibilities of economy all along the line in nondefense activities. I have several times suggested the creation of such a committee and I am very happy that my suggestion has been adopted by the Senate at last. I hope now that the House will also approve the idea, because it seems to me that such joint action is the only sensible way to proceed if we are to cut the costs of government and clear the road for defense spending.

All of the measures I have so far suggested for combatting inflation would attack the problem by reducing the demand for goods now and by helping to build up a backlog for the post war world. But we should also attack the problem from the opposite

-B

direction by making every effort to increase the supply of goods available to the consumer wherever this can be done without encroaching upon the defense program. Above all, we must make full use of those supplies that are available not only in defense production but in the civilian goods which do not compete with defense output.

I wonder if the housewife knows when she pays 20 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 498 million bushels of two years' crops are stored in our neighbor democracy of Canada. It is true that there is a tariff on the importation of Canadian wheat, a rate of 42¢ a bushel on milling wheat and 5 per cent on feed wheat; but it is also true and not generally realized that the President has authority under the Tariff Act of 1930 to reduce the import duty on wheat for emergency relief purposes whenever he declares an emergency to exist. The emergency now exists, the

President has declared it by proclamation, and the reduction of these tariffs would seem to be both practicable and necessary.

The same situation exists in other fields. I wonder if the housewife knows when she pays 15 per cent more for a pound of sugar, that there are unusually large sugar stocks in this country and also stocks in Cuba which could be admitted speedily by a reduction of ^{the} tariff or by the enlargement of the import quota. I wonder if the housewife knows when she pays 25 per cent more for butter that we have great stocks of butter in storage, and large reserve stocks of farm products of many kinds which should be released for consumption as fast as necessary to prevent unreasonable price rises.

The Government now holds 7 million bales of cotton in reserve, and cotton prices have risen from 9½ cents a pound on August 1, 1939 to over 16 cents a pound at the present time. In spite of this rise of almost 100 per cent in two years, Congress

recently sent to the President a bill to freeze government stocks of cotton and wheat for the duration of the war, and thus to prevent the government from disposing of any of the surplus wheat and cotton it had acquired. The President promptly vetoed the bill and I am delighted, because this measure, which I called "wicked", would have aggravated the danger of inflation and would have frustrated all our efforts to fight it. We ought not to withhold surpluses from the market in times like these. The housewife ought not to be made to pay a tribute to profiteers and speculators when she buys a cotton sheet for her home or a shirt for her husband or a suit for her child.

Millions of people still go without the milk, butter and eggs which, according to the testimony of food experts and the dictates of plain common sense, are necessary to good health and good morale. Yet we are withholding the largest reserve of milk, butter, eggs and cheese in our history. I know from experience on

my own farm that within two months we could increase our supply of milk by feeding some of our huge surplus of corn to the cows. 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.

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 would not only help in keeping prices stable but we would be doing something even more important; we would be helping to make our people healthier and happier.

It is sheer folly from the farmer's point of view to push prices up by creating scarcities in times like these. The farmers suffered cruelly for twelve long years after the collapse of the inflation of 1920 and 1921; they should not be made to suffer again. It is sheer folly in the same way for labor leaders to seek continual

increases in wages which in turn produce higher manufacturing costs, higher prices, and a higher cost of living. It is shortsighted for landlords to charge all that the traffic will bear in cities where housing space is at a premium because of defense needs.

There are always selfish groups in any country which think they can profit from inflation. They are wrong.

Inflation does more than merely to rob the wage earner of a portion of his earnings. It does more than saddle the farmer with a load of debt which he cannot repay. It is more destructive of morale than any other single force. Inflation divides the country. It sets up producers against consumers, workers against employers, the people who owe money against the people to whom the money is owed. No group in a community profits from inflation in the long run except the Three Horsemen - the Speculator, the Profiteer and the Hoarder.

These are truths that should be self-evident. They should be especially so now, in view of the fact that rising prices will only add to the cost of our defense program and make the arming of our country steadily more difficult. They should be self-evident now in the light of the experience that we suffered only 25 years ago.

We Americans have more than 150 years of self-government behind us. We are not children any longer. We are a mature nation, and we should be able to face up to our responsibilities as mature men and women. My plea to you tonight is that we should learn from bitter experience. My hope and my belief is that no group among us - whether farmers, working men or business men - shall be tempted by the illusion of selfish gain into allowing prices to rise unchecked. The cost of inflation is too ruinous to producer and consumer alike for anyone in authority to tolerate it now.

I can give you only this pledge - that we at the Treasury will do everything humanly possible to check the rise in prices

before it will do any lasting damage to our economy. But we at the Treasury must have the firm support and the clear understanding of 130 million Americans behind us. If we have that support and that understanding, I know that we shall not fail.

Draft of Secretary Morgenthau's Speech
to the Advertising Club of Boston
September 9, 1941

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in front of the famous statue of the Minute Man by Daniel Chester French
A few hours ago it was my privilege to stand ~~at the wooden~~

at the very place
on the green
bridge at Lexington, where the men of New England first proved that
Americans could defend their homes and their freedom. Today, the
people of these States are proving that they are still New Eng-
landers. In army camps and naval stations, in hundreds of
factories and shipyards from Connecticut to Maine, the men and
women of New England are responding magnificently to their
country's needs. I am glad to be here tonight to pay my tribute
to the great work that New England is doing, like all other sec-
tions of the country, to arm America.

I am glad also that my host tonight is the Advertising Club
of Boston, for the advertising profession is a mighty force in
creating public understanding. We cannot make ourselves the
arsenal of democracy and the defender of freedom unless our people
understand the tremendous issues involved in this Battle for the

World. In the same way, we at the Treasury shall find it more difficult to accomplish our task of financing the defense program unless the public sees clearly the need for greater sacrifice and for greater effort.

In particular, I think that clear understanding is needed if we are to avoid the economic evils that might otherwise spring from a defense program as great as ours, a program that is making such enormous demands upon our productive resources. The worst of those economic evils has been constantly uppermost in my mind as Secretary of the Treasury. That is the evil of inflation and that is the subject which I should like to discuss with you tonight.

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.

D-C

If we are selfish or shortsighted in facing this issue, the consequences may haunt us and our children for years. But if we look at the problem with clear vision and firm resolve, we can beat this thing. If we keep always in mind the interests of our country as a whole, if we provide promptly the appropriate means and use them vigorously whenever necessary, we can prevent inflation from fastening its grip upon us.

That task calls for alertness and mental toughness on the part of everyone in the executive departments of the Government, everyone in the halls of Congress, everyone of us here in this room and everyone that may be listening to me tonight.

The word "inflation" is cold and lifeless, so cold that even you advertising men here tonight might have difficulty in making it real, but the thing it describes is treacherous and cruel. Memories are so short that I suppose many of us have forgotten what happened the last time a price inflation struck us

25 years ago. The effects of that inflation, however, lasted for many years and brought untold heartbreak and misery in their train.

Let us look at the record to see what happened a generation ago. In 1916 the cost of living began to rise sharply but there were few who saw its significance. It was only when prices had risen by 70 per cent that President Wilson recommended any steps to prevent inflation. In fact, the country was so blind to its dangers that as late as June, 1917, Congress actually hastened the rise in prices by reducing the reserve requirements for member banks of the Federal Reserve System.

The consequences were so serious for every American that there must be many housewives even today who can remember them. By 1920, a ten-pound bag of sugar cost \$2.67, a dozen eggs cost 92 cents, a ten-pound bag of flour cost 88 cents, a pound of butter cost 76 cents and a pound of pork chops cost 50 cents. By that

year prices had skyrocketed to twice the level of five years earlier. 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 half a pound in 1920. The money she paid for a yard of cotton cloth was only enough to buy only 1/3 of a yard in 1920. The consumer found that food, fuel, shelter and clothing which cost a dollar in April, 1916, had risen to almost two dollars by 1920. The family with no increase in income found its purchasing power cut in half.

We have now, as we had then in 1916, a moderate rise in the cost of living, a great rise in wholesale prices, and a still greater rise in the prices of basic commodities like wheat, hogs, cotton and lumber. It is the rise in the prices of basic commodities that constitutes our red light, our warning signal, today, for such a rise is always the advance guard of an increase in the cost of living.

If we fail to use the controls at our disposal now, if we fail to do the specific things which are in our power to check inflation now, if we allow prices to go on rising as they did from 1916 to 1920, we may find that food, fuel, shelter and clothing which now cost a dollar will once more cost almost twice as much before the process has ended.

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. 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 per cent and if it goes along the 1916 pattern, we are only at the beginning of the story.

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taken hold, rents have already risen 10, 20, 30 per cent, and even higher.

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and determination to avoid what we went through twenty-five years ago.

Let it not be said of us, as David Lloyd George said of his people in 1915, that we were "too late in moving here, too late in arriving there, too late in coming to this decision, too late in starting with enterprises, too late in preparing."

There is no excuse for us to be too late in meeting this threat of inflation that faces us. We now know, or ought to know, what is going on; that is perhaps the greatest difference between conditions today and in 1916. This time our eyes are open to the dangers that lie ahead of us. We now 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.

There is no need for me to remind this audience in detail of the reasons why prices have already risen. The reasons are plain

D-C

for everyone to see. Our economy today resembles an overloaded 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 also by increasing the flow of supplies of goods available to the consumer.

We can, as I have said before, defeat this threat of inflation, just as we can defeat and destroy the forces of evil that have been let loose upon this earth. But we need to understand the issues and we need to see clearly the consequences of inaction or delay. I should like, therefore, to point out, first, what we have done, and then what we need to do in order to stop prices from rising further.

In the first place, Congress is on the point of passing a huge tax bill designed to raise almost four billion dollars in additional revenue, thus withdrawing a great amount of purchasing power that competes with the defense effort.

Secondly, the Treasury in its borrowing program is trying to obtain as large a portion of its funds as possible from current consumers' income.

Through a new form of note - the tax anticipation note - it is seeking to increase the effectiveness of the income tax as a check on current purchasing power, and I am happy to report to you that more than a billion dollars' worth of these notes were sold in the month of August.

The Treasury has also begun a program of selling Defense Savings Bonds and Stamps to people of moderate and low incomes. The people have responded to a tune of a billion and a quarter dollars in four months, without coercion of any kind; and in making that response possible the advertising profession has been of truly

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The Congress is considering, and I hope will pass without undue delay, a bill to limit price rises and to supplement the efforts of the Office of Price Administration to limit those rises by voluntary cooperation.

All these are useful steps to a necessary end, but they are not enough.

We shall have to tax ourselves much more heavily next year than this year, great and far-reaching as the present tax bill will be.

We shall have to invest much more widely and systematically in Defense Savings Bonds and Stamps. In particular, the rising

payrolls of the past year have been a clear call to the wage earners of America to set aside a portion of their earnings each week for their own good and their country's good.

We may have to extend general controls over bank credit and create controls over selected capital expenditures.

I hope that we may extend the social security program so as to increase the flow of funds to the Treasury from current income during the emergency and increase the outflow of funds when needed in the post defense period. In addition, I have already suggested the creation of what I have called a "separation wage" -- that is, an entirely new form of contribution out of which a worker may draw a regular wage for a stated period in case he loses his job. These measures would be good and desirable in themselves, but they are especially necessary at this time, for they should help us to decrease purchasing power now and increase it in the future when it may be needed.

We shall have to reduce the Federal lending and underwriting program in such fields as non-emergency housing expenditures and mortgage guarantees.

We must, as I have said many times, reduce nonessential Federal expenditures. We must also appeal for economy in state and local government expenditure and a curtailment of their borrowing for nondefense purposes. The President pointed the way a month ago when he vetoed a bill calling for 320 million dollars worth of highway construction. By this action he demonstrated that there is a clear distinction nowadays between the spending that is necessary for defense and the spending that can be postponed until a later day.

The country should congratulate itself on the President's veto of this measure, and also upon the Senate's action only last week in approving the creation of a joint committee of the taxing and the appropriating agencies of Congress to study the possibilities of economy all along the line in

nondefense activities. I have several times suggested the creation of such a committee, and I am very happy that my suggestion has been adopted by the Senate at last. I hope now that the House will also approve the idea, because it seems to me that such joint action is the only sensible way to proceed if we are to cut the costs of government and clear the decks for defense spending.

All of the measures I have so far suggested for combatting inflation would attack the problem by reducing the demand for goods now and by helping to build up a backlog of purchasing power for the post war world. But we should also attack the problem from the opposite direction. We must make every effort to increase the supply of goods available to the consumer wherever this can be done without encroaching upon the defense program. Above all, we must make full use of those supplies that are available, not only in defense production, but in the provision of civilian goods which do not compete with defense output. This is a time when we must flatten the peaks

D-C

and fill up the valleys in our economic picture. If we reduce purchasing power now and keep prices down now, we shall be helping to provide for the day when these vast defense expenditures will end and when our defense workers will take up the work of peace again.

The most effective way to prevent a damaging rise in prices is, quite simply, to release surpluses from storage.

I wonder if the housewife knows, when she pays ¹⁵20 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 498 million bushels of several years' crops are available in our neighbor democracy of Canada. It is true that only three months ago a rigid quota was applied to the importation of wheat from Canada so as to keep up the price of wheat in this country. But it is also true that only the other day the quota on sugar from Cuba was enlarged so substantially as to absorb most of the reserve stocks in that country.

It seems to me desirable and necessary that we now follow the example set in the case of Cuban sugar and permit the entry of Canadian wheat in larger volume.

Here in this country we have large reserve stocks of farm products of many kinds which should be released for consumption as fast as necessary to prevent unreasonable price rises.

