

September 5, 1941

Changes suggested by the President in HM Jr's speech before Advertising Club of Boston. HM Jr saw the President and went over his speech with him on September 5th at 9:30 (See President's Book).

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to Page 12 ✓

Address by Henry Morgenthau, Jr., Secretary of the Treasury,
to the Advertising Club of Boston
September 9, 1941

A few hours ago it was my privilege to stand in front of the
famous statue of the Minute Man by Daniel Chester French on the
green at Lexington, at the very place where the men of New England
first proved that Americans could defend their homes and their free-
dom. Today, the people of these States are proving that they are
still New Englanders. 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 sections 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 these 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

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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 who 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 1918, 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

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 framehouse 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, alongside the question mark, the words: "Answer depends on us". We must decide now, this year, we in Washington and you in the country at large, whether we shall have the common sense

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

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 diverting spending away from those articles or commodities in which there is a shortage, actual or potential. We must damp down the fires 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 sum of a billion and a quarter dollars

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 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 cases 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 certain forms of purchasing now and increase them in the future when they 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 action of the Senate Finance Committee 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 in the Federal Government.

nondefense activities. I have several times suggested the creation of such a committee, and I am very happy that my suggestion is on the point of being 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 of 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 and fill up the valleys in our economic picture. If we reduce undesirable purchasing 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 fifteen 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 with the ultimate objective of keeping 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 increased 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.

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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.

9/5/41

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Reading copy taken to Farm by Secretary.
(Four pages were re-written 9/6 and whole
new reading copy made on 9/8. The latter
is filed 9/9)

SPEECH TO BE DELIVERED

BEFORE THE ADVERTISING CLUB OF BOSTON

SEPTEMBER 9, 1941

Only twenty miles from here, at Lexington and Concord, 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 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 sections 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.

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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.

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.

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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 who 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.

- 5 -

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.

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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.

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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.

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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.

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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.

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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. ¹/₃ *three*

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, alongside the question mark, the words: "Answer depends on us". We must decide now, this year, we in Washington and you in the country at large, whether we shall have the common sense 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."

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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.

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If we are to prevent the boiler from bursting, we must damp down the fires by diverting spending away from those articles or commodities in which there is a shortage, actual or potential. We must damp down the fires 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.

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- 14 -

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.

$$\frac{116}{1756}$$

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 those rises by voluntary cooperation.

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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.

- 17 -

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 certain forms of purchasing now and increase them in the future when they may be needed.

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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.

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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.

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All of the measures I have so far suggested $\frac{2}{3}$ *the* 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.

$\frac{108}{1059}$

This is a time when we must flatten the peaks and fill up the valleys in our economic picture. If we reduce undesirable purchasing 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.

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I wonder if the housewife knows, when she pays fifteen 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 with the ultimate objective of keeping 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.

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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.

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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.

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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 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 shortsighted for a landlord to charge all that the traffic will bear in defense centres where housing space is at a premium.

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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.

112
158

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 any one in authority to tolerate it now.

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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.

56
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0

TO:

9/6/41

Miss Chauncey

.....
(for files)

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I gave this information to the Secretary on the telephone this morning. He was very pleased that Leon Henderson had liked the speech. As a result of Miss Elliott's objection, he decided to delete the paragraph of which she had complained. I then notified Miss Elliott who was delighted that the Secretary had followed her suggestion.

F. K.

MR. KUHN

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 5, 1941

Secretary Morgenthau

Mr. Kuhn

Leon Henderson read your speech while I was in his office this afternoon and asked me to tell you that he thought it was "swell". He said he was especially glad that you were hitting hard on the release of surpluses, and he thought the paragraph about the land of milk and honey was the best in the whole speech. His assistant, Mr. Hamm, also read it and could find no flaw in it except that the figure on the price of cotton was not quite up to date.

I then brought the speech to Miss Harrlet Elliott who had Miss Ware with her. Miss Elliott said she was "awfully disturbed" by your recommendation to reduce federal lending and underwriting in the non-emergency housing field. She said that this would work real hardship and perhaps tragedy on thousands of little people in communities that were not able to call themselves defense communities, and she wanted me to beg you to delete the whole passage. Miss Ware was still unsatisfied with the passage about the steam boiler, saying that it did not sufficiently emphasize the need of increasing supplies to the consumer. She also disliked the sentence at the end of your list of recommendations for restricting purchasing power, the sentence that reads "All of the measures I have so far suggested for combatting inflation would attack the problem of reducing the demand for goods now and by helping to build up a backlog of purchasing power for the post war world." I got the impression that both Miss Elliott and Miss Ware were unhappy about everything you said about restriction, but very happy about your passages on farm surpluses. Miss Elliott asked me to show you the attached copy of a letter she had written to Eccles on the subject of the hardships that might be produced by consumer credit regulation.

Attachment.

COPI

August 27, 1941

Mr. Marriner S. Eccles, Chairman
Board of Governors of the
Federal Reserve System
Washington, D. C.

Dear Mr. Eccles:

In view of the fact that the Consumer Division of the Office of Price Administration and Civilian Supply did not have an opportunity to discuss with you the problems of consumer credit regulation before your program was announced, I am taking this means of expressing my views.

I hope that the regulations will operate as a general brake on inflation. I must point out, however, that regardless of the success which may be achieved in combating inflation, the restriction of consumer credit opportunities bears most heavily on the low-income groups and further increases their ordinary disadvantages in competing for goods.

I wish to point out that certain groups in the population will be badly in need of credit, and in view of the limited quantities of durable consumers goods which will be available for the duration of the defense effort, to urge that special attention be given to their needs in the development of your credit regulations. Among the groups, whose needs for durable goods and the attendant credit may become pressing problems, are:

1. Defense workers migrating to new communities, who either lack durable goods or cannot bear the cost of transporting them.
2. Families that have been unemployed and are now for the first time in a position to acquire minimum necessities in durable goods.
3. Newly married persons, whose need for durable goods is much greater than those of established families.

August 27, 1941

Finally, I should like to comment on indications that the consumer credit restrictions may be extended to home repairs. Repairs and maintenance characteristically get a high rating under the priorities system, and in view of the impending housing shortage, it appears illogical to discourage repair and renovation of existing homes. The amount of strategic materials used in home repairing is insignificant as compared with labor. Repairs on houses can be made in practically any season, whereas the problem of constructing new homes is complicated by the seasons. This may lead to an unemployment problem during the winter months if repairs are discouraged. In any event, curtailment of all consumer goods should be done primarily on the basis of need. In my opinion, housing facilities rate very high on this basis and any curtailment of repairs for these facilities will require a most thoroughgoing justification.

I recognize that a measure of restraint on consumer credit will serve to protect consumers from the tendency some of them would have, during a period of suddenly increased incomes, to over extend their purchases. The present regulations may go no further than is required to accomplish this, but I feel that if restrictions are made more stringent, plans should be made to do this in a way which would deal with individual cases on their merits with full weight given to considerations of need.

Sincerely yours,

Harriet Elliott
Associate Administrator

9/5/41

Dear Henry

I thought you ought to have the following available:

There once was a lady of fashion,
Renowned for her beauty and passion;
To her lover she said,
As they got into bed:
"Well, there's one thing that Debes can't resist!"

I defer on this note.

Hoping to see you soon, and with love to
Elinor,

Yours,
Bob

September 5, 1941

MEMORANDUM FOR THE SECRETARY'S FILES:

A meeting relative to the administration of Executive Order 8389 was held at 4:30 p.m. September 3, 1941 in Mr. Foley's office, attended from time to time by the following:

Messrs. Foley (Chairman), Pehle, E. Bernstein, Cochran, E. M. Bernstein and Timmons for the Treasury; Messrs. Acheson, Fisher, Luthringer and Miller for State; Messrs. Shea, Jurenev, Kreeger and Swydler for Justice and Messrs. Thomas and Knapp for the Board of Governors of the Federal Reserve System.

Reference was made to a newspaper story appearing in the New York Herald Tribune on August 31st to the effect that certain officials of the French Embassy in Washington as well as certain persons in New York are spreading pro-Vichy and pro-Axis propaganda in the United States. The texts of several letters written by such persons were also published and a passage in one of the letters would appear to indicate that a remittance business is being conducted in violation of the Executive Order. The story went on to say that approximately \$1,000,000 was being released monthly from frozen French funds, of which \$800,000 is used for colonial supplying, \$100,000 for diplomatic expenses in the United States and \$100,000 for diplomatic expenses in South America. Mr. Pehle referred to a letter addressed to the State Department under date of June 24, 1941, suggesting that State request the French Embassy to submit a statement indicating all funds, either in dollars or in local currency, in the possession of, or available to, the French Government or any French mission in Latin America. It was also suggested that the French submit to the State Department by the 15th day of each month a statement indicating the exact amount of funds used during the preceding month by each French Embassy, Legation and Consulate in the Western Hemisphere, and containing a definite statement that the amounts expended were actually needed and used for the payment of normal diplomatic expenses. Mr. Pehle suggested that in view of information which

We have received from Ambassador Caifery in Rio de Janeiro during August, to the effect that the French have available there approximately \$1,400,000, the statement be extended to include the assets available on August 31, 1941 and that the statement be submitted monthly thereafter. It was also agreed that a similar statement should be requested with respect to French assets in the United States not presently held in blocked accounts. The Committee also agreed that the Foreign Funds Control investigating unit in New York should institute an investigation of Jean Musa, who, it would appear, has been conducting the remittance business referred to in the story by the Herald Tribune. Mr. Shea is also to have the Department of Justice check its files with respect to Musa. Mr. Pehle informed the Committee that the Treasury Department is relying upon the views of the Department of State as to the reasonableness of the amounts which are being released monthly to the French for their diplomatic expenses in the United States. It was also agreed that the standard "cash clause" should be inserted in all French diplomatic licenses which do not presently contain such clause, and that we should request additional information from the banks in those cases in which the required reports are inadequate. Mr. Pehle further informed the Committee that the license allowing payment of French diplomatic expenses in South America has not been renewed for the month of September. With respect to the new schedule of merchandise to be purchased and shipped to North Africa, the Committee agreed that such schedule should be inserted in the outstanding license. The question of the payment of French diplomatic and military expenses in China is to be reconvened in the State Department and a report thereon will be made at the next meeting of this Committee.

The Committee was informed that the Norwegian Minister has recently called upon Mr. Gaston to request reconsideration of the application by Norwegian Relief to send \$200,000 to Sweden for the purchase of food for Norway. In his conversation with Mr. Gaston the Minister said that the food situation in Norway

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was growing more critical and that Norway was being used as a rest home and vacation land for the German Army. It also appears that the Germans in Norway are getting large quantities of the best food obtainable. After reconsideration of all of the facts of the case, the Committee reaffirmed its previous decision to deny the application in question.

The British Embassy in Washington has recently presented a memorandum to the State Department urging that the branch of the Bank of Indo-China in Bangkok, Thailand, be granted a "special free account". All of the licenses which granted special free accounts to the various branches of the Bank of Indo-China were revoked in February last. Since then such licenses have been restored over the accounts of the Hongkong, Singapore and Pondicherry branches of such bank. In view of the circumstances, the Committee was in agreement that a license establishing a new "special free account" should be issued over the account of the Bangkok branch.

Foreign Funds Control has received an application to transfer \$617,000 from account "B" of The Bank for International Settlements to the special account "C" of such bank. Some time ago the BIS voluntarily established a "C" account and has from time to time transferred to such account the amounts of dollar accounts which the BIS holds for blocked nationals. In the past the amounts transferred have been very small and each time a transfer has been effected the Treasury has been advised of the national interest involved therein. In the case of the present transfer the BIS has not disclosed the national interest in the funds which it seeks to transfer. It was agreed by the Committee the BIS should be requested to disclose such information in this case.

A general authorization is to be issued to all Federal Reserve Banks authorizing them to license transfers from blocked accounts of "nationals" who are residing in Australia to the accounts of the Commonwealth Bank of Australia when such transfers are being made in response to Australian foreign exchange control regulations.

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Reference was made to a letter received from the Secretary of State concerning a recent request made by the Financial Counselor of the Polish Embassy to transfer \$200,000 in United States currency to Lisbon, Portugal. While the precise purpose of the transfer has not been stated, Mr. Acheson said that it was the feeling of the State Department that the requested transfer should be licensed.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

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DATE September 5, 1941.

TO Secretary Morgenthau

FROM Mr. White

SUBJECT: Meeting of Economic Defense Board, September 3, 1941.

The Board met in the Vice President's Office at 9:30 a.m., September 3. Those present were the Vice President, Attorney General Biddle, Under Secretary Patterson, Assistant Secretary Acheson, Assistant Secretary Long, Under Secretary Wayne Taylor, Mr. Wheeler, Mr. Clayton, Mr. Nichols, Mr. White.

(1) Control Over Coffee Purchases

Mr. Hamm appeared before the Committee (in place of Mr. Leon Henderson) to submit for the Committee's consideration a proposal that the Economic Defense Board authorize a study of the possibilities of Government control of purchasing of all the coffee imported into the country. The United States is trying, through negotiation with the coffee-producing countries, to prevent undue price rises in coffee. The Study, which OPACS is suggesting the Committee make, was merely for the purpose of strengthening the position of the United States in the negotiations. The matter was turned over to Mr. Wheeler and Mr. Duggan for further consideration. Mr. Hamm then left.

(2) South American Priorities

Several additional members of the State Department were present during the discussion on South American priorities. Mr. Clayton read a brief report outlining general principles and procedure which might expedite the granting of priorities for the shipment from the United States of essential goods to South America. Mr. Acheson felt that the procedure and principles outlined were not sufficiently specific to insure elimination of unnecessary delays. It was pointed out to Mr. Acheson that the newly-created S.P.A.A.B. under chairmanship of Mr. Wallace would seem to provide the necessary machinery. Mr. Acheson felt there might be numerous matters undertaken by the S.P.A.A.B. which would involve questions of foreign policy and which might run counter to arrangements or policies being pursued by the State Department and the President. He suggested that it might be helpful if Secretary Hull were to participate in discussions touching on matters involving foreign policy. The Vice President said he would give the matter further thought.

(3) Mr. White suggested that a study might be warranted of the possibility of completing the control over Axis channels of commerce with the Western Hemisphere by stopping the operations of the Italian Air Line, LATI, which runs from Italy to Spain and Brazil and which carries valuable articles and other materials from South America to Axis countries. Mr. Clayton said that they were aware of that leak in the control and were working on it from the Brazilian end and felt that they were making progress in their negotiations.

(4) Mr. Clayton made an oral report on United States activities of preclusive buying of strategic materials in Latin America and indicated that a great deal was being done to mop up surpluses of strategic commodities in that area.

(5) Mr. White suggested that it might be desirable to investigate the possibilities of "preclusive selling" with a view to narrowing the market for Japanese production in areas outside the United States. Mr. Clayton felt that that was no longer necessary because Japanese export trade had been reduced to negligible quantities in recent weeks. (A memorandum on the subject is in preparation in this Division.)

(6) The Vice President stated that a staff of technical men under Milo Perkins was being set up and would have their offices in Kew Gardens.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE September 5, 1941.

TO Secretary Morgenthau
FROM Mr. Haas *JA*

In accordance with your request, I am submitting the attached digest of policy letters, exchanged between the Treasury Department and the Federal Reserve System, on Federal Reserve discount rates during the War and immediate Post-War period.

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Digest of Policy Letters on Federal Reserve
Discount Rates During the War and
Immediate Post-War Period

The Treasury file of policy letters on "Discount Rates of the Federal Reserve Banks" gives evidence of an extended debate upon the proper handling of such rates between Secretary Glass and Assistant Secretary Leffingwell on the one hand, and Governor Strong (of the Federal Reserve Bank of New York) and Governor Harding (of the Federal Reserve Board) on the other.

According to the correspondence, there were two points of view with respect to the rates which should have been placed upon the war financing. One school believed that higher rates would have resulted in a larger placement of Liberty loans with bona fide investors and in less inflation. The other school, supported by Glass and Leffingwell, believed that higher rates would have been harmful to the credit of the Government and would not have been at all effective in securing a better placement of the bonds. This point of view is well represented in the following excerpt from a letter dated July 16, 1919, written by Leffingwell to Mr. Ferrin, the Federal Reserve Agent at San Francisco:

"As to the interest rates of the various bond issues made during the period of active warfare, there is this to say: No one could tell when the war would end or what would be the limit of the demands made upon the Treasury. It has always seemed to me that it was the Treasury's business to get the money just exactly as cheaply as it could, not for the sake of cheapness but for the sake of keeping the situation such that, whatever the duration of the war and whatever the extent of the demands upon the Treasury, it would be possible to meet them upon terms not humiliating or destructive of the credit of the Government. Finance during the period of active warfare was a quasi-military operation. We could not afford to give ground more rapidly than we were forced to.

"I may add that it was largely a question of the excess of the supply of Government bonds over the demand for them and I think it is very doubtful whether an increase of as much as half of one percent in the interest rate borne by all bonds issued

up to the Armistice could have had any effect whatever in the market price of those bonds or in the credit situation. People were being asked to buy more Liberty Bonds than they had money to pay for and it was that fact that forced the bonds to a discount and into the banks, and not the interest rate which the bonds bore."

On February 6, 1919 Governor Strong, who had been a supporter of higher rates during the wartime period, wrote to Leffingwell with respect to the forthcoming Victory loan. He stated in his letter that he believed that "some part of the [wartime] inflation might have been avoided by paying higher rates on the Liberty Loans, but how much, is anybody's guess." He stated, however, that in his opinion it was of paramount importance ". . . that economy . . . be enforced through some system of rationing, or by consumption taxes, or by other methods more scientific, direct and equitable than high interest rates."

He urged, however, that a generous rate be placed on the new Victory loan in order to secure the greatest possible degree of absorption by bona fide investors and in order to place the economy in a better position to face the deflation which he believed inevitable. (His reasons for believing that this deflation was inevitable were based largely on the operation of the old gold standard and would not be applicable today or relevant to a prospective post-defense situation.) He did not state the exact rate which he believed should be placed on the Victory loan, but expressed the view that it should be taxable.

The file contains no answer from Mr. Leffingwell and it is difficult to say whether the rate actually placed upon the Victory loan was satisfactory to Mr. Strong. It probably was not.

(The Victory loan was actually issued in two interchangeable series, each due in four years and callable in three, one series partially tax-exempt with a 4-3/4 percent coupon, and the other wholly tax-exempt with a 3-3/4 percent coupon.)

The debate with respect to rates continued after the issuance of the Victory loan. Throughout the debate, Mr. Leffingwell was insistent that an increase in interest

rates was a relatively ineffective check on price inflation. At one point, for example, he referred to the ineffectiveness of high central bank rates throughout the world, even in neutral countries, in preventing inflation. On several occasions he contended that the burden of high interest rates bears more heavily upon producers than upon speculators; and that, because they enter into the cost of production, high interest rates may actually raise commodity prices. At one place, he says in a memorandum to the Secretary:

"I am weary of the reiteration of the copybook texts. 'Making credit more expensive' will not do the business. There is no precedent in history for the great war which we have been through. The bank governor [Strong] must raise his mind above the language of the textbooks and face the situation which exists. He must have courage to act promptly and with confidence in his own integrity to prevent abuse of the facilities of the Federal Reserve System by the customers of the Federal Reserve Banks, however powerful or influential."

On August 31, 1919, the war debt reached its peak (\$26.3 billions) and commenced to decline very rapidly, decreasing \$2.2 billions by June 30, 1920. The rate of decline in the short-term debt and in the amount of United States securities held by banks was even more rapid. In the meantime, bank loans were advancing very rapidly — the expansion in commercial loans and discounts for the entire banking system during the 10 months ended March 26, 1920, amounting to approximately \$9 billions, according to Mr. Leffingwell. This convinced him that a more stringent credit control bearing down upon the whole market would be advisable. Consequently, in a memorandum to the Secretary dated April 6, 1920, he recommended that the Treasury concur with the Reserve Board in a general increase in rediscount rates.

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

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, two o'clock p. m., Eastern Standard time, Monday, September 8, 1941. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of \$1,000, and the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

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

Immediately after the closing hour, tenders will be opened at ²⁸⁵ the Federal Reserve Banks and Branches, following which public announcement will be made by the Secretary of the Treasury of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Payment of accepted tenders at the prices offered must be made or completed at the Federal Reserve Bank in cash or other immediately available funds on September 10, 1941.