The Government now holds 7 million bales of cotton in reserve, and cotton prices have risen from 9½ cents a pound on August 1, 1939 to over 16 cents a pound at the present time. In spite of this rise of not far from 100 per cent in two years, Congress recently sent to the President a bill to freeze government stocks of cotton and wheat for the duration of the war, and thus to prevent the government from disposing of any of the surplus wheat and cotton it had acquired. The President promptly vetoed the bill because this measure would have aggravated the danger of inflation and might have frustrated our

efforts to fight it.

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

Millions of people still go without the milk, butter and eggs which, according to the testimony of food experts and the dictates of plain common sense, are necessary to good health and good morale. Yet the reserve stocks of butter, cheese, beef and pork now held in this country are far higher than they were a year ago and far higher than the average of the past five years.

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 would not only help in keeping prices stable but we would be doing something even more important; we would be helping to make our people healthier and happier.

It is sheer folly from the farmer's point of view to push prices up by creating scarcities in times like these. The farmers suffered cruelly for twelve long years after the collapse of the inflation of 1920 and 1921; they should not be made to suffer again.

It is sheer folly in the same way for labor leaders to seek ^{new} continual increases in wages ^{every few months - new increases} which in turn produce higher manufacturing costs, higher prices, and a higher cost of living. # It is short-sighted for a landlord to charge all that the traffic will bear in defense centres where housing space is at a premium. # It is poor

business, in the long run, for any businessman to seek exorbitant profits in this period of defense spending. # It is bad banking, in the long run, for any banker to exploit the present demand for funds by seeking to charge unreasonable interest rates.

There are always selfish groups in any country which think they can profit from inflation. They are wrong.

Inflation does more than merely to rob the wage earner of a portion of his earnings. It does more than saddle the farmer with a load of debt which he cannot repay. It is more destructive of morale than any other single force. Inflation divides the country. It sets up producers against consumers, workers against employers, the people who owe money against the people to whom the money is owed. # No group in a community profits from inflation in the long run except the Three Horsemen - the Speculator, the Profiteer and the Hoarder.

These are truths that should be self-evident. They should be especially so now, in view of the fact that rising prices will only add to the cost of our defense program and make the arming of our country steadily more difficult. They should be self-evident now in the light of the experience that we suffered only 25 years ago.

We Americans have more than 150 years of self-government behind us. We are a mature nation, and we should be able to face up to our responsibilities as mature men and women. My plea to you tonight is that we should learn from bitter experience. My hope and my belief is that no group among us - whether farmers, working men or business men - shall be tempted by the illusion of selfish gain into allowing prices to rise unchecked.

The cost of inflation is too ruinous to producer and consumer alike for anyone in authority to tolerate it now.

I can give you only this pledge - that this Administration will do everything humanly possible to prevent inflation. But in this fight the Administration must have the firm support and the clear understanding of 130 million Americans behind it. If we have that support and that understanding, I know that we shall not fail.

Thursday, Sept 4 at
Acme's house, 8:45 pm.

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for everyone to see. Our economy today resembles an overloaded 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 also by increasing the flow of supplies of goods available to the consumer.

We can, as I have said before, defeat this threat of inflation, just as we can defeat and destroy the forces of evil that have been let loose upon this earth. But we need to understand the issues and we need to see clearly the consequences of inaction or delay. I should like, therefore, ^{to point out,} ~~to look at the problem for a few minutes, to see~~ first, what we have done, and then what we need to do in order to stop prices from rising further.

We shall have to reduce the Federal lending and underwriting program in such fields as non-emergency housing expenditures and mortgage guarantees.

We must, as I have said many times, reduce nonessential Federal expenditures. We must also appeal for economy in state and local government expenditure and a curtailment of their borrowing for nondefense purposes. ~~As~~ The President ^{pointed the way} ~~showed clearly~~ a month ago when he vetoed a bill calling for 320 million dollars worth of highway construction, ^{By this action he demonstrated that} there is a clear distinction nowadays between the spending that is necessary for defense and the spending that can be postponed until a later day.

I think ^{should} the country ~~can~~ congratulate itself on the President's veto of this measure, and also upon the ^{Senate's} ~~action of the~~ Senate only last week in approving the creation of a joint committee of the taxing and the appropriating agencies of Congress to study the possibilities of economy all along the line in

nondefense activities. I have several times suggested the creation of such a committee, and I am very happy that my suggestion has been adopted by the Senate at last. I hope now that the House will also approve the idea, because it seems to me that such joint action is the only sensible way to proceed if we are to cut the costs of government and clear the ^{decks} way for defense spending.

All of the measures I have so far suggested for combatting inflation would attack the problem by reducing the demand for goods now and by helping to build up a backlog ^{of purchasing power} for the post war world.

But we should also attack the problem from the opposite direction.

We ^{must} ~~should~~ make every effort to increase the supply of goods available to the consumer wherever this can be done without encroaching upon the defense program. Above all, we must make full use of those supplies that are available, not only in defense production, but in the provision of civilian goods which do not compete with defense output. This is a time when we must flatten the peaks

and fill up the valleys in our economic picture. If we ~~shave off~~
~~the peak by~~ ^{by} reducing purchasing power now and by keeping prices
down now, we shall be helping to provide for the day when these
vast defense expenditures will end and when our defense workers
will take up the work of peace again.

The most effective way to prevent a damaging rise in prices
is, quite simply, to ~~bring prices down.~~ ^{release surpluses from storage.}

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 498 million bushels of
several years' crops are available in our neighbor democracy of
Canada. It is true that only three months ago a rigid quota was
applied to the importation of wheat from Canada so as to keep up
the price of wheat in this country. But it is also true that only
the other day the quota on sugar from Cuba was enlarged so sub-
stantially as to absorb most of the reserve stocks in that country.

It seems to me desirable and necessary that we now follow the example set in the case of Cuban sugar and permit the entry of Canadian wheat in larger volume.

Here in this country we have large reserve stocks of farm products of many kinds which should be released for consumption as fast as necessary to prevent unreasonable price rises.

The Government now holds 7 million bales of cotton in reserve, and 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. In spite of this rise of not far from 100 per cent in two years, Congress recently sent to the President a bill to freeze government stocks of cotton and wheat for the duration of the war, and thus to prevent the government from disposing of any of the surplus wheat and cotton it had acquired. The President promptly vetoed the bill ~~and I am delighted~~, because this measure would have aggravated the danger of inflation and might have frustrated our

efforts to fight it.

We ought not to withhold ^{cotton or any} surpluses from the market in times like these. The housewife ought not to be made to pay a tribute to profiteers and speculators when she buys a cotton sheet for her home or a shirt for her husband or a suit for her child.

Millions of people still go without the milk, butter and eggs which, according to the testimony of food experts and the dictates of plain common sense, are necessary to good health and good morale. Yet the reserve stocks of butter, cheese, beef and pork now held in this country are far higher than they were a year ago and far higher than the average of the past five years. I know from experience on my own farm that within two months we could increase our supply of milk by feeding some of our huge surplus of corn to the cows. 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.

These are truths that should be self-evident. They should be especially so now, in view of the fact that rising prices will only add to the cost of our defense program and make the arming of our country steadily more difficult. They should be self-evident now in the light of the experience that we suffered only 25 years ago.

We Americans have more than 150 years of self-government behind us. ~~We are not children any longer.~~ We are a mature nation, and we should be able to face up to our responsibilities as mature men and women. My plea to you tonight is that we should learn from bitter experience. My hope and my belief is that no group among us - whether farmers, working men or business men - shall be tempted by the illusion of selfish gain into allowing prices to rise unchecked. The cost of inflation is too ruinous to producer and consumer alike for anyone in authority to tolerate it now.

I can give you only this pledge - that ~~we at the Treasury~~ ^{this Administration}
will do everything humanly possible to ~~check the rise in prices~~ ^{prevent inflation.}
~~before it will do any lasting damage to our economy.~~ ^{in this fight the} But ~~we at~~
^{Administration} the Treasury must have the firm support and the clear understand-
ing of 130 million Americans behind us ^{it.} If we have that support
and that understanding, I know that we shall not fail.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 4, 1941

TO Secretary Morgenthau
FROM Messrs. Foley and Pehle

A character investigation of Emma von Lewinski, a report on which was received today, indicated that Mrs. von Lewinski, who had since July 1, 1941, been employed by the Foreign Funds Control, is the wife of Karl von Lewinski, former German agent before the Mixed Claims Commission and German Consul General in New York City for many years prior to 1930. The report indicated that Mr. and Mrs. von Lewinski are separated and that Karl von Lewinski is now in Germany, as is their daughter. Mrs. von Lewinski was immediately separated from the Foreign Funds Control.

In June, 1941, when she was interviewed prior to her employment, she gave among her references, Chief Justice Stone and Senators Barkley, Adams, and Wagner. She also exhibited letters from Senator Barkley which indicated that he was a close friend and fully endorsed her as to character. The Secret Service report indicates that Senator Barkley stated he had known the subject for many years and considered her to be reliable and a loyal American citizen and could be trusted in every way. It is not unlikely that Senator Barkley will request the Treasury to reconsider its action in severing Mrs. von Lewinski from the Foreign Funds Control.

*Approved:
M. J.*

*J. P. Pehle
S. L. Foley Jr.
H. L. ...*

*477 - 4000
MAR 12 1942*

UNITED STATES SAVINGS BONDS

Comparative Statement of Sales During
First Two Business Days of July, August, and September, 1941
(July 1-2, August 1-2, September 1-3)
On Basis of Issue Price

(Amounts in thousands of dollars)

| Item | Sales | | | Amount of Increase or Decrease (-) | | Percentage of Increase or Decrease (-) | |
|-------------------------|-----------------|-----------------|-----------------|---------------------------------------|------------------------|---|------------------------|
| | September | August | July | September over August | August over July | September over August | August over July |
| Series E - Post Offices | \$ 3,993 | \$ 2,967 | \$ 2,330 | \$1,026 | \$ 637 | 34.6% | 27.3% |
| Series E - Banks | <u>5,318</u> | <u>6,325</u> | <u>4,124</u> | - 1,007 | <u>2,201</u> | - 15.9 | <u>53.4</u> |
| Series E - Total | 9,311 | 9,293 | 6,454 | 18 | 2,839 | 0.2 | 44.0 |
| Series F - Banks | 1,767 | 1,889 | 1,802 | - 122 | 87 | - 6.5 | 4.8 |
| Series G - Banks | <u>11,400</u> | <u>13,687</u> | <u>12,862</u> | - 2,387 | <u>825</u> | - 17.4 | <u>6.4</u> |
| Total | <u>\$22,378</u> | <u>\$24,869</u> | <u>\$21,117</u> | - \$2,491 | <u>\$3,752</u> | - 10.0% | <u>17.8%</u> |

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

September 4, 1941.

Sources: 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 - September 1941
On Basis of Issue Price

(In thousands of dollars)

| Date | Post Office Bond Sales Series E | Bank Bond Sales | | | | All Bond Sales | | | |
|----------------|---|-----------------|----------|-----------|-----------|----------------|----------|-----------|-----------|
| | | Series E | Series F | Series G | Total | Series E | Series F | Series G | Total |
| September 1941 | | | | | | | | | |
| 2 | \$ 3,021 | \$ 3,385 | \$ 1,182 | \$ 5,510 | \$ 10,077 | \$ 6,406 | \$ 1,182 | \$ 5,510 | \$ 13,098 |
| 3 | 972 | 1,933 | 585 | 5,790 | 8,308 | 2,905 | 585 | 5,790 | 9,280 |
| Total | \$ 3,993 | \$ 5,318 | \$ 1,767 | \$ 11,300 | \$ 18,384 | \$ 9,311 | \$ 1,767 | \$ 11,300 | \$ 22,378 |
| | | | | | | | | | |

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

September 4, 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

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ADVANCE SCHEDULE OF RADIO PROGRAMS

THURSDAY - SEPTEMBER 4, 1941

Time: 9:00 - 9:15 A.M.
Program: The Story of Bess Johnson
Station: WRC and NBC Red Network

Time: 1:00 - 1:15 P.M.
Program: Young Dr. Malone
Station: WJSV and CBS Network

Time: 9:30 - 10:00 P.M.
Program: "Great Gunns"
Station: WOL and MBS Network

Time: 9:30 - 10:00 P.M.
Program: Quiz of Two Cities
Station: WRC - Washington
and
WFBR - Baltimore

THESE PROGRAMS PROMOTE THE SALE OF DEFENSE BONDS AND STAMPS.

SEP 4 1941

Dear Mr. Kuhn:

A Bureau of Facts and Figures is being established in the Office of Civilian Defense to which will be attached an Advisory Interdepartmental Committee. You are hereby designated as the Treasury Department member of this Advisory Committee.

Attached are copies of files on the subject which set forth in detail the functions of the Bureau of Facts and Figures and of the Advisory Committee.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Ferdinand Kuhn, Jr.,
Assistant to the Secretary,
Treasury Department.

Enclosures: LaGuardia's ltr. of Aug. 25, 1941
Gaston's ltr. of Aug. 21, 1941
LaGuardia's ltr. of Aug. 14, 1941
5 page memo from Mayor LaGuardia
to Secretary, dated Aug. 14, 1941

WNT:rg

CC to Mr. Thompson

cc Miss Chauncy

SEP 4 1941

Dear Mr. Schwarz:

You are hereby designated as the Treasury Department liaison representative with whom direct contacts may be made by representatives of the Bureau of Facts and Figures which is being established in the Office of Civilian Defense.

Attached are copies of files on the subject which set forth in detail the functions of the Bureau of Facts and Figures and of the Advisory Committee which is being established as an adjunct of the Bureau.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Charles Schwarz,
Director of Press Relations,
Treasury Department.