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

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

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 5, 1941

TO: Secretary *Logenthau*

FROM: Mr. *Hess*

Subject: Current Developments in the High-grade Security Markets; Bank Deposit Expansion in Selected Countries

SUMMARY

- (1) Price changes of United States Government securities since August 1 have been mixed (Chart I). Bonds and short-term notes have suffered minor declines, while long-term notes have increased slightly. The Government security market continues to be thin.
- (2) Prices of corporate bonds have remained unchanged on balance, while municipal bonds have declined slightly. (Charts II and III). New bond offerings to the public in the New York market during August totaled \$114 millions, the smallest month since May 1940. Three corporate issues accounted for about 80 percent of the total.
- (3) Since the outbreak of the war, the bond market has experienced two major swings, each followed by a decline, and the present upward swing (Chart IV). For the whole period since the outbreak of the war, municipal bonds have done the best, with Treasury bonds second, and high-grade corporate bonds the poorest.
- (4) The financing of armament and war expenditures has accounted, in large part, for the expansion of bank deposits in the United States, Japan, Great Britain, Canada, and Australia. The relative expansion of deposits in the United States was greater than that of Canada and Australia, and almost as large as that occurring in Great Britain (Chart V).

I. United States Government Securities

Net price changes of Treasury securities for the months of August and September to date have been mixed (Chart I). Bonds and short-term notes have suffered minor declines, while long-term notes have increased slightly. The two long-term taxable note issues have performed better than tax-exempt notes, while the three taxable bonds have displayed slightly less strength than tax-exempt bonds.

The small net change in Treasury bond prices has been the resultant of two movements. During the first one-third of August market prices declined from one to one and one-half points. Since then most of these losses have been regained.

Trading in Government securities during this period has been generally dull. It is reported that trading for the week ended August 27 was the lightest for any week this calendar year.

The following table presents price changes by maturity classes from August 1 to yesterday's close:

	Average Price Change		
	Aug. 1- Aug. 11	Aug. 11- Sept. 4	Aug. 1- Sept. 4

(Decimals are thirty-seconds)

Notes

1 to 3 years	- .01	0	-.01
3 to 5 years	- .02	+ .05	+.03

Bonds

5 to 15 years to call	-1.02	+ .23	-.11
15 years and over to call	-1.17	+1.13	-.04

The average yield of long-term partially tax-exempt Treasury bonds, moving inversely to prices, rose from 1.90 percent on August 1 to 2.00 percent on August 11 and thereafter decreased to 1.90 percent at yesterday's close (Chart II).

II. Other Domestic High-grade Securities

Unlike the clear-out down-swing and recovery in price movements of long-term Treasury bonds, high-grade corporate bonds have varied within narrow limits since August 1. Our average yield of five high-grade corporate bonds, moving inversely to prices, showed no net change from August 1 to last night's close (Chart II).

The Dow-Jones weekly average yield of municipal bonds, moving inversely to prices, increased by four basis points to 2.05 percent during August (Chart III). This has widened slightly the yield spread between the municipal average and the Treasury average from 11 basis points -- the record narrow spread -- on August 2 to 15 basis points.

New bond offerings to the public in the New York market during August aggregated \$114 millions. This is the smallest month since May 1940. Three issues in the latter half of the month accounted for almost 80 percent of the total.

The largest of these, the Standard Oil Company of California offering, consisted of \$25 millions of 2-3/4 percent, 25 year debentures priced to yield 2.61 percent, and \$15 millions of 5 to 14 year serial notes carrying interest rates ranging from 1.05 to 2.20 percent. Both issues are rated Aaa by Moody's Investors Service. Of the proceeds, \$25 millions were for refunding; the remainder is intended for new capital purposes. The serial notes were taken by several large banks. The debentures met with good demand and have been quoted at a premium of a point or more above their issue price since the date of offering.

The other two large public issues were the \$30 millions Wisconsin Power and Light Company 30 year bonds and the \$20 millions Atchison, Topeka and Santa Fe Railway Company 1 to 10 year equipment trust certificates. The former has been reported to be moving slowly; about four-fifths of the latter issue was sold during the first week of sale.

Two short-term issues aggregating \$155 millions were placed with banks, trust companies, and bond houses by the State of New York and New York City. The State issue of \$100 millions of tax-anticipation notes due in March 1942 yields an annual rate of 0.20 percent. The New York City issue of \$55 millions of revenue bills maturing at various dates from October 20 to October 31, 1941, yields an annual rate of 0.25 percent.

III. Major Swings of Government, Municipal, and High-grade Corporate Bonds Since the Outbreak of the War

Since the outbreak of the war in Europe in September 1939 the general net movement of Government, municipal, and high-grade corporate bonds has been upward (Chart IV).

During this period the market has experienced two major up-swings, each followed by a decline, and is currently in a third up-swing. The current up-swing leveled off several months ago and has since fluctuated within a rather narrow range (Charts II and III). The up-swings have been of longer duration and greater amplitude than the down-swings.

Generally, Government bonds, municipals, and high-grade corporate bonds have moved in unison, rising and falling together during the same periods of time.

The following discussion is based on price changes as indicated by inverted yields.

From a low (2.79 percent yield) on September 26, 1939, the price of long-term partially tax-exempt Treasury bonds rose during the period of the so-called "phony war" to a high for the swing on April 3, 1940 (2.19 percent yield).

Thereafter, Treasury bonds fell during the occupation of Denmark and Norway, and during the blitzkrieg on Holland, Belgium, and France. The down-swing was completed with the low reached on May 24, 1940 (2.50 percent yield).

A long rise then occurred until the end of 1940. On December 28, 1940, long-term Treasury bonds attained an all-time high (1.86 percent yield).

The announcement of the Reserve Board's recommendations to Congress for higher reserve limits and other restrictive monetary measures at the end of 1940 depressed the Treasury bond market. The decline continued until February 17, 1941, when a low for the down-swing was reached (2.14 percent yield). This down-swing, however, did not carry down so far as the previous down-swing ending at the time of the blitzkrieg in the Low Countries and France.

Secretary Morgenthau - 5

Since February 17, 1941, Treasury bonds have risen again (a 1.90 percent yield existing on September 4, 1941). However, the high reached at the end of 1940 has not yet been attained.

Municipal bonds, while generally moving in harmony with Treasury bonds, have risen more rapidly than Treasury bonds during up-swings and fallen more rapidly during down-swings. But for the period as a whole municipals have gained on Treasury bonds. Municipal bonds have in the last up-swing reached a higher level as of August 30, 1941 (when the yield on Dow-Jones' 20 representative municipals was 2.05 percent), than the previous highs of January 13, 1940 and December 28, 1940. This is in contrast to Treasury bonds which, as stated above, have not reached their previous high. The better performance of municipals may be partially attributed to the growing scarcity value of wholly tax-exempt issues.

High-grade corporate bonds have not risen or fallen as rapidly as Treasury bonds during this period. Corporate bond prices have been rising since the first quarter of 1941. (On September 4, 1941, the yield of high-grade corporate bonds was 2.64 percent.) As in the case of Treasury bonds, corporate bonds have not yet reached the previous high made around the first of this year.

For the whole period since the outbreak of the war municipal bonds have done the best, Treasury bonds second, and high-grade corporate bonds the poorest.

IV. Relative Expansion of Bank Deposits in Selected Countries, 1939-1941

Deposits of member banks in the United States increased relatively nearly as much from June 1939 to June 1941 as deposits of clearing banks in Great Britain, and more than bank deposits in some other belligerent countries. This is understandable because this country during the first half of the period received large sums of gold and during the last half was engaged in a defense program requiring the sale of Treasury securities, which were acquired in large amount by the member banks, and bringing about an expansion in commercial loans.

Bank deposit trends in the United States, and in four belligerent countries, are compared in Chart V and in the following table:

	Percentage Increase in Deposits from June 1939 to		
	June 1940	February 1941	June 1941
United States	14	24	28
Japan	29	39	33 ^{1/}
Great Britain	11	22	33
Canada	4	15	18
Australia	9	16	15 ^{2/}

It appears that the greatest expansion of bank deposits has occurred in Japan, although the lack of data since the Japanese authorities closed off the sources of information makes it impossible to say whether the index of Japanese commercial bank deposits maintained in later months the lead that it held in February.

Net percentage increases in British and United States bank deposits from June 1939 to June 1941 did not differ greatly, but both were considerably greater than net percentage increases in Australian and Canadian deposits over the same periods.

In general, demand deposits of the commercial banks in all countries reviewed increased proportionately more than did total deposits. This means that time deposits showed smaller percentage increases during this period than demand deposits.

The financing of public expenditures has been a major factor underlying the expansion of bank deposits in each of the five countries mentioned. However, the relative importance of public financing as a cause of bank deposit expansion varies somewhat in the several countries.

In Great Britain, the principal cause of bank deposit expansion is found in Government war financing. Deposits of the clearing banks increased £727 millions in the two years ended June 30, 1941. Treasury deposits, investments, and

^{1/} February figures last published
^{2/} May

Secretary Morgenthau - 7

discounts combined showed a net increase of £706 millions, reflecting chiefly bank acquisition of Government securities. Advances and call loans declined £135 millions, as a result mainly of the restriction of unessential industries and the development of Government control and financing of war industries. An increase in cash and balances with other banks rather more than offset the decrease in advances and loans to the money market.

Deposits of Canadian banks increased \$468 millions, or 18 percent, in the two years ended June 30, 1941. The main factor accounting for this increase was an increase in private loans. The next most important factor was an increase in Government securities which was two-thirds the size of the increase of private loans. However, the Government's policy of financing war contracts is retarding the increase of private demand for loans while adding to the Dominion's demands on the banks.

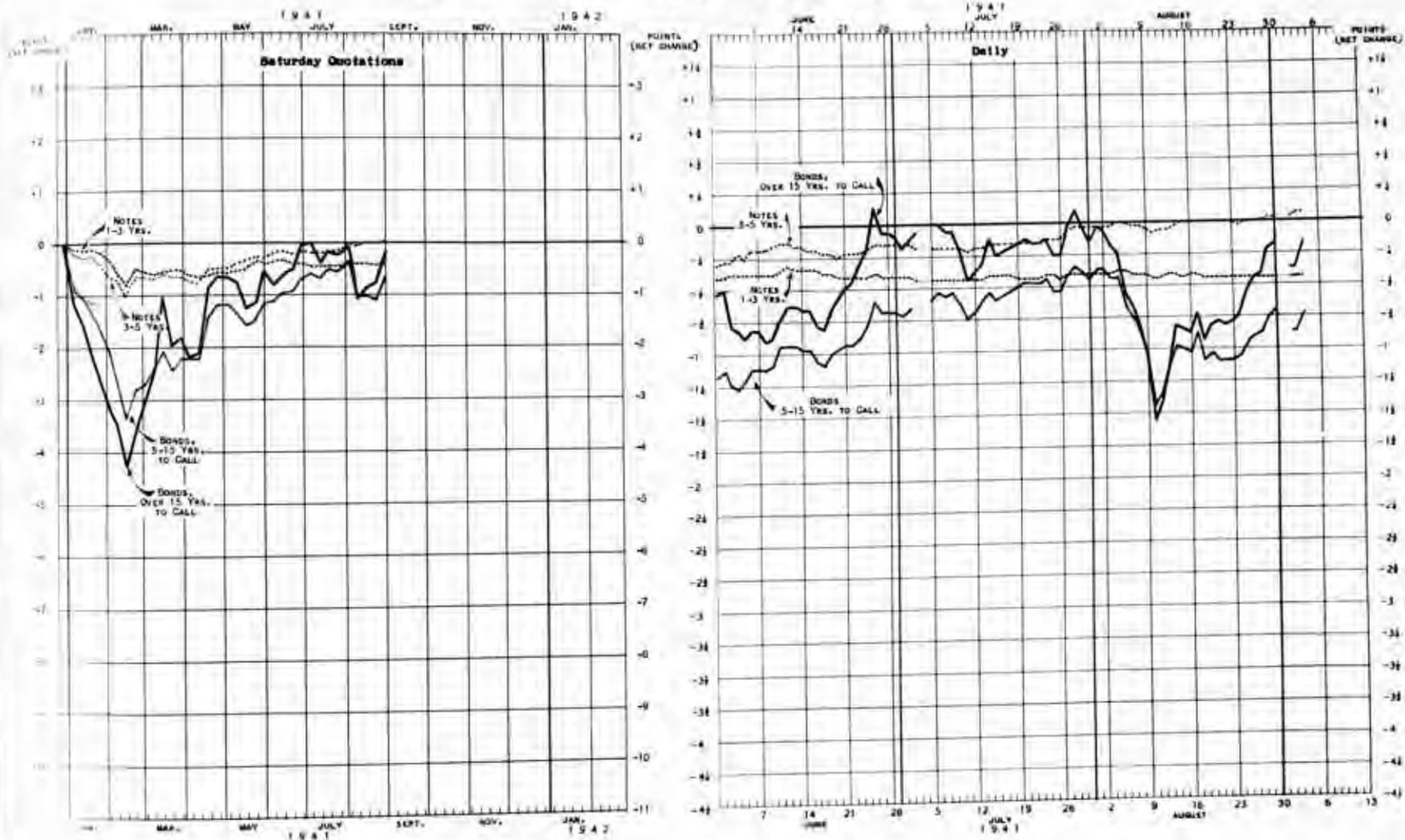
The growth of Australian bank deposits from June 1939 to May 1941, which was temporarily interrupted in the middle of 1940, was almost altogether the result of purchases of Government securities. As in Great Britain, private loans declined on balance over the two-year interval.

The Japanese experience since June 1939 represents the continuation of a trend already well established when the European War began. Increased holdings of Government bonds accounted for 24 percent of commercial bank deposit expansion during the 18 months ended December 31, 1940, whereas advances amounted to 54 percent of the deposit expansion.

In the United States, a distinct shift occurred during the period in the relative importance of the factors accounting for member bank deposit expansion. During the fiscal year 1940, 69 percent of the increase of \$5.4 billions in deposits of member banks was accounted for by an increase in cash and reserve balances. The balance of the increase in deposits was attributable equally to increases in Government securities and in loans. In the fiscal year 1941, however, the increase in holdings of Government securities accounted for about 64 percent of the \$5.3 billions increase in deposits, with loans second in importance. Cash and reserve balances slightly diminished during the year.

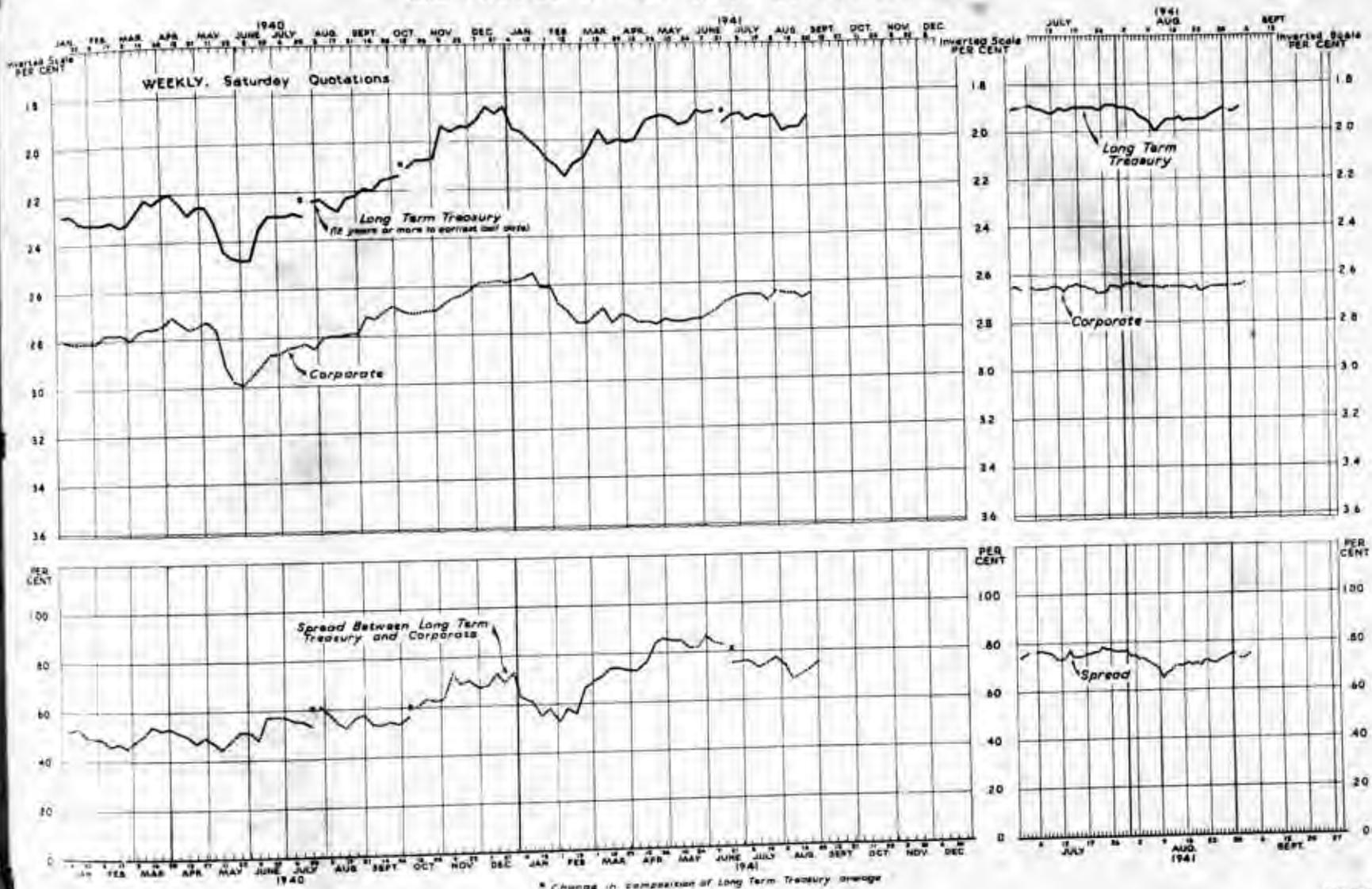
Chart I

CHANGES IN THE PRICES OF U.S. SECURITIES
 Points Plotted Represent the Difference from December 29, 1940 Price of Each Maturity Class