Enclosures:

LaGuardia's ltr. of Aug. 25, 1941
Gaston's ltr. of Aug. 21, 1941
LaGuardia's ltr. of Aug. 14, 1941
4 page memo from Mayor LaGuardia
to Secretary, dated Aug. 14, 1941

WNT:rg

Copies to Mr. Thompson.

cc- Miss Channing

OFFICE OF CIVILIAN DEFENSE

WASHINGTON, D. C.

August 25, 1941

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

Dear Mr. Secretary:

I am writing you in reference to the plan for a Bureau of Facts and Figures, which I submitted to you under the date of August 14, for your recommendations. After receiving your comment, and the comments of other interested parties, I submitted the plan to the President, and he has directed me to proceed.

You will remember that the plan for the Bureau called for an Advisory Inter-Departmental Committee, to meet regularly with the Bureau. Would you please, therefore, designate someone from your Department to serve on this Committee? I would like to have a person of sufficient position within your Department, to make decisions on policy. At the same time would you also designate a liaison representative within your Department, with whom the Board could maintain a direct contact. As soon as you, and the other Departments have designated your representatives for the Advisory Committee, I shall call a meeting of it, to begin operations.

I want to thank you for your kindness in making suggestions concerning the Bureau of Facts and Figures. I was particularly pleased that, except for some differences as to methods of procedure, the recommendations on the plan were generally favorable. I should like once more to repeat that the Bureau of Facts and Figures will cooperate with the other Departments, and not attempt to supersede any of their activities. It will have only one basic objective, to improve national unity. As you know, the President is extremely anxious to get started in this field, so that I would appreciate it if you could designate your representative for the Advisory Committee and the liaison within your Department as quickly as possible.

Sincerely yours,



F. H. LeGuardie
U. S. Director of Civilian Defense

August 21, 1941.

Honorable F. N. Laddard,
U. S. Director of Civilian Defense,
Washington, D.C.

Dear Sir:

By direction of Secretary Berenthan, and in his absence, I am replying to your letter of August 14, with which you enclosed a memorandum as to the proposed Office of Facts and Figures, together with a questionnaire. The original of the questionnaire, with replies on behalf of the Secretary of the Treasury, is being returned herewith as you requested.

In addition to the three specific inquiries in the questionnaire you state in your letter that you would like a frank expression as to whether the job of civilian morale properly belongs to the Office of Civilian Defense. It would seem that this question is adequately answered by the terms of Executive Order of May 20, 1941, which you cite, containing the words "consider proposals, suggest plans, and promote activities designed to sustain the national morale." In addition it seems to us that the work of cultivating and sustaining a satisfactory state of civilian morale is an essential part of the work of an office of civilian defense.

Secretary Berenthan expressed to me the belief that great betterment of public morale will be brought about if the Office of Civilian Defense would undertake to encourage well planned speaking campaigns both to the general public and in large groups.

Very truly yours,

Herbert E. Gaston
Assistant Secretary of the Treasury.

Enclosure.

OFFICE OF CIVILIAN DEFENSE
WASHINGTON, D. C.

August 14, 1941

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

My dear Mr. Secretary:

By an Executive Order of May 20, 1941, the President instructed the Office of Civilian Defense to "consider proposals, suggest plans, and promote activities designed to sustain the national morale." Following these instructions I have been studying the field intensively, and in order to carry them out I am considering the establishment of an Office of Facts and Figures, within the Office of Civilian Defense.

Before proceeding further, however, it is my desire to obtain general agreement as to operation, and general aims. Clearly, the value of such an Office must lie in the assistance it can render to departments and existing agencies of the Government. I am, therefore, submitting with this letter the general idea of an Office of Facts and Figures, as suggested by our studies. You will find at the bottom of the attached memorandum a simple form, set up for the expression of your approval, your disapproval, your comments, and so forth. I would appreciate it if you would fill out this form, stating your frank opinion of the idea as presented here, and adding any suggestions you may have. If this project is to be undertaken, it is of fundamental importance that it have the approval of all. I enclose two copies of the memorandum, so that you may retain one in your files.

Besides your approval, disapproval, or comments, concerning this plan, I should like a frank expression from you as to whether you believe that the job of civilian morale properly belongs to the Office of Civilian Defense, or whether you believe that it should be placed somewhere else or whether you believe that there is no need or desirability for a coordinating office of this kind.

Since I am anxious to act as soon as possible, I would appreciate your reply at your earliest convenience. I shall be out of town during the coming week on speaking engagements. If there are any questions or amplifications that you would like in the meantime, I wish you would feel free to call upon Russell Davenport or Captain Robert Kintner, who have undertaken to help me in developing this plan, and who can be reached through my Office. They are familiar with all the details as we have discussed them.

Sincerely yours,

F. W. LaGuardia
U. S. Director of Civilian Defense

Enclosures

MEMORANDUM

August 14, 1941

TO: The Secretary of the Treasury

FROM: Mayor F. H. LaGuardia

SUBJECT: Office of Facts and Figures

The functions of an Office of Facts and Figures are extremely important to the defense program. Yet the requirements are extremely simple.

First, in order to make itself conversant with the entire field, the Office would require copies of all the releases sent out by every department and agency in the Government. These copies should be received when released.

Second, the Office would require access to every department and agency for the purpose of gathering further information concerning their activities. Naturally, in seeking this information, the Office would conform to special regulations regarding the release of military, diplomatic, and other departmental secrets. This can very easily be worked out with each department, providing the general principle is agreed upon by all that, with special exceptions, the Office of Facts and Figures is entitled to ask for information to supplement the standard releases, whenever the Office deems that such aided information would be of benefit to public morale.

Third, to be effective, the Office should have the authority to make suggestions to department heads and to their public relations offices, concerning their information activities.

These, I believe, are the only requirements for the successful establishment of what we have in mind. I do not feel that it would be proper for our Office to supplant the present publicity or information services. That work is now being done by each department and it should remain with the departments. Our simple function is to clarify, and, we would hope, make more effective, the efforts of agencies already in the field. It is essentially a job of coordination and not of control or regulation.

To this general principle there is only one exception, and that has to do with radio time. At present the radio companies are being flooded with requests for time from all the departments. All these requests are made with the same intention, namely, to help public morale; yet I am assured that they are having quite the opposite effect, and that the public is not reacting well to all the Government messages now being taken on the air. In order to make these efforts effective it will be necessary to coordinate and channel all Government radio programs in one office, and this job should belong to an office of Facts and Figures.

In the subject of radio, we have been considering a program called "Ask Your Government," in which the Office of Facts and Figures would undertake to answer any question that any citizen might ask concerning defense and the national emergency. The information to answer these questions would have to be supplied to us by the departments (subject always to the special restrictions already mentioned). Basically, this would be a large mailing operation, but once a week the questions would be sifted and the best ones asked, and answered, on the air. Such a program would serve two purposes: (1) It would inform us in detail concerning the confusions and perplexities of the average citizen, and (2) would enable us, with the cooperation of the departments, to present an informed and coherent picture of the national effort. The idea of this program is as yet tentative, but it seems to us, and to the radio people consulted, to hold a great deal of promise.

The Office of Facts and Figures would consist of a small group of men and women carefully selected from different occupations having to do with public information—that is, news, feature, magazines, radio, movies, clubs, etc. These men, thoroughly familiar with the operation of government, would study the departmental releases and would thus be thoroughly familiar with what the Government is saying about itself at all times. These specialists would be in touch with all parts of the country through their professional contacts. The communications would be two-way: That is, each man would undertake to distribute facts and figures in his field. And would at the same time gather ideas, analyze situations where morale is low, and determine what might be done to improve morale. In short, these men would be concerned, in short, with facts, figures, and ideas, and with their distribution, in the interest of national unity.

A detailed discussion of the methods of distribution would be too involved for this memorandum. I can summarize that by saying that they will be natural, not forced; they will employ news, not bellyache. Our studies show that the first need of the U.S. today is for information, in the absolutely literal sense of that word. It will be the duty of the Office of Facts and Figures to help information to flow freely and rapidly through its natural channels.

In this connection, with the approval of the President, we have already taken steps to establish a speaker's bureau to assist those who are anxious to cooperate with the national defense program.

Possibly, other more extended functions for the Office of Facts and Figures would grow out of this work. But for the time being, it is that the Office should be set up on a sound basis, with the most possible aid, namely, to facilitate and make effective what is already in existence.

In addition to the half dozen men constituting the Office of Facts and Figures, I very much desire to have a Government Advisory

What is proposed seems to be in effect the creation of a new centralizing or coordinating office for Government public relations and information. It is our understanding that such an office already exists in the Office of Government Reports and therefore the creation of a new office on the lines indicated would seem to be an unnecessary duplication. If in his studies of civilian morale the Director of Civilian Defense should find that ambiguity or conflict in the announcement of governmental agencies as to defense programs is contributing to an unsatisfactory state of morale, it would seem wholly proper for the Director to report the situation to the agencies concerned, or to the Office of Government Reports. It is our view that too much centralization is likely to be harmful by obstructing the free flow of information to the press and other agencies of dissemination.

The Treasury is also opposed to the creation of any new agency to control the allocation of radio time to Government Departments and agencies. So far as Treasury programs are concerned the reports of the principal radio analysts, independent polls and the record of results in the sale of securities seem to us to furnish convincing evidence that these programs are helping rather than hurting public morale.

Do you think that these functions properly pertain to the Office of Civilian Defense, or should they be lodged elsewhere?

A. See above.

Do you believe that there should be any such set-up?

A. See above.

-3-

Committee, composed of one representative from each key department, or agency, including Government Reports (Lowell Mellett) and Defense Information (Colonel Willie Donovan), appointed by the head of the department or agency. This Advisory Committee should meet with the members of the Office of Facts and Figures at least once a week for the purpose of discussing the needs and problems of the department. I feel that this would coordinate government policy and make the Office both practical and helpful.

I would appreciate it if you would express your approval or disapproval of this plan in this space or make whatever suggestions you may have.

Do you think that these functions properly pertain to the Office of Civilian Defense, or should they be placed elsewhere?

Do you believe that there should be an annual set-up?

THE BRITISH SUPPLY COUNCIL IN NORTH AMERICA 154

TELEPHONE: REPUBLIC 7860



BOX 580
BENJAMIN FRANKLIN STATION
WASHINGTON, D. C.

September 4, 1941

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

Dear Mr. Morgenthau:

Many thanks for your kind note of yesterday regarding my new appointment.

I do not need to tell you that Arthur Purvis is a hard man to follow. I do not expect to fill his shoes, but I can at least hope to follow in the path that he blazed.

He often spoke feelingly of the assistance you had been to him at all times, and stated that your wise counsel and advice enabled him to avoid many pitfalls. I hope you will not mind if from time to time I also seek your counsel and advice in attempting to deal with the difficult problems with which we are often confronted.

Again thanking you for your kind letter, I am,

Yours sincerely,

A handwritten signature in cursive script, appearing to read 'Morris W. Wilson'.

Morris W. Wilson.

September 3, 1941.

Dear Mr. Wilson:

It was with a great deal of pleasure that I heard of your appointment to carry on the work which our good friend, Arthur Farvis, so ably initiated. I know that this responsibility is a heavy one, but I feel also that it is in good hands.

As you take up the new duties, I send my congratulations and best wishes. I shall look forward to our association during the coming months.

Sincerely,

(Signed) E. Mergenthaler, Jr.

Mr. Morris Wilson,
Chairman,
British Supply Council,
C/o Willard Hotel,
Washington, D. C.

GEF/cgk

By Messenger 10:30 am

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

156

DATE September 4, 1941

TO Secretary Morgenthau
FROM Mr. Kamarek
Subject: Airplane Deliveries to the British

Summary

1. A total of 49 planes is reported as shipped in the last statement received, 40 going to England and 9 to the Middle East.

2. We have now received data on shipments to the British for the last 30 weeks. From the following table giving shipments by ten week periods, it is evident that deliveries to the British have slightly decreased in the last ten weeks compared to the preceding period.