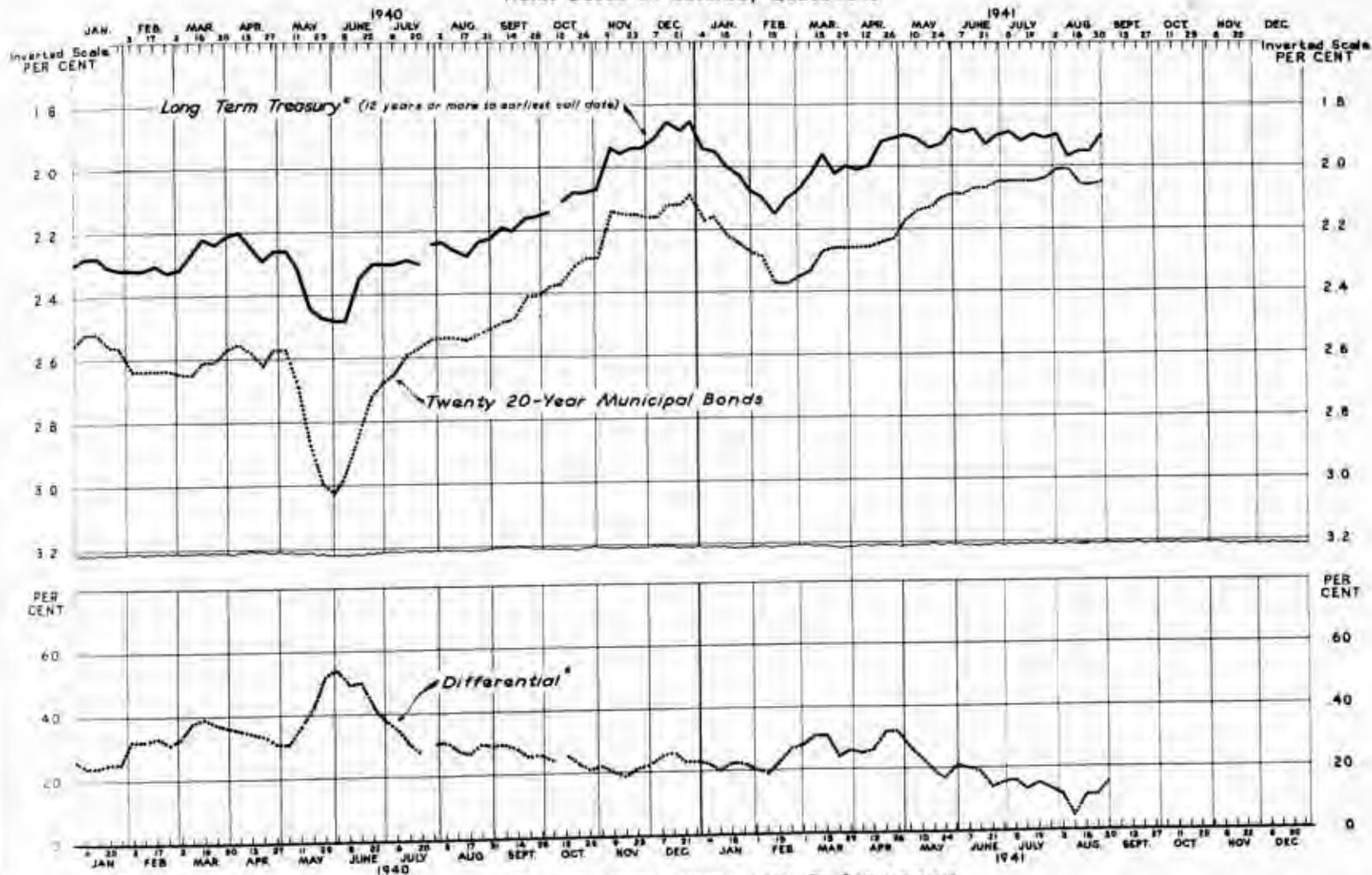
U.S. DEPARTMENT OF THE TREASURY
 OFFICE OF STATISTICS

COMPARATIVE YIELDS OF AVERAGE OF ALL LONG TERM U.S. TREASURY AND AVERAGE OF HIGH GRADE CORPORATE BONDS



COMPARATIVE YIELDS OF AVERAGE OF ALL LONG TERM U.S. TREASURY AND DOW-JONES AVERAGE OF MUNICIPAL BONDS

Yields Based on Saturday Quotations

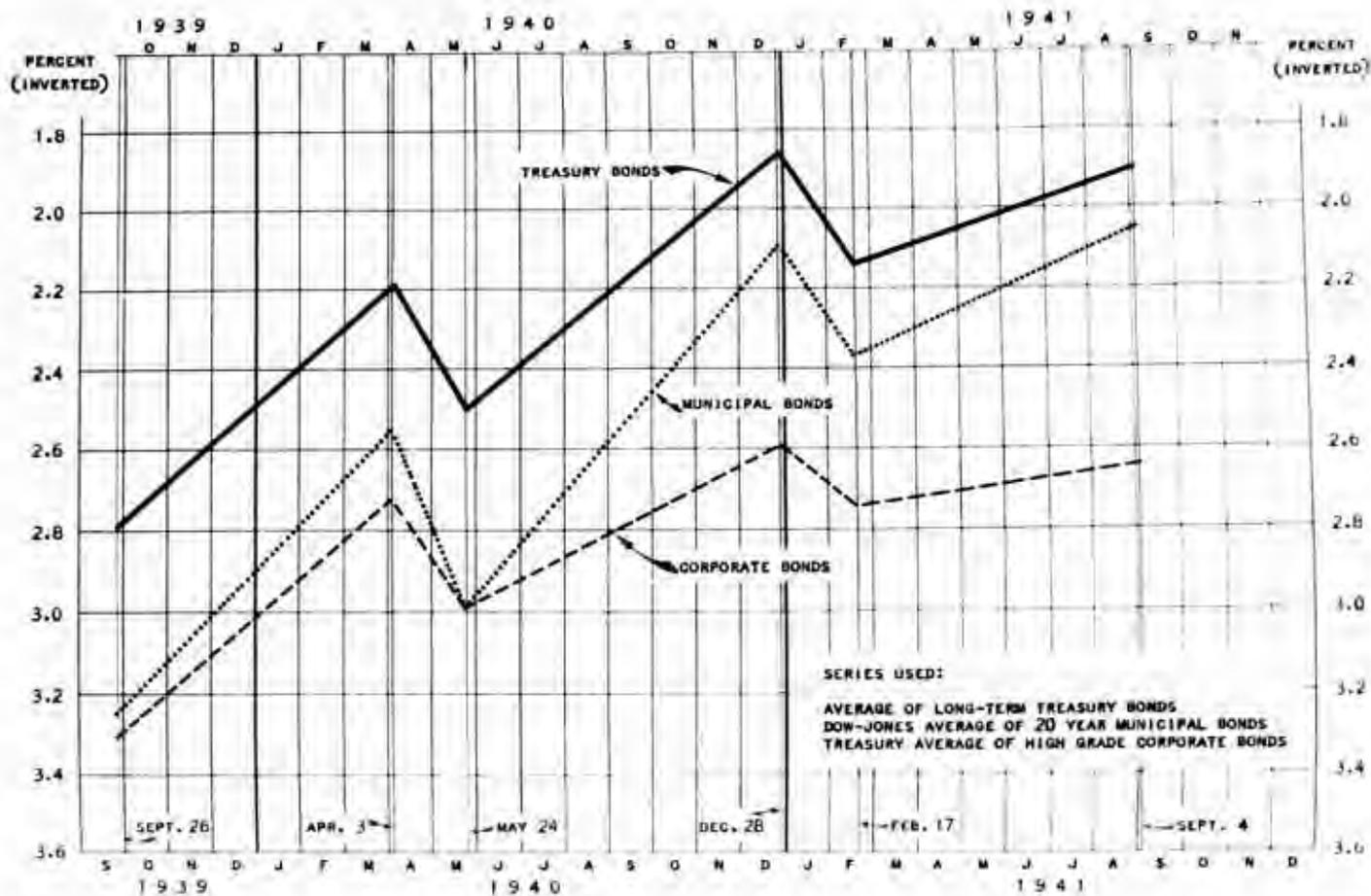


*Break in line indicates change in composition of Long Term Treasury average.

2196

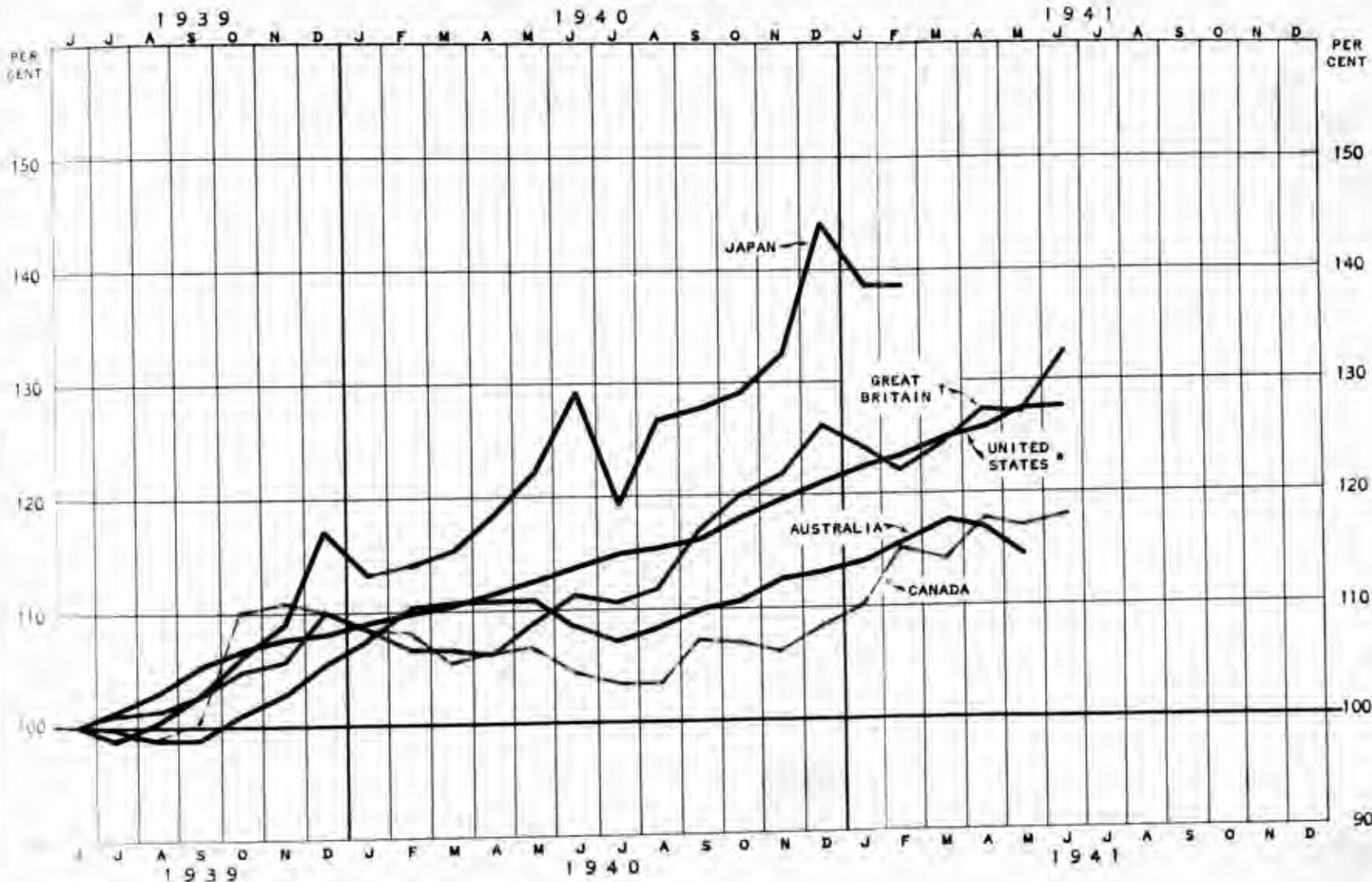
Chart IV

COMPARISONS OF MAJOR SWINGS OF GOVERNMENT, MUNICIPAL AND HIGH-GRADE CORPORATE BONDS SINCE THE OUTBREAK OF THE WAR



RELATIVE EXPANSION IN COMMERCIAL BANK DEPOSITS
SINCE THE OUTBREAK OF THE WAR - SELECTED COUNTRIES

JUNE 1939 = 100



* MEMBER BANK DEPOSITS
† CLEARING BANK DEPOSITS

SEP 5 1941

My dear Mr. Secretary:

May I record formally the genuine thanks which I have expressed to you orally for the services which the Navy Department has so efficiently and discreetly rendered in the transportation of gold from Africa to the United States. On three separate instances ships of the Navy have brought safely to the United States gold purchased from hard-pressed friendly countries, who desired either that their gold be removed to safety, or that it reach the United States in order that the dollar proceeds of its sale could be utilized in the purchase of war materials.

In order to commemorate more permanently the record of the services rendered by the Navy, I have caused to be struck off bronze medallions for the commanding officers: Captain J. H. Beardall, who was the Commanding Officer of the U.S.S. Vincennes when two important shipments of gold were carried, and Commander H. J. Selsen, who was the Commanding Officer of the U.S.S. Louisville when one large amount of gold was transported. May I request, therefore, that the three medallions which are being forwarded to you be presented to the officers mentioned as an expression of my appreciation of their assistance.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable
Frank Knox,
Secretary of the Navy.

100-1-1-1

100-1-1-1

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Sept. 5, 1941

to Mr. Graves

FROM Mr. Duffus

On July 28 we contacted Mr. Felix Bruner, Department of Public Relations, General Motors Corporation, Detroit, Michigan regarding their Caravan, "Parade of Progress". Through correspondence with him we agreed to furnish them with a quantity of the attached pamphlet which they would distribute wherever they stop to exhibit. We asked them at that time if we could set up a booth along with their exhibit, but they are unable to do this.

At the same time we contacted Mr. Picking of Baltimore, Maryland who has two trucks on the road which are equipped with sound apparatus which tour the country and are used at fairs and celebrations. We supplied him with the same pamphlet to be passed out, and also the pamphlet for farmers to be used in rural areas, as well as a recording of "ANY BONDS TODAY?" to be played over his loud speaker system. We also supplied him with a series of short announcements on Defense Bonds and Stamps which he could make over his loud speakers.

As fast as we are informed of any other such caravans or exhibition trucks which we can tie into, we will continue to furnish them with material.

TREASURY DEPARTMENT

300

INTER OFFICE COMMUNICATION

DATE September 5, 1941.

TO The Secretary

FROM Mr. Thompson

Attached is our last semi-monthly report of pledges and purchases of bonds and stamps by Treasury employees.

It will be noted that 89% of the personnel have pledged to make monthly purchases. Total monthly pledges amount to \$412,000 and actual purchases to date amount to \$959,000.

for

SEMI-MONTHLY REPORT OF PLEDGES AND PURCHASES

TREASURY EMPLOYEES' VOLUNTARY PURCHASE PLAN

DEFENSE SAVINGS CAMPAIGN

REPORT FOR PERIOD ENDING AUGUST 27, 1941

(CONTINUED TO C. AND FIELD) PERSONNEL

AGENCY OR DIVISION	PLEDGES				PLEGGED TO BE PURCHASED EACH MONTH										ACTUALLY PURCHASED THROUGH GROUP AGENTS																			
	NUMBER OF PLEDGES	AMOUNT	PERCENT OF PAY	PERCENT OF PLEDGES	BONDS					STAMPS					TOTAL BONDS AND STAMPS					BONDS					STAMPS					TOTAL BONDS AND STAMPS				
					PERCENT OF PLEDGES	PERCENT OF PLEDGES	PERCENT OF PLEDGES	PERCENT OF PLEDGES	PERCENT OF PLEDGES	PERCENT OF PLEDGES	PERCENT OF PLEDGES	PERCENT OF PLEDGES	PERCENT OF PLEDGES	PERCENT OF PLEDGES	PERCENT OF PLEDGES	PERCENT OF PLEDGES	PERCENT OF PLEDGES	PERCENT OF PLEDGES	PERCENT OF PLEDGES	PERCENT OF PLEDGES	PERCENT OF PLEDGES	PERCENT OF PLEDGES	PERCENT OF PLEDGES	PERCENT OF PLEDGES	PERCENT OF PLEDGES	PERCENT OF PLEDGES	PERCENT OF PLEDGES	PERCENT OF PLEDGES	PERCENT OF PLEDGES	PERCENT OF PLEDGES				
...	71	21	-	31	100	300	-	300	100	-	100	40	-	40	675	350	925	126	31	157	301	281	1,082											
...	53	53	-	23	100	168	-	168	77	-	77	205	-	205	206	112	318	251	37	288	457	149	606											
...	5	5	-	5	100	150	-	150	15	-	15	162	-	162	-	-	-	-	-	-	-	-	-											
...	27,520	24,181	87.9	26,820	97.8	121,035	3,027	124,062	111,269	1,275	112,544	233,309	4,304	237,609	259,228	76,267	324,506	126,986	45,126	172,112	398,224	121,399	506,718											
...	2,337	2,281	97.6	2,300	98.4	5,750	50	5,800	2,357	140	2,497	12,107	90	12,197	20,225	4,212	24,437	15,135	3,706	18,841	35,340	7,914	43,254											
...	165	157	95.2	160	97.0	625	-	625	319	2	321	444	2	446	1,075	205	1,280	794	172	966	1,879	297	2,176											
...	2,482	2,380	95.9	2,367	95.4	2,600	50	2,650	5,014	40	5,054	8,014	10	8,024	28,635	5,475	34,110	12,749	2,647	16,393	42,504	9,119	51,623											
...	27	22	81.5	25	92.6	275	18	293	106	7	113	381	25	406	875	225	1,100	71	34	105	946	259	1,205											
...	171	123	72.0	125	73.1	471	47	518	457	7	464	1,480	421	1,901	2,350	400	2,750	180	22	202	3,660	602	4,262											
...	142	131	92.3	131	92.3	1,187	25	1,212	297	-	297	1,786	25	1,811	1,762	475	2,237	594	118	704	2,327	592	2,919											
...	123	110	89.4	110	90.2	781	6	787	244	8	252	1,203	14	1,217	1,175	375	1,550	247	105	402	1,502	480	2,002											
...	152	76	50.0	92	60.5	1,100	37	1,137	204	58	262	2,004	95	2,099	581	181	2,280	160	61	221	241	187	428											
...	151	664	4.4	665	4.4	1,921	151	2,072	1,493	94	1,587	2,414	226	2,640	4,400	1,875	6,275	2,992	1,002	3,994	7,323	2,378	12,271											
...	2,531	7,376	291.5	7,578	299.4	11,118	38,342	49,460	9,142	22,948	60,258	2,020	62,278	72,323	15,081	11,400	27,283	27,382	9,423	37,065	100,734	27,764	128,498											
...	363	219	60.3	320	88.2	2,600	20	2,620	1,817	18	1,835	3,687	22	3,709	4,700	1,125	5,825	726	1,974	3,298	1,640	4,938												
...	25	22	88.0	22	88.0	467	-	467	45	-	45	512	-	512	350	100	450	121	20	141	471	120	591											
...	1,433	1,250	87.3	1,251	87.3	1,977	-	1,977	2,513	34	2,547	4,490	24	4,514	5,500	1,000	6,500	1,072	1,210	7,512	26,492	3,010	29,502											
...	363	324	89.3	323	89.0	1,916	-	1,916	916	1	917	2,972	1	2,973	2,250	400	2,700	1,718	320	2,038	3,764	710	4,474											
...	229	207	90.4	207	90.4	150	-	150	301	-	301	451	-	451	600	20	620	68	10	108	1,493	185	1,678											
...	3,977	5,147	129.4	5,263	132.3	7,800	100	7,900	12,977	39	13,016	20,329	18	20,347	29,900	6,975	36,825	26,291	5,818	31,361	51,972	12,423	64,395											
...	2,926	1,304	44.6	2,010	68.7	1,371	283	1,654	4,325	564	4,889	4,226	80	4,306	4,499	1,150	5,649	2,497	2,031	7,180	12,668	4,151	16,819											
...	42	33	78.6	33	78.6	50	-	50	77	-	77	127	-	127	1,300	-	1,300	226	37	263	1,524	37	1,561											
...	3,328	1,201	36.1	2,606	78.3	1,520	2,331	3,851	2,410	1,386	4,266	3,810	6,237	10,217	4,217	14,434	5,926	8,511	14,207	11,614	23,265	24,879												
...	8,217	1,737	21.1	2,345	28.6	16,602	2,440	19,042	2,224	2,405	7,627	20,226	6,977	27,203	22,431	4,212	31,415	3,101	2,262	5,363	26,579	14,215	40,794											
...	224	173	77.2	173	77.2	1,100	-	1,100	920	-	920	2,020	-	2,020	1,900	200	2,200	1,387	210	1,597	3,500	585	4,085											
TOTAL	16,217	14,372	88.6	14,372	88.6	11,841	11,841	23,682	19,842	10,173	29,815	59,630	21,204	80,819	102,232	42,919	123,731	43,637	18,873	62,510	186,347	61,399	247,746											



TREASURY DEPARTMENT
WASHINGTON

September 5, 1941

MEMORANDUM FOR THE SECRETARY

As you asked, I hand you herewith a memorandum which reached me this morning about the New York State organization.

I had not read this when I spoke to you. I find that it is an analysis of the New York problem made at Colonel Patterson's request by a Mr. Cavanaugh of the John Price Jones Corporation. It was furnished me informally and confidentially by Miss Gelles.

You will understand, of course, that the objections and criticisms at the end are not, and will not be, concurred in by the Treasury.

Otherwise, I think that the report gives a fair idea of the plans that are being made, although I have not been directly in contact with the situation since mid-August.

I intend to be in New York next week, possibly Monday.

GRAVES

New York State Committee for the Sale of Defense
Bonds and Stamps

Memorandum of State-Wide Organization

August 26, 1941

Foreword. This memorandum describes the general plan advocated by the United States Treasury for organizing the State of New York for the sale of Defense Securities. It is based on the "Manual for State and Local Committees of the United States Defense Savings Staff," published by the Treasury Department, but seeks to be somewhat more specific than that document. Brief comment on the plan is appended at the end.

I. Objective. The Manual defines the objective of the Defense Savings Program as follows:

"The success of the Defense Savings Program will be measured by the number of men, women and children who serve their country by saving. The Secretary of the Treasury has said repeatedly that the chief objective in this program is to spread the cost of defense as widely as possible among the American people. The main purpose is to give every American a sense of direct participation in the financing of national defense, and at the same time a rock-solid investment for his own future."

It adds elsewhere "The all-important task of these (local) committees will be to spread information about the Defense Savings program among every one of our 130,000,000 Americans."

In perhaps more specific and realistic terms, the objective of the New York Committee is: consistent with the general policies laid down by the Treasury, to sell the largest possible number of Defense Bonds and Stamps to the largest possible number of citizens of the State.

II. Character of Program. The Treasury is specific as to the type of program.

The Manual states:

"It is essential that the program for the sale of Defense Savings Bonds and Stamps.....shall be carried on by methods which strengthen national morale. Although it might be possible to sell quickly a large volume of bonds by using high pressure methods, the net result, however impressive financially, might be bad when measured in terms of good will and national unity."

Elsewhere the Manual states:

"The present campaign involves no quotas nor time limits, and cannot be conducted by such methods. Our task is to encourage systematic saving through the repeated purchase of bonds and stamps out of current income, rather than the sale of a specified amount within a given time."

In general, the policy has been adopted of working through existing civic, educational, labor, and trade and professional organizations, rather than in creating a new selling organization.