Total Deliveries to the British

| | Number of Planes |
|------------------|------------------|
| First ten weeks | 563 |
| Second ten weeks | 654 |
| Last ten weeks | 649 |

Airplane Shipments to the British
(From February 1 to August 30 by air
January 11 to August 9 by sea)

Table A. - Shipments by Area

| | Latest Week | Total Reported To Date |
|------------------------------|----------------|------------------------------|
| <u>To the United Kingdom</u> | | |
| Light and medium bombers | 35 | 809 |
| Heavy bombers | 0 | 43 |
| Naval patrol bombers | 0 | 72 |
| Pursuit | <u>5</u> | <u>36</u> |
| Total to United Kingdom | 40 | 960 |
| <u>To the Middle East</u> | | |
| Light and medium bombers | 9 | 175 |
| Pursuit | <u>0</u> | <u>516</u> |
| Total to Middle East | 9 | 691 |
| <u>To the Far East</u> | | |
| Light and medium bombers | 0 | 6 |
| Naval patrol bombers | 0 | 9 |
| Pursuit | 0 | 145 |
| Trainers | <u>0</u> | <u>55</u> |
| Total to Far East | 0 | 215 |
| <u>Totals</u> | | |
| Light and medium bombers | 44 | 990 |
| Heavy bombers | 0 | 43 |
| Naval patrol bombers | 0 | 81 |
| Pursuit | 5 | 697 |
| Trainers | <u>0</u> | <u>55</u> |
| Grand Total | 49 | 1,866 |

Division of Monetary
Research

Table B. - Shipments by Types

| | Latest Week | Total Reported To Date |
|---------------------------|----------------|------------------------------|
| Bell Airacobra (P-39) | 5 | 27 |
| Boeing B-17 | 0 | 21 |
| Brewster Buffalo | 0 | 145 |
| Consolidated Catalina | 0 | 81 |
| Liberator | 0 | 22 |
| Curtiss Tomahawk | 0 | 516 |
| Douglas Boston I | 0 | 1 |
| Boston II | 0 | 72 |
| Boston III | 16 | 189 |
| Glenn Martin Maryland | 0 | 150 |
| Grumman Martlet II | 0 | 9 |
| Lockheed Hudson I | 0 | 1 |
| Hudson III | 22 | 166 |
| Hudson IV | 0 | 18 |
| Hudson V | 0 | 344 |
| North American Harvard II | 0 | 55 |
| United Chesapeake | <u>6</u> | <u>49</u> |
| Grand Total - All Types | 49 | 1,866 |

Table C. - Plane Deliveries to the British by Weeks

| Week Ended | Light and Medium Bombers | Heavy Bombers | Naval Patrol Bombers | Pursuit | Trainers | Total |
|---------------|--------------------------------|------------------|----------------------------|---------|----------|-------|
| Feb. 8 * | 22 | - | 3 | - | - | 25 |
| Feb. 15 * | 39 | - | - | 100 | - | 139 |
| Feb. 22 * | 35 | - | - | 27 | - | 62 |
| Mar. 1 * | 7 | - | 5 | 25 | - | 37 |
| Mar. 8 * | 16 | - | 3 | 10 | - | 29 |
| Mar. 15 * | 26 | 1 | 4 | - | - | 31 |
| Mar. 22 * | 17 | - | 2 | 22 | - | 41 |
| Mar. 29 * | 25 | - | 3 | 18 | - | 46 |
| Apr. 5 * | 21 | - | 7 | 73 | - | 101 |
| Apr. 12 * | 21 | 2 | 2 | 27 | - | 52 |
| Apr. 19 * | 20 | 3 | 4 | 5 | - | 32 |
| Apr. 26 * | 23 | 2 | 3 | - | 28 | 56 |
| May 3 * | 61 | 1 | 2 | 15 | 27 | 106 |
| May 10 * | 36 | 1 | 8 | 10 | - | 55 |
| May 17 * | 61 | 13 | 7 | 19 | - | 100 |
| May 25 * | 30 | 10 | - | 25 | - | 65 |
| June 1 * | 28 | 5 | 5 | 21 | - | 59 |
| June 8 * | 37 | 2 | 7 | - | - | 46 |
| June 15 * | 26 | 1 | 4 | 20 | - | 51 |
| June 22 * | 28 | - | 4 | 52 | - | 84 |
| June 29 * | 45 | - | 1 | 50 | - | 96 |
| July 6 * | 19 | - | 3 | 20 | - | 42 |
| July 13 * | 34 | - | 3 | 48 | - | 85 |
| July 20 * | 41 | - | 1 | 32 | - | 74 |
| July 27 * | 45 | - | - | 24 | - | 69 |
| Aug. 3 * | 45 | - | - | 11 | - | 56 |
| Aug. 10 * | 53 | 1 | - | 15 | - | 69 |
| Aug. 17 * | 49 | - | - | 12 | - | 61 |
| Aug. 24 * | 36 | 1 | - | 11 | - | 48 |
| Aug. 30 * | 44 | - | - | 5 | - | 49 |
| | 990 | 43 | 81 | 697 | 55 | 1,866 |

* The date given is for shipments by air. Shipments by water start three weeks earlier. That is, the statement reporting the shipment of planes by air for the week ending August 30 would report the shipment of planes by water for the week ending August 9.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 4, 1941

TO Secretary Morgenthau
FROM H. D. White
Subject: British Morale

Impressions gained by Coe on a recent motor trip to Birmingham and Coventry:

1. The "morale of the British people is magnificent". The only soft spot hit upon is among some Birmingham business men who were supporters of Chamberlain. The Birmingham clubs are reputedly the only places in the country where you can still hear appeasement talk.
2. There still exists an important, though not well recognized, cleavage of opinion as to what would constitute a "defeat of Hitler". Some people would be satisfied to have the German army remove Hitler and assume control in Germany, while others demand that the German military machine be defeated, the Nazi party uprooted, and a genuinely democratic Government in Germany be established.
3. Some workers seem over optimistic about the duration of the war and the prospects of invasion of the continent.
4. Among the more educated people, doubts are expressed as to how the war is going to end, because of the fear that invasion of the continent will not be practical for a long time to come. In these circles, however, the more dominant view seems to be that the Russian campaign has made it clear that Hitler will be defeated.

Coe has obtained the permission from Winant to travel as you requested. Prior to his trip to Birmingham, he made two trips by train and expects to spend about ten days or two weeks later in August travelling by car.

(Coe to Secretary, August 11)

TREASURY DEPARTMENT

161

INTER OFFICE COMMUNICATION

DATE September 4, 1941

TO Secretary Morgenthau
FROM H. D. White
Subject: British press clippings on U.K. food situation

1. Harvest prospects good, with the exception of potatoes.

Early potato yields were disappointing and later crop may suffer from "potato plight". Emphasis this year was placed on production of fodder to maintain milk yields. Number of pigs and sheep on farms have been reduced.

2. The Black Market feeds on bombed food supplies.

The Ministry of Food is accused of being the biggest supplier to the Black Market of bombed food. Recent order places more foods under license, both for wholesale and retail trade.

3. Eggs, Milk and Meat

Bad eggs are being received by retailers and distributors. No machinery to make good spoiled eggs received by customers. August allotment is 3 eggs per regular customer. Bad distributive system blamed. Milk rationing system to be introduced October 1; some diluting of milk reported. Fatter bacon from less choice cuts is expected. Meat rations for miners and heavy industrial workers to be increased.

4. Hot meals for air-raid victims.

Plans are now completed for distribution of complete hot meals to homes in bombed areas. Meals will be paid for as they are at communal feeding centers at prices fixed by local authorities supplying the food. Meals will be cooked at emergency kitchens and distributed in Ford-donated, specially designed food vans.

TREASURY DEPARTMENT

162

INTER OFFICE COMMUNICATION

DATE September 4, 1941

TO Secretary Morgenthau
FROM H. D. White
Subject: U. K. Exports under Lend-Lease

1. Re-exports from U.K. of American steel is not to be permitted.

Sir Duncan, President of the Board of Trade, in reply to a question asked in the House of Commons as to what steps British exporters should take to enable them to export American steel, said: "No steel sheets, bars, plates, etc., of American origin may be re-exported from this country".

2. Lend-Lease removes raison d'etre of British export drive.

The Banker in a recent issue reviews the British export policy since the beginning of the war and examines the reasons for the changes which have taken place. The points made by the writer:

- a. Lend-Lease, by insuring receipt of essential supplies from the U.K., irrespective of Britain's means of payment, has removed the raison d'etre even for some exports which bring in dollars.
- b. The export drive which was formerly desirable in order to maximize war production is now an impediment to the greatest possible war effort.
- c. Many English exporters believe that British exports are being hampered by inefficiency or lack of cooperation between Government departments, or by an exaggerated deference to the susceptibilities of American trade interests.

Some recent newspaper articles have reflected bewilderment of the British exporter concerning the change in official policy. They said that more care should be paid to the exporters and to the markets which they have built up over many years.

(Coe to Secretary, August 12)

FOR THE PRESS

IMMEDIATE RELEASE

FOR THE PRESS

SEPTEMBER 4, 1941

The President today announced that he had authorized the transfer of various defense articles to the Government of Poland under the Lend-Lease Act and declared that the gallant resistance of the forces of the Government of Poland is "vital to the defense of the United States."

This action, the President said, demonstrates our intention to give material support to "the fighting determination of the Polish people to establish once again the independence of which they were so inhumanly deprived."

Polish troops are now training in Canada for action overseas. Under the President's order, machine guns, sub-machine guns, rifles, artillery equipment, trucks and other supplies will be sent to these troops in the near future.

The President stressed the importance of this new aid to the Government of Poland as a continuing expression of "the policy of the United States to extend aid to all who resist aggression."

- - - -

The following statement and the Executive Order accompanying it are for release in papers appearing on the street not earlier than 8:30 P.M., E.S.T., September 4, 1941.

The same restriction applies to its use over the radio

STEPHEN EARLY
Secretary to the President

The President today, after conferring with Under Secretary of War Patterson, Under Secretary of the Navy Forrestal, Mr. William S. Knudsen and Mr. Sidney Hillman, acting as the Council of the OPM, and with Rear Admiral Emory S. Land, Chairman of the United States Maritime Commission, issued an Executive Order establishing a new division in the Office of Production Management.

This division is to be known as the Division of Contract Distribution and is to be coordinate with the existing divisions -- Procurement, Production, Priorities, Labor and Civilian Supply.

Floyd B. Dalum, of New York, has been appointed Director of the new division.

The conference was held and the Executive Order was issued in furtherance of a determined move on the part of the Administration to help the smaller business units of the country obtain a fair share of the defense orders, and to prevent, so far as possible, dislocation of industry and unemployment of workers in plants where production has been curtailed by priorities and material shortages.

The program devised was arrived at in consultation with representatives of the Army, Navy, Maritime Commission, and OPM and has the full support of these agencies.

The Labor Division and the Defense Contract Service of OPM have already done a great deal in starting the machinery of sub-contracting and in retraining and obtaining reemployment for discharged workers. The program is now to be greatly expanded throughout each part of the United States, as one of the most important functions of OPM. The present personnel, records, etc., of the Defense Contract Service of OPM will be transferred to this new division.

Through this Division, the Office of Production Management will be enabled more effectively to adjust the dislocations and alleviate unemployment resulting from priorities and material shortages, and bring about maximum use of the nation's factories and industrial plants, especially the smaller ones throughout the nation. This will be done through four major steps:

1. The breaking down of large orders of supplies into smaller units, and spreading the purchases among more firms and in all localities possible.
2. Providing assistance through the Labor Division of OPM in retraining and obtaining reemployment for workers who are unemployed as a result of the shutting down of some plants or reduction of their output.
3. The effective distribution of defense contracts to the smaller business enterprises, as yet largely unused, through an expanded use of sub-contracting, contract distribution, and the pooling of plant facilities.
4. By providing a staff of industrial and production engineers to formulate and execute specific plans for the conversion of non-defense industries and plants to defense production.

The Division of Contract Distribution will have branch offices located in the various States.

The Division will formulate and promote plans and programs for the purchase of supplies for the Army and Navy in smaller units, but among a greater number of firms and in as many different localities as possible. It will also formulate and develop programs for the conversion of plants and industries from civilian to defense production - with the assistance of the government wherever necessary. It will formulate the organization and use of local industrial defense production associations, and will promote and stimulate farming out of defense work and sub-contracting, wherever feasible.

The Division of Contract Distribution will provide an industrial engineering staff whose responsibility it will be to obtain the maximum use of existing facilities and tools by assisting manufacturers and business enterprises in making the necessary changes in their tools and equipment for effective use in defense production.

The field offices of the Division of Contract Distribution will be adequately staffed to render needed assistance to businessmen. Procurement agencies of the Government will assign representatives to the main office and field offices, as required, for purposes of liaison.

In the various cities will be established exhibits or "market places" where there will be displayed specific parts - "bits and pieces" - the components needed for defense production. These may be parts of a machine gun or an airplane or tank, or any one of a thousand other items which are needed. These "bits and pieces" will be labeled as to the quantities needed and the machine tools and operations required for their production so that any machine shop owner or manufacturer can determine whether his facilities are capable of producing such items.

Sub-contracting arrangements can then be entered into on the basis of what an individual sees he is capable of doing, receiving then and there the expert industrial and engineering judgment of those whose assistance he may desire.

The Division of Contract Distribution will also provide through the regular commercial banking channels, the Reconstruction Finance Corporation, including the Defense Supplies Corporation and the Defense Plant Corporation, and the Federal Reserve Banks and their branches, the necessary financing facilities for local industrial production associations, prime contractors and subcontractors, and will recommend whenever necessary such additional financial procedures and machinery as may be required to obtain the maximum utilization of existing plant and tool facilities for defense purposes.

The Director of the Division is to appoint two advisory committees, one to consist of representatives of small business organizations; the other, to consist of industrial, management and production engineers.

It is intended, on the one hand, to face the responsibility of alleviating the hardships which have resulted from the defense program and, on the other, to marshal our productive capacities to the objective that no plant or tool which can be used for defense shall be allowed to remain idle.

The text of the Executive Order follows:

EXECUTIVE ORDER

ESTABLISHING THE DIVISION OF CONTRACT DISTRIBUTION
IN THE OFFICE OF PRODUCTION MANAGEMENT AND DEFINING
ITS FUNCTIONS AND DUTIES

By virtue of the authority vested in me by the Constitution and the statutes of the United States, and in order to define further the functions and duties of the Office of Production Management with respect to the unlimited national emergency as declared by the President on May 27, 1941, and to provide for the more effective utilization of existing plant facilities for defense purposes; the conversion into defense production of civilian industries affected by priorities and raw material shortages; the alleviation of unemployment caused by the effects of such priorities and shortages; the local pooling of facilities and equipment; subcontracting; and the wider diffusion of defense contracts among the smaller business enterprises in every part of the nation, it is hereby ordered as follows:

1. There shall be within the Office of Production Management a Division of Contract Distribution at the head of which shall be a Director appointed by the Office of Production Management with the approval of the President. The Director shall discharge and perform the following responsibilities and duties under the direction and supervision of the Director General acting in association with the Associate Director General:
 - a. Formulate and promote specific programs for the purchase of supplies for the Army and Navy in smaller units but among a greater number of firms and in as many different localities as possible.
 - b. Formulate and promote modifications in federal procurement practices and procedures relating to negotiating contracts, bidding practice, performance and bid bonds, and other practices and procedures, to the end that there shall be a wider distribution of defense contracts and purchases.
 - c. Develop programs for the conversion of plants and industries from civilian to defense production, with the assistance of the government if necessary.
 - d. Stimulate the organization and use of local industrial defense production associations.
 - e. Promote and stimulate subcontracting wherever feasible.
 - f. In order to obtain maximum use of existing productive facilities and tools, advise manufacturers and business enterprises the specific ways in which their facilities and tools may be utilized in defense production; advise such manufacturers and businessmen with respect to the procedures and practices of the several federal procurement agencies.
 - g. Facilitate through the regular commercial banking channels, the Reconstruction Finance Corporation, and the Federal Reserve Banks and their branches, the necessary financing facilities for prime contractors, subcontractors and local industrial defense production associations, and recommend from time to time to the Director General and Associate Director General such additional financial procedures or machinery as shall be required to ensure maximum utilization of existing plant and tool facilities for defense purposes.