The Manual adds: ".....the effort must be made 'at the grass roots' in every local community."

In fact, budget restrictions make it imperative to use existing organizations. Funds for a paid staff of less than 10 executives are available for the entire State.

III. Method of Selling Securities. Although the Defense Staff, in its published material, places major emphasis on informing the public of the opportunity for investment, rather implying that, once informed, the public will purchase these securities on a large scale, the Program provides for three actual selling plans:

1. The wage-deduction plan whereby an employee signs a card authorizing his or her employer to deduct a definite amount regularly from his or her wages or salary and apply the proceeds to the purchase of Defense Bonds.

2. The group agent plan (mostly utilized in government offices) whereby one of a group of employees agrees to act as agent, collecting contributions at stated intervals and representing individuals in the purchase of bonds.
3. Selling by the banks. The steps here are as follows:
 - A. The bank first qualifies as an issuing agent for Defense Securities.
 - B. The bank undertakes to merchandise the Bonds and Stamps by the following methods:
 - (a) By arranging for its own employees to adopt a wage-deduction plan.
 - (b) By writing to its clients urging them to buy Defense Bonds.
 - (c) By initiating plans by which it will be easy for depositors to buy Bonds or start savings plans.

Of these three plans the first should be the most productive. If it can be introduced into most of the stores, factories, and shops of the State it will in time yield a substantial sum. The plan is so drafted that deductions from a subscriber's salary or wages will continue "until forbid."

From a strictly realistic point of view efforts expended in initiating the wage-deduction plan on the widest possible scale will work most directly toward achieving the goal of selling Defense Securities in greatest possible volume to the greatest number of citizens.

- IV. Timing. The policy of the Treasury is to put no time limit on any phase of the program. The Treasury regards the program as proceeding indefinitely as a means of raising the Government's income during the war period. It has

amount of securities, or number of subscribers.

V. State-Wide Plan of Organization.

1. Ultimate Objective. The goal of this plan is to organize, in every town, city, and hamlet in the State, a Local Committee, representative of the chief local activities, which will establish in every organization where there are 10 or more employees the pay-roll deduction plan or the group agent plan for subscriptions for Defense Securities. Along with this objective local committees will enlist each "qualified" bank to conduct a campaign as outlined in the foregoing paragraphs.

As a background for this program the local committee, aided by State and National Headquarters, will conduct a campaign of information about the Defense Savings Program.

2. The Method. The following text should be read in connection with the attached two organization charts.

New York State Committee for the Sale of Defense Bonds and Stamps

- A. Hon. Herbert H. Lehman, Honorary Chairman; Colonel Richard C. Patterson, Jr., Chairman; Mrs. Lytle Hull, Vice Chairman.

This will be the top committee of about 30 men and women representative of the major groups to be approached for the purchase of Defense Securities.

This committee is ultimately responsible for all phases of the campaign. Tentatively, its personnel will consist of representatives of the following:

Retail Trades	3
Labor	3
Education	3
Religion	3
Service Clubs	2
Agriculture	2
Post Office	2
Industry	2
Banking	2
	<hr/>
	22

A secretary of this Committee will be appointed.

The members of this Committee will be appointed by the Secretary of the Treasury on nomination of Chairman Patterson. A list of nominees has been prepared.

- B. Executive Assistant to Chairman. Commander Henry H. Heimann
- C. Assistant to Commander Heimann. Kenneth A. Patterson
- D. Executive Committee. From the top committee will be selected from seven to eleven members resident in or near New York who can meet twice or thrice weekly to have immediate executive charge of the Program. The present members are:

Guy Emerson, Chairman
Bayard F. Pope
Thomas Lyons
Gustave Strebhel
Oswald W. Knauth
Walter S. Gifford
Eugene C. Donovan
Robert G. Rouse
Colonel Patterson, ex-officio
Mrs. Lytle Hull, ex-officio

- E. State Administrator. This man, a paid employee of the Treasury, to be appointed by the Treasury Department on the nomination of Chairman Patterson, will be the chief executive officer reporting directly to the Executive Committee. It will be his function to see that this plan is put into effect.

F. State Program Committees. As shown on the attached larger chart, there will be nine state-wide committees representative of those groups of citizens who will be expected to purchase Defense Securities. There will be the following such committees:

Banking and Finance
Agricultural
Education
Civic Organizations
Public Employees
Professions
Women
Labor
Commerce and Industry

A representative of each of these interests on the top State Committee will be appointed to head and build up his or her respective state-wide committee. For instance, Dr. George W. Wiley, Associate Commissioner of Education, will doubtless be requested to head the Committee on Education. It will be his function to appoint the membership representative of the public schools, private schools, colleges, universities, and all the educational interests. The Committee should number from 15 to 25, with a small steering group of from five to seven.

The Committee's function would be to communicate with all local units of its various branches in order to facilitate the participation of those local units in the local campaigns when they occur.

As an illustration, this State Committee on Education would meet and develop a specific plan for the participation of all public schools of the State. That plan would receive the ap-

proval of Dr. Cole, State Commissioner of Education. It would then be published and sent to every School Superintendent in the State describing how the school children are to participate in the local campaign. Similarly, the Committee would develop a simple plan for the participation of private schools, colleges, universities and parochial schools and send these plans to all such institutions.

Each local chairman would be familiar with these plans, so that when he comes to plan his local campaign, he can fit all phases of the educational campaign into it.

* In the same way the Committee on Banking and Finance will develop a plan whereby all local bankers will be urged to participate in the local campaign. Specific suggestions such as the Bank Sales Plan will be sent them so that, when the local chairmen come to organize their local committees, they will find the banks receptive to the idea and informed as to what they are expected to do.

Similarly the other seven State Committees will publish plans, sending them to their local representatives throughout the State. In this way local chairmen will find the ground well prepared when they come to form their local committees. Exactly how the efforts of their State Committees will link in with local plans is shown below under the operations of a typical local committee.

Special Note. After the foregoing was written Mr. Emerson stated that he felt it might be better to consider the State

Committees as consulting groups rather than formal committees. It was his opinion that individuals, such as Dr. Wiley, already a member of the Executive Committee, could accomplish all that would be needed in an executive capacity in carrying out the plans of the Treasury so far as state-wide projects were concerned.

- G. Committee on Information. This committee, preferably headed by a leading advertising agency man, will have charge of the entire publicity campaign throughout the State. A detailed publicity plan has already been submitted by Mr. Wright.

The Committee's objective will be to bring the Defense Bond program favorably to the attention of every man, woman and child in the State, and make clear how each may participate.

This Committee should be small, probably not more than seven - representative of such interests as advertising, the press, moving pictures, radio, printing, and outdoor advertising.

Among the initial problems which the Committee will encounter are the following:

- (a) Staff. No funds are now available for publicity staff.

The present plan is to enlist volunteers for all publicity in New York State. As a campaign of the type contemplated requires a large staff to cover radio, moving pictures, speakers' bureaus, features, news and feature stories, etc., this subject should receive prompt attention.

(b) Material. Present plans of the Defense Staff contemplate that all printed material shall come from Washington. The Committee should decide whether or not this arrangement is satisfactory and whether, if it is not, publicity material may be contributed by local interests.

H. Headquarters Office Department. This division will be in charge of Mr. Philip M. Light, office manager, from the Treasury Department, who will set up an office organization as specified by the Treasury. All paid personnel must be under Civil Service.

I. Up-State Organization.

(a) Territory. For purpose of convenience the Committee has adopted the grouping of the New York State Bankers Association eight districts as follows:

District No. 1. Niagara, Erie, Orleans, Genesee, Wyoming, Chautauqua, Cattaraugus, and Allegany Counties.

District No. 2. Monroe, Wayne, Livingston, Ontario, Seneca, and Yates Counties.

District No. 3. Steuben, Schuyler, Chemung, Tompkins, Tioga, Cortland, Broome, and Chenango Counties.

District No. 4. Cayuga, Oswego, Onondaga, Madison, Oneida, Herkimer, Jefferson, Lewis, and St. Lawrence Counties.

District No. 5. Otsego, Schoharie, Albany, Greene, Columbia, Rensselaer, Washington, Schenectady, Montgomery, Fulton,

Hamilton, Saratoga, Warren, Franklin, Clinton and Essex Counties.

District No. 6. Delaware, Sullivan, Ulster, Orange, Dutchess, Rockland and Putnam Counties.

District No. 7. Westchester, Nassau and Suffolk Counties.

District No. 8. New York, Kings, Queens, Bronx and Richmond Counties.

These districts will be divided into two major groups: (1) Upstate, covering everything above northern Westchester County line and (2) Downstate, covering Districts 7 and 8, to include Greater New York and Westchester, Nassau and Suffolk Counties.

The Upstate District will be in charge of the Upstate Co-chairman now being sought, with an office provided by the Treasury Department. The Upstate Co-chairman will have as assistants three paid deputy administrators appointed, on Chairman Patterson's nomination, by the Treasury Department. Headquarters offices for these three administrators will be opened in upstate cities by the Treasury.

One administrator will be available for Districts 7 and 8 with headquarters in the national office.

The major duties of these administrators will be to establish Local Committees in every town, city, and hamlet in their respective districts.

(b) Steps in Organization. Following are the steps in establishing Defense Bond organizations upstate.

a.a. Appointment of State Administrator.

b.b. Appointment of three upstate Deputy Administrators.

c.c. Development of plan by State and Deputy Administrators for selection and appointment of Local Chairmen for cities, towns or counties.

On this point, it is suggested that in each of the upstate Districts the dominating town or city in each county be selected for initial effort. For instance, start with the following:

<u>County</u>	<u>Dominating City</u>
Erie	Buffalo
Monroe	Rochester
Onondaga	Syracuse
Columbia	Utica
Albany	Albany
Broome	Binghamton

Once Local Chairmen have been selected in these major cities they should be consulted about the best methods for establishing local organizations in their counties. In some cases the local chairman for a large city may be willing to act as County Chairman (the Local Chairman for Buffalo taking the County Chairmanship for Erie County). But, in general, in the more populous counties, it will be necessary for the Deputy Administrators to establish Local Chairman in each of the larger towns and cities.

(c) The Local Chairmanship. The chief steps in the establishment of Local Committees - the major task of the entire organization - are as follows:

a.s. Nominations for Local Chairmanship. Headquarters has already written to the executive officer of each Community Chest in the State of New York asking for the names and addresses of the last three chairmen of the local Community Chests. Many replies have already been received. The New York State Bankers' Association has submitted a list of persons in each of the principal towns and cities known to it as leading citizens. From these lists, from other lists to be secured, and through personal acquaintanceship, a list of nominees for the major cities will be worked up. 5 x 8 cards for every town and city in the state of 10,000 population and over have already been compiled and the foregoing data entered on them.