- h. Provide engineering and technical assistance to such prime contractors, subcontractors, and local industrial defense production associations as may require such assistance in order to participate in defense production.
- i. Perform such other duties and responsibilities as the Office of Production Management may from time to time determine.
2. To ensure unity of policy and coordinated consideration of all relevant factors involved in the formulation and execution of industry conversion programs, and contract distribution and subcontracting procedures, all such programs or procedures shall clear through the Division of Contract Distribution.
3. To aid the Director in carrying out the aforesaid responsibilities, there shall be assigned to the Division one or more officers of the Departments of War and the Navy, respectively, and one or more representatives of the Maritime Commission, whose duty shall be to assist as liaison in the speedy and successful carrying out of the aforesaid program.
4. There shall be in the Division of Contract Distribution two Advisory Committees consisting of representatives to be designated by the Director of the Division with the approval of the Office of Production Management. One shall be representative of small business organizations; and the other of industrial, management, and production engineers. The Committees shall, from time to time, upon request by the Director, make findings and submit recommendations to the Director with respect to procurement practices and procedures; contract placements and distribution; industry conversion problems; formation of local production associations; subcontracting; and for such other matters as the Director may require advice and assistance.
5. Within the limits of such funds as may be made available to the Division of Contract Distribution, the Director may appoint industrial and production engineers, economists, statisticians, and such technical and other personnel as he shall deem necessary to carry out the duties assigned to the Division herein.
6. The Director may establish branch offices throughout the United States and its territories to carry out his duties. There shall be assigned to such branch offices such officer personnel or other representatives of the Army, Navy, United States Maritime Commission and other federal procurement agencies as may be required by the Director for liaison purposes.
7. There shall be assigned to the main office and to each field office of the Division a representative of the Labor Division of the Office of Production Management to cooperate with such offices in the Labor Division's efforts toward reemployment of employees of plants whose production has been curtailed by priorities and material shortages.
8. In the execution of the foregoing duties, the Director of the Division of Contract Distribution shall consult and collaborate with the War Department, the Navy Department, the United States Maritime Commission, and other government procurement agencies, which are hereby directed to cooperate with and establish close liaison with such Division to accomplish the purposes of this order.
9. The Defense Contract Service, established pursuant to Regulation No. 9, July 29, 1941, of the Office of Production Management, is hereby abolished. The duties and responsibilities of said Defense Contract Service are hereby assigned to the Division of Contract Distribution. All records, files, and equipment of the Defense Contract Service shall be transferred to the Division of Contract Distribution.

FRANKLIN D. ROOSEVELT

THE WHITE HOUSE,

September 4, 1941.

Regraded Unclassified

TEM

PLAIN

Shanghai via N. R.

Dated September 4, 1941

Rec'd 8:29 a.m.

Secretary of State,
Washington.

1221, Fourth.

The following Army, Navy and Marine officers have arrived in Shanghai with drafts issued at Tokyo on the National City Bank in New York, in the amounts named: Major Stuart Wood, U.S. Army \$1400, Captain Bankson T. Holcomb, U.S. Marine Corps \$1400, Lieutenant William R. Wilson, U.S. Navy \$1900, Lieutenant Rufus L. Taylor \$1900, Lieutenant John R. Bromley, U.S. Navy \$900, Lieutenant Forrest R. Biard, U.S. Navy \$2260.67, Lieutenant Ferdinand Bishop, U.S. Marine Corps \$1900, Lieutenant Thomas R. Mackie, U.S. Navy \$1900 and Lieutenant Gilven M. Slonim, U.S. Navy \$2200. These officers are unable to cash these drafts in Shanghai and since they are in need of local currency for current expenses and travelers checks for travel purposes out of Shanghai, they request that the
National City

-2- 1221, fourth, from Shanghai via N. R.

National City Bank at Shanghai be authorized, by whatever means the freezing regulations will permit to cash the above mentioned drafts. Inasmuch as some of the officers are leaving Shanghai on September 8, an urgent reply is requested.

LOCKHART

DD

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consulate General, Hong Kong, China,
via H.K.

DATE: September 4, 1941, 8 p.m.

NO.: 343

FOR THE SECRETARY OF THE TREASURY FROM THE STABILIZATION
BOARD OF CHINA. (This message has not been paraphrased
before sending.)

"At the request of Mr. Fox, the Stabilization Board of
China is sending the following information:

"The Board, as of the close of business on September 3,
has approved sales for imports into Shanghai of
US\$ 3,937,737.46. Actual payments made consisted of
3,782,786 U.S. dollars.

"Sterling, September 3, approved for exchange
£ 3,780,651; actual payments made £ 774,000."

SOUTHARD

EA:PAK

893.51/7286

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DEPARTMENT OF STATE
Washington

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In reply refer to
EA

September 4, 1941.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses five copies of a paraphrase of telegram No. 447, dated September 3, 1941, 8 p.m., from the American Consulate, Manila, Philippine Islands, transmitting a message from Mr. A. Manuel Fox for the Secretary of the Treasury.

Enclosure:

From Consulate, Manila,
No. 447, September 3,
1941. (5 copies of
paraphrase.)

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consulate, Manila, Philippine Islands

DATE: September 3, 1941, 8 p.m.

NO.: 447

STRICTLY CONFIDENTIAL.

THE FOLLOWING IS FOR THE TREASURY DEPARTMENT FROM FOX.
FOR THE ATTENTION OF MR. BERNARD BERNSTEIN.

An over-all picture of the proposals seem to be favorable for a new set up which would (1) involve least modification of the Agency, created by the letters of April 25, and thus avoid embarrassment which is occasioned by extreme changes, and (2) ties the operations of the Board and the Agency more directly with freezing control than would exist otherwise.

The three major centers in which I work are: Shanghai, Hong Kong, and Chungking. Because of the possibility of influencing financial and economic actions, I should spend most of my time in Chungking. Since Hong Kong is in the sterling area, it presents a special problem. Shanghai has a sensitive and difficult market to observe and work in.

Taylor should immediately devote more time to economic studies and the operations of the Board, and Freese should begin immediately to devote full time to accounting. Mr. Adler is needed for problems dealing with freezing control and for economic studies. Therefore, I should have at least one competent and effective person for Shanghai and one for Hong Kong.

The

-2-

The Board is looking for a thoroughly reliable and experienced financial man to take charge of its office in Hong Kong. It can pay a good salary for such a person. Do you know of someone you can recommend? It is requested that particulars be sent to me at Hong Kong at the earliest opportunity.

There is need for formalizing the freeing control in China as it apparently has been in the Philippine Islands. If I were furnished with competent assistants for Shanghai and Hong Kong, I could handle the matter from Chungking.

In regard to the Department's specific proposals--my immediate and hurried reactions are as follows:

1. (a) This is satisfactory. It will unquestionably please the Chinese Government and Dr. Kung. (b) This continues to provide for two parallel exchange agencies which may conflict. This may work out satisfactorily, however, if control over the acquisition of foreign exchange by the Central Bank is not given to the Agency. Repeated assurances have been given us that the Central Bank would turn over to the Board the exchange acquired. (c) This is satisfactory. (d) This improvisation is attractive.

A drawback (especially if Dr. Kung is one of the three members of the Agency) is that Chen, who, as I have previously mentioned, is already in a difficult position might be embarrassed further should it be necessary

to

-3-

to submit to a vote some of the important actions. The situation, however, can be managed except where a firm position is taken by Dr. Kuang. If Chen could be made joint policy committee chairman, many problems could be solved. A satisfactory arrangement has been adopted in the Board whereby an understanding is reached in advance by Chen, Pei, and myself. This is excellent.

2. (a) The idea is good but the strengthening of the personnel of the Central Bank is easier said than done. (b) Your difficulty is recognized. The new proposal is definitely worth a trial. As indicated in my last cable, the new decree for the Board is feasible. (c) It is agreed that the appropriate steps by the U.S. freezing control in having exchange funnel through the Central Bank eliminate the need for the licensing of Central Bank acquisitions by the Agency.

3. (a) This is all right. (b) This is satisfactory. (c) The suggested plan seems to be better than the two alternatives which were suggested in a recent telegram of mine. Am I correct in assuming that you propose to amend General License No. 64 along the same lines? (d) Your reasons are valid. Either alternative is satisfactory.

4. There is agreement in regard to this; the Board has already tackled the problem by having Pei work closely with Rogers in regard to this matter. Thus far, there has been an assurance of cooperation and some progress was made by the end of last week.

5. In

-4-

5. In effect, your proposal coincides with the recommendation that I made on the same. I regretfully report that the Hong Kong & Shanghai Bank is the only bank that is consistently cooperating with the Board.

The Board has just advised me that the National City Bank of New York, on instructions of the head office, has again entered the open market. I have no information in regard to the Chase Bank at this time. Should the banks disregard the warning, it may be desirable to withdraw the generally licensed status from confirmed offenders.

This is the end of the message.

HICKOK
SAYRE

EA:PAK

C
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PLAIN

Tsingtao via N.E.

Dated September 4, 1941

Rec'd. 8:34 a.m.

Secretary of State,

Washington.

62, Fourth.

BRISTLE REPORT.

The freezing procedure adopted by Japanese authorities in North China reported a complete cessation of bristle shipments to all countries from Tsingtao during August. Exporters have small stocks on hand bought for British and American importers but military permits to ship have been refused.

Local price quotations for bristles were purely nominal and there were no transactions so far as is known. Dressing stations in interior have ceased operations pending clarification of situation.

Sent to the Department, repeated to Shanghai by mail to Tientsin.

MEYER.

DD

Copy:bj:9-5-41

For Miss Channing

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TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE September 4, 1941.

TO Secretary Morgenthau
FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

| | |
|------------------------------------|---------|
| Sold to commercial concerns | £47,000 |
| Purchased from commercial concerns | £24,000 |

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

Open market sterling was again quoted at 4.03-1/2, and there were no reported transactions.

The Uruguayan free peso, which has been quoted at .4425 for more than a week, moved off to a closing quotation of .4400 today.

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

| | |
|--------------------------|------------------|
| Canadian dollar | 10-1/2% discount |
| Argentine peso (free) | .2372 |
| Brazilian milreis (free) | .0505 |
| Colombian peso | .5800 |
| Mexican peso | .2070 |
| Venezuelan bolivar | .2745 |
| Cuban peso | 1/2% discount |

In the unofficial exchange market in Shanghai, the yuan held steady at 4-13/16#. The sterling-dollar cross rate again worked out to 4.04.

There were no gold transactions consummated by us today.

The State Department forwarded a cable to us reporting that the following gold shipments had been made from Australia, for sale to the San Francisco Mint upon arrival:

\$2,092,000 shipped by the Commonwealth Bank of Australia, Sydney, to the Federal Reserve Bank of San Francisco.

155,000 shipped by the Bank of New South Wales, Sydney, to the American Trust Company, San Francisco.

\$2,247,000 Total

- 2 -

In London, spot and forward silver were again fixed at 23-1/2d and 23-7/16d respectively. The U.S. equivalents were 42.67¢ and 42.55¢.

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

We made no purchases of silver today.

A handwritten signature in dark ink, appearing to be 'B. M. P.', is centered on the page.

CONFIDENTIAL

PERSONAL
AND
SECRET.

THE BRITISH EMBASSY,

WASHINGTON, D.C.

September 4th, 1941.

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

R. I. Campbell

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

TELEGRAM FROM LONDON DATED SEPTEMBER 2nd, 1941.

Another Canadian Military convoy has arrived in home waters. His Majesty's Submarine reports possible hit on merchant vessel approaching Benghazi on August 19th and sinking two out of convoy of five large schooners and steamer between Tripoli and Benghazi on August 23rd and 24th. Night of August 30th/31st five Swordfish attacked merchant vessel of 1,000 tons with torpedos. One hit observed causing large explosion.

2. Photographic reconnaissance September 1st showed Scharnhorst, Gneisenau and Prince Eugen at Brest. Tirpitz steaming towards Kiel. Scheer Hipper and Lutziw at Kiel. Kola at Travemunde.

3. Royal Air Force August 31st - September 1st. Cologne. 93 tons of high explosive 7,000 incendiaries dropped. Essen 28 tons of high explosive 8,000 incendiaries.

4. September 1st/2nd. Nearly 60 bombers sent mainly to Cologne. One missing.

5. August 30th/31st. Rhineland. 18 tons dropped on two enemy aerodromes. Bombers hit at one and numerous fires started at both.

6. German Air Force. September 1st/2nd. About thirty enemy bombers flew over land: chief objective Lyneside. Two destroyed by night fighters.

Newcastle. Sharp attack on town and surrounding districts. Two railway stations hit and main London-Scotland traffic temporarily diverted. Damage caused to two factories.

RESTRICTED

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C-3/2657-220; No. 484

M.I.D., V.D. 11:00 A.M., September 4, 1941

SITUATION REPORT

I. Eastern Theater.

Ground: A group of German infantry divisions advancing north-eastward from Kingisepp towards Leningrad has captured the villages of Raysha and Vysotskoye, a few miles to the south of Krasnoye Selo.

Other German forces advancing up the railroad from Luga towards Leningrad have reached a line marked by the villages of Vyritsa and Kaushta to the south of Krasnogvardeisk.

Behind this front, in an area to the north and northeast of Luga, strong Russian forces which have been encircled for some days continue to offer determined resistance.

To the east and southeast of Leningrad, the situation remains unchanged with German spearheads holding their advanced positions near Ivanovskoye on the Neva river. The town of Shlisselburg is in Russian hands.

Russian counter attacks continue on the central front along the line: Yartsevo - Roslavl - Bryansk.

The German drive from Gomel southeastward made no appreciable gains on September 1st. However, new German bridgeheads were erected on the southeast bank of the Desna river.

On the lower Dnepr river indication of the approaching renewal of the German offensive is indicated by recent reports from this front: viz,

(1) A new German bridgehead has been established to the east of Kremenchug.

(2) The German bridgehead to the east of Dnepropetrovsk was considerably enlarged on September 1st.

Air: Russia claims effective air action against German tanks and planes by the Black Sea Air Fleet.

Germany reports heavy air activity along the lower Dnepr, the Crimean Peninsula and Bryansk.

II. Western Theater.

Air: Brest was the only Axis continental territory attacked by the R.A.F. during last night.

German night attacks included British east coast harbors.

III. Middle Eastern Theater.

Air: The Suez Canal area was subjected to a bombing attack.

RESTRICTED

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GRAY

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BS

London

Dated September 4, 1941

Rec'd. 12:15 p.m., 5th.

Secretary of State,
Washington.

4057, September 4, midnight (SECTION ONE)

The following is the text of the Anglo-Russian Payments Agreement the outlines of which were given in my telegram no. 3824 of August 22, midnight.

British Treasury states that this agreement only covers the broad outlines and its execution is being reserved for an inter-bank agreement which is now being negotiated. We have been promised a copy of this latter agreement and will forward it when it is received:

"Agreement between the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of the Union of Soviet Socialist Republics concerning mutual deliveries, credit and methods of payment.

The United Kingdom of Great Britain and Northern Ireland (hereinafter referred to as 'the Government of the United Kingdom') and the Government of the Union of Soviet Socialist Republics, desiring to arrange for mutual deliveries and to provide for the associated payments, have agreed as follows:

Article One.

(A) The Governments of the United Kingdom and of
the

-2- No. 4087 September 4, midnight from London (SECTION ONE)

the Union of Soviet Socialist Republics have agreed to deliver goods to one another. Such mutual deliveries of goods shall be regulated by special lists to be agreed upon between the two contracting parties. Such lists may be supplemented or modified by agreement between the two contracting parties.

(B) In the event of either contracting party requesting the other to act as its agent in the purchase of any goods in third countries such transaction shall not fall within the scope of this agreement.

Article Two.

Unless otherwise agreed in writing delivery of goods in accordance with Article one of this agreement shall be taken:

(A) In cases where shipment is made in vessels other than those of the seller at the port of shipment; and (B) in cases where shipment is made in the vessels of the seller, at the port of discharge.

Article Three.

(A) The prices to be charged by the seller to the purchaser for the goods to be delivered in accordance with Article one of this agreement shall be based on world prices. However, in regard to the price of any commodity in respect of which the Government of the United Kingdom have or shall have an agreement with the Government of any foreign country concluded after the second September, 1939, the

Union of
Soviet

-3- No. 4087 September 4, midnight from London. (SECTION ONE)

Soviet Socialist Republics shall receive treatment at least as favorable as that country.

(B) Prices shall in every case be calculated f.o.b. port of shipment and the buyer shall pay the freight from such port onward and shall bear the risks of maritime transportation.

(C) All contracts shall be concluded in sterling and prices which are normally quoted in United States dollars shall be converted into sterling at the official middle rate of exchange for United States dollars in London on the day on which the contract is concluded.

VINANT

HPD

COPY

GRAY

FROM: LONDON

TELEGRAM RECEIVED

DATED SEPTEMBER 5, 1941

Secretary of State,
Washington.

4087, September 4, midnight, (SECTION TWO).

ARTICLE IV.

The British Government War Risks Insurance Office and the Trade Delegation of the Union of Soviet Socialist Republics in the United Kingdom shall negotiate the insurance against marine and war risks of the goods purchased by Soviet organizations under the present agreement, of the Soviet ships effecting the transportation of such goods, and also of gold and of such other cargoes and ships effecting the transportation of these cargoes belonging to the Union of Soviet Socialist Republics as may from time to time be agreed upon between the two contracting parties.

ARTICLE V.

(A) All payments between the United Kingdom and the Union of Soviet Socialist Republics for the deliveries provided for in this agreement shall be made, upon receipt of advice that the delivery of the goods has been

has been taken, in sterling through an account in the name of the State Bank of the Union of Soviet Socialist Republics to be established at the Bank of England (hereinafter referred to as 'the account'). For this purpose, the Bank of England and the State Bank of the Union of Soviet Socialist Republics shall agree together upon the necessary technical measures for effecting payments hereunder.

(B) Repayment by the Government of the Union of Soviet Socialist Republics of existing indebtedness under the 1936 export credit guarantee agreement may also be made in each three monthly period through the account, up to the value of their deliveries of goods hereunder during that period.

(C) Such other payments may also be made through the account as the two banks, with the approval of their respective governments may from time to time agree.

ARTICLE VI.

The account shall be balanced on the 31st October 1941 and at the end of every three months thereafter. Any debit balance shall be discharged as follows:

(A)

-3-

(A) As to 40% by sterling received by the State Bank of the Union of Soviet Socialist Republics from the sale to the Bank of England of United States dollars or of gold to be delivered at centers agreed upon between the Bank of England and the State Bank of the Union of Soviet Socialist Republics; or by delivery of platinum up to such amounts as the Government of the United Kingdom may from time to time specify, the sterling value of such platinum to be agreed between the two governments.

Sales of United States dollars to the Bank of England shall be made at the official middle rate of exchange for United States dollars in London on the day of sale.

Unless otherwise agreed between the Bank of England and the State Bank of the Union of Soviet Socialist Republics sales of gold to the Bank of England shall be made at the official price of gold in the United States of America on the day of sale and United States dollars shall be converted into sterling at the official middle rate of exchange for United States dollars in London on the day of sale.

(B) As to 60% in sterling to be paid to the account by the Government of the United Kingdom by way of advance to the Government of the Union of Soviet Socialist Republics.

Any credit balance shall be at the free disposal of the State Bank of the Union of Soviet Socialist Republics.

ARTICLE VII

-4-

ARTICLE VII.

(A) The total of the advances outstanding made hereunder by the Government of the United Kingdom to the Government of the Union of Soviet Socialist Republics shall not exceed the sum of 10,000,000 pounds. When the total of the advances outstanding approaches to said 10,000,000 pounds the contracting parties shall enter into negotiations for a further credit to be granted on the same terms and to be used for the same purposes as are laid down in this agreement.

(B) The amount of each advance so made shall be repayable in sterling or United States dollars, at the option of the Government of the Union of Soviet Socialist Republics, in five equal yearly installments, of which the first shall be paid at the end of the third year and the last at the end of the seventh year, reckoned in every case from the date on which the advance was made.

(C) Interest, reckoned in every case from the date on which the advance was made, shall be payable on the amount of the advances outstanding, half
yearly

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TREASURY
-5-

yearly on the 15th of April, and on to 31st of October, at the rate of 3% per annum in sterling or United States dollars at the option of the Government of the Union of Soviet Socialist Republics.

(D) The conversion of sterling into United States dollars for the purpose of calculating payments under this article shall be effect at the official middle rate for the United States dollars in London on the day on which payment falls due.

FINAL ARTICLE.

This agreement shall come into force on the date of signature, and shall remain in force for the whole period of the utilization of the credits and of the effecting of deliveries under this agreement.

In witness whereof the undersigned, duly authorized by their respective governments for that purpose, have signed the present agreement and have affixed thereto their seals.

Done at Moscow in duplicate, the sixteenth day of August, 1941, in English and Russian, both texts having equal force.

On behalf of the government of the United Kingdom of Great Britain and Northern Ireland. (SIGNED) R. Stafford Cripps.

On behalf of the Government of the Union of Soviet Socialist Republics (SIGNED) A. Mikoyan.
PLEASE INFORM TREASURY.

WINANT

September 5, 1941

Hopkins called me at 7 o'clock last night and said he had meant to talk to me at lunch about Russian gold. "How much did they have? Did they have one-half a billion?" I said nobody knew, but I would not be surprised if they had a billion. He wanted to know did I know any reason why they should not pay for their goods in cash. He said, "After all, England did for a long time." So I said, "I don't know what commitments the President and you have made to Russia and unless I did I can't advise you." He said, "Well, we have made plenty, but" he said "I doubt if we will be able to make them a straight loan on account of the opposition from the Hill."

September 5, 1941

Sir Frederick Phillips came in to call on me and asked if I had any suggestions and I told him that I thought they ought to check up on the expense of the Purchasing Mission; that I thought it was running too high, and it was my understanding that they have not laid off any of their employees since they stopped doing the buying. He said, well, they were still buying \$70,000,000 worth and I said, well, I understood their payroll was \$12,000,000 and it seemed high. He said Lord Beaverbrook had the same impression that I did and one of the things he was going to recommend was that they send somebody out to look over not only the Purchasing Mission, but the Air Mission, their Information Bureau and the British Embassy.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 5, 1941

TO Secretary Morgenthau

FROM H. D. White

Subject: British press clippings on U. S.

Economic Defense. The U.S. export licensing system "is strictly enforced", in the opinion of the British Minister of Economic Warfare, Mr. Dalton. He made this statement in reply to a question in the House of Commons. He also listed as helping the British tighten their blockade of Germany, the purchase of strategic materials in Latin America, the freezing of Axis funds, and proclamation of a black list. He said discussions are being held in an effort to coordinate the black list of the two countries.

U.S. Silver Policy. The Secretary's statement on the abandonment of the U.S. Silver Purchase Program aroused some interest in London silver circles, but little apprehension. The general belief is that such a policy would have little or no effect on the London and Bombay markets, that in both these centers, shipping and trade restrictions would continue to isolate prices from outside events. The Financial News states, however, that abandonment of the silver purchase program "would certainly aggravate post-war problems".

Distribution of Lend-Lease Goods. A new department to be called the Sundry Materials Branch, to handle distribution of Lend-Lease goods, has been set up in the Ministry of Supply. The Ministry will work largely through existing organizations, which, in distributing the goods to consumers, will act as agents of the Ministry and not as principals buying for re-sale.

Other topics on which clippings have been received include the Roosevelt-Churchill conversations, the probable diversion of war supplies intended for Britain to Russia, Russia's future position as a European power, American war relief, the American labor situation, U.S. foreign trade policies, Defense Production, U.S. banking situation, and the threat of rising prices here.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 5, 1941

TO Secretary Morgenthau

FROM H. D. White

Subject: British press clippings on labor, working conditions, etc.

Britain's male labor reserve has been virtually exhausted. Only 102,000 men were registered as wholly unemployed on July 14 and of these, almost one-third were unsuitable for industrial employment, and the remainder were thought to be in the midst of transferring from one job to another. Registered wholly unemployed women total 88,000 on the same date.

American "pep" methods being introduced to Government factories include poster and radio campaigns, pep talks by service people, departmental competition, and music-while-you-work concerts.

A regular mobile force of dock workers to keep the ports clear is to be formed. A National Dock Labor Corporation is being set up to control all men working in the big ports outside the Mersey and Clyde. The men will receive appropriate rates when on the job, almost \$3 per week between jobs and a week's vacation with pay. They must be prepared to do any work necessary to clear the port and to travel to other ports, if they are wanted. The scheme is to be financed by a 25 percent levy on employers on their weekly wage bill.

Labor cooperation to aid production. Miners of South Wales recently reversed their previous decision and agreed to work a special Sunday night shift. Five hundred Liverpool dock workers, involved in the dispute, offered to work a day without pay in order to prove their anxiety not to cause a hold-up.

Contractors must be registered to carry on business after October 1. Registration of building trades' workers and a system of regional grouping of firms are the next steps contemplated. Control of Government departments' building program is also in the offing.

American ferry pilots receive the equivalent of \$7,700 a year free of U. K. income tax, according to a statement of a Minister of Aircraft Production.

September 5, 1941
9:05 a.m.

HMJr: I did as far as the Treasury was concerned, and I found out what ours was, and - I mean where they deal with us, it takes thirty days from the time the British give us an order until we get it, and I just.....

Colonel Greenbaum: Well, what do you mean, until you get it? Until you get the.....

HMJr: Until I get - until we get an order to buy. We picked nineteen requisitions at random, and it took thirty days from the time the British say they want something until we got the green light to go ahead.

G: Well, that's - let's see - that's forty-five days quicker than my check is. I just took nineteen cases, too. I don't know why nineteen, but that's the way I've been working on the thing.

HMJr: Well, it took thirty and then it took us twelve days to buy; but we're going to cut that down to a week, but.....

G: Well, now, what I'd like to.....

HMJr:but I understand it takes the Army ninety days to buy after they get a clearance.

G: Well, you can't have an average.....

HMJr: Yeah.

G:some things much longer, and some take twenty-four hours, and there's a very good reason, obviously.

HMJr: Well, did you know who I had all here yesterday?

G: No.

- 2 -

HMJr: Well, I had Stettinius, and Nelson, and MacKeachie, and Cox, and Young.

G: Yeah.

HMJr: Those are the fellows that are handling this thing, and they're going to meet Monday over in Young's office and they're going to give me an answer. What I asked for was a revolving fund of fifty million dollars.....

G: Yeah.

HMJr:so we could go ahead and do business; and I said, "You fellows can go ahead and fool around with your red tape." It takes twelve days to get out of the White House.

G: Yeah. And then it goes back - then when you have to transfer from the White House, that's another round trip.....

HMJr:which takes maybe twelve days or more.

G: Yeah. Well, now, would it be possible for me to look at the way you've got that.....

HMJr: Sure.

G:routing sheet. Whom should I see on that?

HMJr: Cliff Mack.

G: Cliff Mack.

HMJr: Yeah.

G: Yeah.

HMJr: He's the fellow that has it.

G: Well, would you have someone tell him I'll be in touch with him, because I'd like to come over and see that because we're doing

- 3 -

the same thing and had another session with Judge Patterson yesterday afternoon and I got Oscar over for that.

HMJr: Oh. That's where you heard about it.

G: Yeah. So we're doing the same thing.

HMJr: Well, then, it must be good - I must be good.

G: And then an Executive Order.....

HMJr: I said I must be good if you're doing it.

G: I heard you the first time.

HMJr: Well, God damn it, laugh.

G: You must be marvelous. (Laughs)

HMJr: Yeah.

G: All right.

HMJr: All right.

G: Henry, one other thing - did Oscar talk to you about the Executive Order giving Stettinius these powers, not only for the revolving fund, but passing on requisitions?

HMJr: Well, I suggested that.

G: And did - well, did you see what he drew up?

HMJr: No.

G: I guess he didn't have it by then.

HMJr: No, he didn't have it.

G: Well, he's drawn that up, and then he is supposed to draft with me, kibitzing on it, a little memo in support of that for Harry Hopkins for Monday or Tuesday.

HMJr: Good.

G: Would you like to see it, or don't you care?

HMJr: I tell you, Eddie, if - Cliff Mack is awfully able.....

G: Yeah.

HMJr:and if you'd work with him and show it to him, I'd appreciate it.

G: Okay.

HMJr: I'll get word to Cliff Mack that he should talk to you.

G: Fine, Henry.

HMJr: Okay.

G: Your friend Jim Landis is here.

HMJr: Give my regards.

G: Okay.

HMJr: Thank you.

G: Thanks.

September 5, 1941

My dear Mr. President:

I am enclosing herewith a copy of a memorandum prepared for me by Mr. Mack, Director of Procurement.

This memo gives you a breakdown of the 30 days' delay of an order from the British Purchasing Commission.

Yours sincerely,

The President,

The White House.

Mr Mack's memo of
9/4 attached to
meeting held in
Peay's office at
2:45 pm 9/4/41

MEMORANDUM

To: Secretary Morgenthau
From: Mr. Sullivan

September 5, 1941

Re: White House Conference Thursday
evening, September 4, 1941, on
Tax Amortization Legislation

JWS

Present for the White House: Judge Samuel Rosenman, Mr. Ben Cohen; for the Bureau of the Budget: Mr. Gladeox and Mr. Crane; for OCM: Mr. Wayne Coy and Mr. Sidney Sherwood; for OPM: Mr. John Lord O'Brian; for the War Department: Lt. Col. Edward S. Greenbaum, Dean James W. Landis, Mr. James P. Baxter, and Mr. Bayard Schieffelin; for the Navy Department: Mr. H. Struve Hensel and Mr. Richard Kyle; for the Treasury Department: Mr. John L. Sullivan and Mr. Robert B. Nichols.

Mr. Sullivan explained that unless there should be a filibuster on the issue of the taxation of income from community property, it seemed reasonable to expect that the pending tax bill would pass the Senate on the evening of September 5, 1941. Therefore, it would be impossible to incorporate in this bill any legislative solution which might be agreed upon with respect to amortization.

Mr. Hensel stated that the Navy Department did not feel there was very much to be gained by substituting for the Advisory Commission in the statute either the Treasury Department or a new three-man board, such as had been suggested by Mr. Cohen the previous evening. The Department felt that the best solution under all circumstances was the proposed joint resolution which had cleared the Budget Bureau in July but had later been disapproved by the Budget Bureau at the instance of Mr. Coy. The purpose of this joint resolution was fourfold: (1) To eliminate the necessity for any certification by the Advisory Commission, (2) to provide for nonreimbursement regulations to be issued jointly by the War and Navy Departments with the concurrence of OCM, (3) to eliminate the necessity of certifying as to nonreimbursement with respect to contracts under \$15,000 in amount, and (4) to eliminate the necessity of certifying as to nonreimbursement with respect to contracts other than with the War and Navy Departments, the Maritime Commission, and such other agencies as the President may designate. Mr. Hensel stated

that the War and Navy Departments had never been given any explanation for the reasons which had prompted Mr. Coy to withdraw his approval from this proposed legislation. Colonel Greenbaum stated that he was in accord with the views expressed by the Navy Department.

Mr. Coy stated that, from a desk survey he had had made of necessity certificate cases which had cleared the War Department and were pending action by the Advisory Commission, he had been driven to the conclusion that it was vital that some independent agency check the conclusions of the Service Departments. He felt this to be particularly important because of conflict between the Service Departments' desire to procure supplies only from those companies with whom they had dealt in the past, regardless of how much expansion would thereby be necessitated, and OPM's desire to promote subcontracting.

Dean Landis felt it to be essential that the system of dual responsibility with respect to certification be done away with, so that the contractor would be able to know how he stood at the time his contract was negotiated with the Army or Navy Procurement Officer. Under the present system no assurances could be given at the time of negotiation of the contract, with the result that many contracts were being materially delayed.

Upon being asked by Judge Rosenman how the Treasury Department felt about assuming responsibility for certificates of nonreimbursement, Mr. Sullivan stated that the Department felt that the nonreimbursement requirements of the statute were unworkable and illogical, and should be repealed. He suggested the substitution of a scheme similar to that which was incorporated in the Second Revenue Bill of 1940 as it passed the House. This involved an agreement by every taxpayer seeking amortization that it would not destroy, demolish, alter, or impair the facilities sought to be amortized without the consent of the Secretary of War or Navy. If the taxpayer violated this agreement he would forfeit the tax saving which he had secured during the amortization period.

Mr. O'Brian stated that he was in full accord with these views, that the present statute was unworkable, and that it was the better part of wisdom to admit it now rather than when it became too late. Mr. Coy and Mr. Hensel stated that they were inclined to look very favorably upon Mr. Sullivan's suggestion. Mr. Cohen stated his belief that this objective could be accomplished without amendment of the statute by an announcement by all agencies concerned that hereafter no necessity certificates would be granted without an agreement by the applicant not to demolish, alter, impair, etc. Considerable

disagreement was expressed with this view and Mr. Sullivan stated that if Mr. Cohen's purpose was thereby to avoid a Congressional investigation he feared that such purpose would not be accomplished.

Dean Landis felt that the nonreimbursement requirement should be retained in the statute if possible, since he feared that its removal would be an invitation to load contract prices. Mr. Sullivan and Mr. Eichholz stated their feeling that the present statute is an open invitation to load prices, because, (1) the contractor is uncertain whether he will get the requisite nonreimbursement certificate and therefore hedges against possible denial of the amortization tax saving by increasing his price, and (2) a subcontractor is not required to secure a nonreimbursement certificate before being granted amortization and can therefore be reimbursed for his facilities several times over and pass the increased cost to the Government through the prime contract. Colonel Greenbaum stated that if Mr. Sullivan's suggestion had been adopted last year he would have been heartily in favor of it, but that it might be more confusing and unsettling at this stage.

There followed extended discussion of the various solutions which had so far been proposed. Judge Rosenman asked Mr. Sullivan what he thought of requiring nonreimbursement regulations to be issued by the War and Navy Departments with the concurrence of the Treasury. Mr. Sullivan stated that he could not see what was to be gained by this suggestion, since the chief difficulty of the present system was fundamental policy disagreements between the various agencies concerned and that the interjection of the Treasury would merely involve one more policy viewpoint to reconcile. Furthermore, since the Treasury felt that the statute made no sense he did not see how the Department could be expected to write any regulations under it which made sense.

Mr. Coy finally suggested that all certificates for amortization purposes be issued by the War and Navy Departments under the supervision and direction of OEM, or such other agency as the President might designate. Thus, the Service Departments would have complete responsibility for administration but broad policy and the application of that policy to particular cases could be controlled by OEM. This suggestion was finally agreed to (although Mr. O'Brian did not feel OEM equipped to handle nonreimbursement certification) and it was determined to modify the joint resolution which had been proposed by the War and Navy Departments in such manner that the following objectives would be accomplished: (1) All certificates, whether necessity, Government protection, or nonreimbursement, would be issued either by the War or Navy Departments and the necessity for joint certification by one of the Service Departments and the Advisory Commission would be eliminated; (2) such certification would be under the supervision

and direction of the OEM, or such other agency as the President might designate, it being understood that the President would designate the Office for Production Management; and (3) the non-reimbursement requirement would be eliminated with respect to contracts under \$15,000 in amount and with respect to contracts other than with the War and Navy Departments, the Maritime Commission, and such other agencies as the President might designate.

Mr. Sullivan inquired whether it was clearly understood that OPM and not the Treasury would be the agency designated by the President to supervise certification. Judge Rosenman and Mr. Gladeox stated that such was their understanding.

Thereupon the meeting adjourned at 12:00 midnight.

September 5, 1941
10:50 a.m.

John
Sullivan:

I've talked with Senator George and Senator Barkley, and Senator George is losing his courage on community property.

HMJr:

Senator what?

S:

Senator George is losing his courage on community property, I think. He said that he didn't know but what because of the fact there weren't hearings, that we might let it go over to the next bill; and I told him I thought that we'd have a hard time in the House if we did that. I then talked with Senator Barkley, and he's really going to battle. I asked him if he thought it would be helpful if the White House called any of the fellows up there.....

HMJr:

Uh huh.

S:

.....and he said to wait until we'd had an hour or so of debate.

HMJr:

Well, he wouldn't.....

S:

What?

HMJr:

The President won't do anything. He's got his mind on other places. You can't count on him. He's too busy with.....

S:

Well, in any events, I'm going up and.....

HMJr:

I mean, the President's got all this destroyer and everything else on his mind. He isn't interested in community property.

S:

Well, what occurred to me was this, that as the debate develops, if it seems necessary.....

HMJr:

Yeah.

- 2 -

S:I'll call you and then you can decide whether you.....

HMJr: That's all right.

S:whether you want.....

HMJr: Well, forget about the President. I'm not even going to ask him to do it.

S: Well, you know best.

HMJr: Well, I'm not going to ask the President to get in on it, John.

S: Un huh.

HMJr: Don't count on him.

S: All right.

HMJr: Okay.

S: Right.

TREASURY DEPARTMENT

205

INTER OFFICE COMMUNICATION

DATE September 5, 1941

TO Ferdinand Kuhn, Jr.
FROM Herbert Merillat

PRESS COMMENT ON TAXES:
SATISFACTION WITH SENATE BILL

Having won its major fights for changes in the current tax bill, the press has subsided into a satisfied silence. Editorial comment now consists largely of generalities, pointing out the urgent need of the revenue to be raised by the tax bill and looking ahead to even greater tax burdens which will be necessary in the near future.

The broader tax base continues to be the feature of the bill receiving most editorial attention. As if to serve notice that greater demands are soon to be made of low income groups, many commentators have pointed out that even under the exemptions adopted by the Senate, the vast majority of citizens will pay no income tax. Furthermore, it is pointed out that only \$50 millions will be paid by new taxpayers brought in by the reduced exemptions. The Senate action is therefore regarded as a step in the right direction, not a final answer to the problem of tapping small incomes in order to raise revenue and check inflationary tendencies.

Community Property

The Senate's last-minute rejection of the community-property amendment was not in line with the press attitude on the question. Scattered comment indicated general approval (outside community-property States) of the amendment. Many writers have pointed out the tax savings now enjoyed by residents of community-property States and hailed the Committee proposal as a proper measure to end the discrimination against taxpayers in other States.

Non-defense Expenditures

The press barrage against high non-defense expenditures has continued throughout the course of the current tax legislation. Every announcement of an increase in the public debt, every statement by a political leader urging reduction in non-defense spending, has been a signal for intensification of the campaign. Mr. George Benson, president of a small Arkansas College, has become something of an editorial writer's hero for his appearance before the Ways and Means Committee with a specific list of possible cuts in appropriations.

The press has expressed great satisfaction over the Byrd amendment calling for creation of a committee to investigate non-essential Federal expenditures. It expresses the hope that more

will come of this Congressional action than has come of the activities of citizens' committees and college presidents.

September 5, 1941


Files

Mr. Cochran

At 9 o'clock last night a meeting was held in Under Secretary Bell's office with respect to Chinese Stabilization and Exchange Control. Those present were Sir Frederick Phillips, Sir Otto Niemeyer, Mr. Stanford and Mr. Ritchie for Great Britain; Assistant Secretary Ichniow and Mr. Jones for the Department of State; and Messrs. Bell, Foley, White, Bernstein, Fehle and Cochran for the Treasury Department.

At the conference held late yesterday afternoon the British officials had been given copies of the message which we had sent to Mr. Fox. At the dinner hour they had had opportunity to bring this document to the attention of Sir Otto Niemeyer, who had arrived from New York on the 7 o'clock train. The meeting was limited principally to a discussion of the document under reference, Sir Frederick Phillips and Sir Otto Niemeyer raising questions with respect to or commenting upon the points of particular interest to them.

After the meeting adjourned at 11:15, Messrs. Bernstein and Cochran telephoned Mr. Fox at Manila, establishing communication about 12:15 midnight. They reported the day's meetings to Mr. Fox. The report which Mr. Bernstein is making of this conversation summarizes the discussions had at last night's conference with the British.



HMC:lap-9/5/41

September 5, 1941

File

Mr. DeGruen

At 10 o'clock this morning Sir Otto Slomeyer telephoned me. He said it was his understanding that Under Secretary Doll would be phoning the American banks in New York this morning, seeking their cooperation with the Stabilization Board in China through their branch banks. Slomeyer thought it important to let the American banks know, as the British officials intended to let the British banks operating in China know, that the important phase of complete cooperation is to restrict their transactions solely to operations at the official rates fixed by the Stabilization Board. I told Slomeyer that our plan had been to seek an understanding for full cooperation with the Board and leave the details to be worked out in China. Slomeyer feared that there might be some misunderstanding or erosion unless we made this point specific in our conversations with the banks.

After speaking with Sir Otto, I went immediately to the office of Mr. Doll who was then talking by telephone with the Chase Bank. Mr. Doll asked a few words to the Chase Bank after I let him know of my conversation with Sir Otto. Mr. Burgess of the National City Bank, with whom Mr. Doll had spoken first, called Mr. Doll back while I was still in his office. Mr. Doll put up the suggestion advanced by Sir Otto Slomeyer, letting Burgess know that the British were going to request cooperation from the British banks on the specific point of staying out of the black market. After a long conversation with Mr. Burgess, it was agreed that the telegram should give instructions for cooperation, but that the National City management in the Far East would discuss with Fox at the coming Sunday conference various technical questions involved in the limitation of all operations to official rates.

Upon returning to my own office I telephoned Sir Otto. I reported that we had let the two important American banks know that the phase of cooperation which was importantly sought was that of limiting transactions to the official dollar-guan rates. The banks were issuing instructions to their Chinese branches, we understood, to cooperate fully. The National City insisted, however, upon the privilege of their representative at the coming Sunday's conference discussing with Mr. Fox and the other Board members the technical questions involved in the rates. Slomeyer pointed out that our reports indicated that the National City is the outstanding defender of operations on the black market and that we may have difficulty in getting the other banks to stay in line if we do not handle the National City firmly. I told him that we understood this and that we would be in touch with Fox and see what steps we should take if the National City does not follow a practice similar to that which we hope the other banks will adopt. It was my understanding that Slomeyer would definitely let the British banks know that operations at the official rate are requested.

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OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

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September 5, 1941

MEMORANDUM TO THE SECRETARY:Weekly Report - Lease-Lend Purchases
(8/29 - 9/5/41)

| <u>Requisitions</u> | <u>Estimated Cost</u> |
|---|-----------------------|
| Cleared by O.P.M..... | \$ 200,704,364.48 ✓ |
| Awaiting clearance by O.P.M..... | 25,273,843.75 |
| <hr/> | <hr/> |
| Total Pending Requisitions..... | \$ 225,978,208.23 |
| Less Requisitions for metals and textiles, (where contracts will be made for term periods and allocations required from O.P.M.....) | \$ 124,215,216.32 |
| <hr/> | <hr/> |
| Total Pending Requisitions for Spot Purchases..... | \$ 101,762,991.91 |
| | |
| Purchases to 8/29/41..... | \$ 121,939,791.32 |
| Purchases 8/29 to 9/5/41..... | 10,156,975.46 |
| <hr/> | <hr/> |
| Total to 9/5/41..... | \$ 132,096,766.78 |

During the past week the B.P.C. requested purchase of 1085 crawler tractors for delivery this month. Purchases were immediately effected and high priority ratings furnished through the cooperation of O.P.M. and the Priorities Board whereby the delivery schedule will be met. We are currently purchasing against requisitions for approximately 4500 tractors which are in addition to 4500 heretofore purchased.

Clifton E. Mack
Clifton E. Mack
Director of Procurement

Attachments-4

| <u>CONTRACT NUMBER</u> | <u>CONTRACTOR'S NAME</u> | <u>REQUISITIONER</u> | <u>COMMODITY</u> | <u>QUANTITY</u> | <u>TOTAL VALUE</u> |
|----------------------------|------------------------------|----------------------|------------------|------------------------|------------------------|
| DA-TPS-1056 | S.R. Dresser Mfg. Co. | U.K. | Couplings | | \$ 110,503.50 |
| DA-TPS-1057 | Palnut Co. | " | Lock washers | 10 GT | 421.14 |
| DA-TPS-1058 | The Blake & Johnson Co. | " | Special Screws | 7½ GT | 3,420.00 |
| DA-TPS-1060 | Jones & Laughlin Steel Corp. | " | Sheets | 991,460# 2,100,060# | 29,049.78 66,199.38 |
| DA-TPS-1030 | Kennecott Sales Corp. | " | Copper | 5,000,000# | 590,000.00 |
| DA-TPS-1062 | Brass Goods Mfg. Co. | China | Steel Cups | 2,700 N.T. | 1,890,775.00 |
| DA-TPS-984 | Granite City Steel Co. | U.K. | Tinplate | | 108,949.71 |
| DA-TPS-985 | U.S. Steel Export Co. | " | Tinplate | | 482,665.08 |
| DA-TPS-986 | Follansbeg Steel Corp. | " | Tinplate | | 82,163.42 |
| DA-TPS-987 | Jones & Laughlin Steel Corp. | " | Tinplate | | 281,288.20 |
| DA-TPS-988 | Youngstown Sheet & Tube Co. | " | Tinplate | | 317,796.78 |
| DA-TPS-1063 | The Titanium Alloy Mfg. Co. | " | Titanium Carbide | 10,080# | 8,164.80 |
| DA-TPS-1064 | Inland Steel Co. | " | Circles | 4,653,345# | 180,997.56 |
| DA-TPS-980 | Weirton Steel Co. | " | Tinplate | | 531,323.65 |
| DA-TPS-981 | Wheeling Steel Corp. | " | Tinplate | | 132,101.50 |
| DA-TPS-982 | Republic Steel Corp. | " | Tinplate | | 183,670.08 |
| DA-TPS-983 | Bethlehem Steel Export Corp. | " | Tinplate | | 371,095.30 |

SEPTEMBER 5, 1941

| <u>CONTRACT NUMBER</u> | <u>CONTRACTOR'S NAME</u> | <u>REQUISITIONER</u> | <u>COMMODITY</u> | <u>QUANTITY</u> | <u>TOTAL VALUE</u> |
|----------------------------|-------------------------------------|----------------------|------------------|-----------------|--------------------|
| DA-TPS-1070 | Youngstown Sheet & Tube Co. | U.K. | Drum Sheets | | \$ 52,520.00 |
| DA-TPS-1072 | Otis Steel Co. | " | Drum Sheets | | 152,842.90 |
| DA-TPS-1075 | National Steel Corp. | " | Drum Sheets | | 21,431.20 |
| DA-TPS-1076 | Spang-Chalfant, Inc. | " | Pipe | 50.8 mi. | 338,015.88 |
| DA-TPS-1077 | U.S. Steel Export Co. | " | " | 50.8 mi. | 328,413.47 |
| DA-TPS-1078 | Youngstown Sheet & Tube Co. | " | Pipe | 17.6 mi. | 115,721.76 |
| DA-TPS-1079 | Empire Sheet & Tinsplate Co. | " | Drum Sheets | | 24,883.00 |
| DA-TPS-1080 | Bethlehem Steel Export Co. | " | Wire Rope | 67,616# | 15,324.85 |
| DA-TPS-1081 | Wheeling Steel Corp. | " | Sheets | | 55,013.67 |
| DA-TPS-1083 | Granite City Steel Co. | " | Drum Sheets | 986,959# | 51,815.35 |
| DA-TPS-1084 | Anaconda Wire & Cable Co. | " | Copper Conductor | 1,460,000# | 255,920.00 |
| DA-TPS-1087 | Newport Rolling Mill Co. | " | Drum Sheets | 1,023,000# | 31,713.00 |
| DA-TPS-974 | R.T. Greer & Co. | " | Lobelia Herb | 6,000# | 2,100.00 |
| DA-TPS-977 | R. J. Prentiss & Co. Inc. | " | Lobelia Herb | 10,000# | 3,950.00 |
| DA-TPS-975 | R. J. Prentiss & Co. Inc. | " | Digitalis Seed | 1,000# | 1,050.00 |
| DA-TPS-996 | J. H. Williams & Co. | " | Wrenches | | 2,430.00 |
| DA-TPS-1034 | The Goodyear Tire & Rubber Co. Inc. | " | Rubber reclaimed | 1,500 L.T. | 226,800.00 |

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Regraded Unclassified

| <u>CONTRACT NUMBER</u> | <u>CONTRACTOR'S NAME</u> | <u>ACQUI- SITIONER</u> | <u>COMMODITY</u> | <u>QUANTITY</u> | <u>TOTAL VALUE</u> |
|----------------------------|---------------------------------------|----------------------------|--------------------------|-----------------|--------------------|
| DA-TPS-1007 | The Mansfield Tire & Rubber Co. U.K. | " | Tires and Tubes | 300 | * 17,550.00 |
| DA-TPS-1003 | The Goodyear Tire & Rubber Co. Inc. " | " | Tires | 200 | 21,144.00 |
| DA-TPS-927 | Locomotive Firebox Co. " | " | Thermic Syphons | 20 | 14,800.00 |
| DA-TPS-1006 | The Firestone Tire & Rubber Co. " | " | Tires and Tubes | 30 | 1,721.40 |
| DA-TPS-1008 | U.S. Rubber Export Co. Ltd. " | " | Tubes | 150 | 1,248.00 |
| DA-TPS-887 | Ingersoll-Rand Co. " | " | Air Compressors etc | 6 | 26,365.50 |
| DA-TPS-909 | A. B. Farquhar Co. Ltd. " | " | Potato Diggers | 2 | 1,416.24 |
| DA-TPS-979 | H. F. Ritter & Co. Inc. " | " | Drills, Breast | 1500 | 4,650.00 |
| DA-TPS-942 | Caterpillar Tractor Co. " | " | Tractors | | 1,089,170.00 |
| DA-TPS-359 | J. I. Case Co. " | " | Tractors | | 290,346.64 |
| DA-TPS-1021 | The Cleveland Tractor Co. " | " | Tractors | | 172,266.08 |
| DA-TPS-1032 | Botwinik Bros. Inc. " | " | Lathe Turret | | 1,375.00 |
| DA-TPS-1005 | International Harvester Export Co " | " | Tractors | | 537,139.50 |
| DA-TPS-1004 | Allis-Chalmers Mfg. Co. " | " | Tractors | | 242,053.20 |
| DA-TPS-771 | International Harvester Export Co " | " | Spare parts for tractors | | 24,109.60 |
| DA-TPS-1028 | Brookville Locomotive Co. " | " | Locomotives | 36 | 90,900.00 |
| DA-TPS-1029 | The Fate-Roat-Heath Co. " | " | Locomotives | 30 | 112,500.00 |
| DA-TPS-636 | American Car & Foundry Co. " | " | Shear, gate | | 13,500.00 |

| <u>CONTRACT NUMBER</u> | <u>CONTRACTOR'S NAME</u> | <u>REQUISITIONER</u> | <u>COMMODITY</u> | <u>QUANTITY</u> | <u>TOTAL VALUE</u> |
|----------------------------|---------------------------------|----------------------|---|-----------------|--------------------|
| DA-TPS-1038 | Dayton Stencil Works Co. | D.K. | Stamps, Steel | 500 | \$ 295.00 |
| DA-TPS-855 | Deere & Co. | " | Harrows, Plows, Drills and Spreader | | 54,014.02 |
| DA-TPS-1052 | The Upson-Walton Co. | " | Clips, Wire Rope | 18,000 | 1,821.00 |
| DA-TPS-1010 | Caterpillar Tractor Co. | " | Oil Cooler Groups | 30 | 4,392.00 |
| DA-TPS-1055 | Masonite Corp. | " | Wallboard 6,000,000 Sq.Ft. | | 232,580.00 |
| DA-TPS-1011 | Caterpillar Tractor Co. | " | Oil Cooler Groups | 22 | 3,220.80 |
| DA-TPS-991 | Armstrong Bros. Tool Co. | " | Wrenches | | 5,361.00 |
| DA-TPS-1059 | The Abbott Ball Co. | " | Balls, Bearing | | 3,760.92 |
| DA-TPS-976 | The Mineralite Sales Corp. | " | Mica, white | 100 L.T. | 7,000.00 |
| DA-TPS-1027 | Linde Air Products Co. | " | Acetylene | | 3,500.00 |
| DA-TPS-1039 | Maurcie S. Dessau | " | Cutters | 200 | 1,430.00 |
| DA-TPS-998 | Franklin Railway Supply Co. Inc | " | Equipment to be installed in 10 locomotives | | 76,250.00 |
| DA-TPS-1066 | Hoover Ball & Bearing Co. | " | Balls, Bearing | | 37,165.60 |
| DA-TPS-1031 | Blaw-Knox Co. | " | Ammonia Cylinders | | 11,000.00 |
| DA-TPS-1026 | National Cylinder Gas Co. | " | Oxygen | | 2,400.00 |

Total Purchases 8/29 to 9/5/41.....\$ 10,156,975.46