The man to head a Local Committee must be one of the leading citizens, preferably one who has had experience in local fund-raising.

When a selection from the leading candidates has been made the next problem is the best method of approach. Usually this can be best done by a telephone call from the State Chairman, the State Administrator, the Upstate Chairman, or one of the Deputy Administrators. In some cases it may be necessary for the State Administrator or Deputy Administrator to make a visit.

Once the Local Chairman has accepted, the next step is to place in his hands a pamphlet or folder describing

what is expected of the Local Committee. The major points of such a statement are presented below.

- b.b. The Formation of a Local Committee. As soon as the Local Chairman has accepted appointment he should form his local committee which will have complete charge of the program in his district (either his town or city or county). Headquarters suggests that this committee contain the following:

The Mayor as Honorary Chairman			
Representative of local labor unions			
"	"	"	public schools
"	"	"	women's clubs
"	"	"	Chamber of Commerce
"	"	"	industry
"	"	"	religious organizations
"	"	"	retail trades
"	"	"	agricultural interests
"	"	"	banks
"	"	"	press

The local postmaster

The Local Chairman, after appointing this Local Committee, should call a meeting thereof and outline the following program:

- c.c. How a Local Committee Will Operate. The major test of the efficiency of the State Committee will be in the thoroughness with which these local committees operate. Every effort must be made to carry out either the plan which follows or some other which will accomplish the main objective: the widespread adoption of one of the bond-purchasing plans. In essence the Local Committee, consisting of representatives of local existing groups, sees to it that, through its constituent members, each

of these groups organizes to adopt the payroll deduction, group agent, or bank sales plan.

It will be noted from the attached small chart that the local committees really are replicas of the State Committee; that is, each has representatives of labor, the schools, women's clubs, industry, etc.

Thus, it is hoped that when the Local Chairman comes to ask local labor representatives, for instance, to join the local committee and to organize labor to adopt the payroll plan, these labor leaders will already have heard from the State Committee on Labor, will be familiar with what labor can and will do, and will have been urged by national and state labor authorities to help in every possible way.

Similarly, when the Local Chairman ask the local Superintendent of Schools, the head of the Chamber of Commerce, a leading retailer, the local Postmaster -- all will readily accept and start to organize their respective groups.

In general we recommend the following schedule:

Local Chairman accepts appointment.

Press announcement of appointment.

Local Chairman designates members of local committee and solicits their cooperation.

11

Local Chairman enlists Citizens Committee consisting of from 25 to 100 representative local men and women.

Press announcement of General Committee.

Meeting of Local Committee at which this plan is discussed, brief plans for each group being distributed as basis for local group campaigns.

Open local headquarters with volunteer help. One method is to obtain the loan of a well-located vacant store or office. As no funds are available to meet any local costs, the Local Chairman should raise a small expense fund for stenographic help and supplies. Whenever a Government employee is present to supervise a mailing, the franking privilege is available to local chairmen.

It is important that these brief plans coincide with what the State Committees are doing. For instance, take the actual organizing of a large factory in Auburn, N. Y. At the meeting of the Local Committee it is likely that one of the first problems to be discussed will be how to start a movement for the payroll deduction plan in one of the larger factories or industries of Auburn. Neither prominent industrialists or labor leaders on the Local Committee are likely to be willing to go very far on this problem unless they have received word from State leaders of industry and labor, urging them to help put the payroll plan into effect.

Similarly, local school authorities are unlikely to be willing to start payroll deduction plans among the teachers or arrange for sale of stamps to school children unless full approval from the State Commissioner of Education has reached them.

It is, therefore, most important that the State Committees

meet shortly to formulate plans which can be passed down the line to those persons who will become members of the local committees. A pamphlet embodying suggestions for local committee members should be prepared promptly now. This is the heart of the program.

From this point on, the program has two major aspects:

the spreading locally of all possible information about the Defense Securities.

the introduction of payroll-deduction plans in all factories, shops, banks, schools, offices and wherever there are enough employees to warrant.

Under these two headings the following suggestions are made:

Payroll Deduction or Group Agent Plan. Arrange for one of these plans to be adopted in the largest shop or factory. Note that the payroll-deduction plan has already been adopted in New York State by the American Telephone and Telegraph Co., Standard Oil Co. of New Jersey, General Electric Co., Metropolitan Life Insurance Co., New York Life Insurance Co., Bowery Savings Bank, United States Rubber Co., New York Central Railroad, New York State Bankers Association, and a score of others.

Also arrange to establish the plan in one of the smaller shops. The Treasury is as anxious to have subscribers in the local laundry as in the largest industry in the State.

Then proceed to install the system as widely as possible in all business houses, banks, hospitals, hotels, colleges,

churches, and wherever it has not already been established.

Publicity. Through the members of the local committee arrange to spread word of the program by such methods as the following:

Appropriate exercises to mark the inauguration of the program, with radio addresses by the Mayor and other prominent citizens.

Meetings at which wellknown speakers will discuss the Defense Program with special emphasis on the payroll deduction plan and continual saving.

Speakers at meetings already scheduled by clubs, lodges, churches, sales groups, women's clubs, etc.

Special window and counter displays. Arrangements for these can be made with the retail merchants who are already enlisted in the program through the National Advisory Council of Retail Stores, specially appointed by Secretary Morgenthau and headed by Benjamin Namm of Brooklyn.

Distribute posters, literature, stickers and other sales help.

Arrange for exhibits and distribution of literature at county fairs and other celebrations.

See that frequent stories on progress go to the newspapers.

Through cooperation with New York State headquarters arrange programs and spot announcements on local radio stations.

Also with the help of New York State Publicity headquarters arrange for a showing at local movie houses of one of the moving pictures provided by the Treasury.

Keep in frequent touch with New York State Publicity headquarters on ideas and special projects to publicize the program in the local community.

Special Note. As regards publicity material for the foregoing program, an initial supply will be sent from New York State Headquarters to each Local Chairman as soon as possible. Thereafter with Local Chairman

will order further supplies by requisition on New York State Headquarters.

J. Down-State Organization. The Down-State organization is divided into two major parts: (1) District 7, consisting of Westchester, Nassau, and Suffolk Counties, and (2) District 8 -- Greater New York. Under the Treasury plan only one Deputy Administrator will be available to organize this district with a population of more than 7,000,000 persons. It is suggested that this territory be handled as two separate districts: one, the three suburban counties and, two, Greater New York.

(a) Suburban Program: Assign the remaining Deputy Administrator to the former with instructions to establish three county offices, one in White Plains for Westchester, another in Mineola for Nassau County, and a third at Westhampton for Suffolk County. Obtain a county chairman for each and then proceed to establish Local Chairmen exactly as indicated for the Up-State districts. The Deputy Administrator would divide his time between the three county offices.

(b) Greater New York Program: Greater New York Headquarters should be established on the 27th floor of 1270 Sixth Avenue and a plan developed which will seek to install the payroll deduction plan in every factory, shop, store and office in the territory.

The city should be organized by Boroughs with Borough Chairman in the Bronx, Brooklyn, Queens, Richmond, and Manhattan. It is hoped to obtain James A. Farley as Chairman for Greater New York.

Because of the restricted budget a force almost wholly volunteer

or borrowed from business houses must be obtained.

Without going into detail of the city-wide organization at this point it can be said that the same principles of utilizing existing organizations for the sale of Defense Securities should be employed in Greater New York as up-state. The Borough Committees should consist of local representatives of labor, retail trades, education, religion, etc. They should be enlisted to utilize their own organizations to set up payroll deductions or group agent plans exactly as in the small towns and cities up-state.

It is suggested that the Commerce and Industry form of organization successfully used in many philanthropic campaigns be the basis for establishing the payroll deduction plan in Greater New York.

VI. Budget Provisions. The Treasury Department has made available to the New York State Headquarters the following funds for the current fiscal year:

Salaries	\$51,940
Rent	16,896
Transportation and per diem	8,400
Communication	3,000
Equipment	6,000
Miscellaneous	<u>3,764</u>
	\$90,000

This is an extremely small provision for a project involving organization in hundreds of towns, cities and villages throughout the State. This plan, however, calls for all publicity supplies being provided by Washington and the use of the franking privilege by the New York City and three up-state offices.

VII. Personnel Requirements. The foregoing item of \$51,940 for salaries will provide only for the following personnel:

- 1 State Administrator
- 4 Deputy Administrators
- 3 Stenographers (up-state offices)
- 9 Stenographers (New York City Headquarters)
- 1 Receptionist
- 1 Telephone Operator
- 1 Messenger
- 1 General Clerk
- 1 Publicity Man (\$4,600)
- 1 Office Manager
- 1 Assistant to Mrs. Hull (Mrs. Miller)

In view of the scope of the Program it will be necessary to borrow a large amount of service, such as the following:

1. Head File Clerk. There is at present no central filing system.
2. Assistant File Clerk and Librarian.
3. Telephone Operator. The present service is slow and will need re-inforcement.
4. Mailing Clerk.
5. Office Messenger. One man will not be able to handle the traffic which will develop.
6. List Clerks. A very large amount of list work should be started immediately.
7. Technical Assistants. At least four men capable of handling the work of important State Committees should now be obtained to unite state-wide plans for labor, the schools, industry, and agriculture. At least two experienced fund-raising men should start work immediately on planning the Greater New York campaign.
8. Publicity Staff. Mr. Wright has outlined in his publicity plan the needs under this heading.

But even more pressing than the staff is the development of the main main theme of the Program. That is the first step in any publicity

program. Too many questions now remain unanswered: Why should I buy Defense Securities? How much money does the Government desire to raise in New York State? Why does it want to raise this amount - no more, no less? If it seeks this amount by sale of bonds, how much does it expect to raise in taxes? If I, a relatively poor man, am expected to buy the "E" bonds, what is the rich man expected to do and is he doing it? I notice a limit of \$50,000 on the F and G bonds. Why is that? Is the Government trying to prevent the wealthy from buying their Defense Securities? I have heard that if I buy an "E" bond it is a blow at inflation. How is that so?

It is most important that a trained organization man start work immediately writing the instructions and bulletins noted in Section VIII below.

In short, a competent staff must be organized to develop a convincing appeal and to plan an effective organization. Under the present arrangement that staff must be volunteer or contributed by an advertising agency, publicity firm or publication.

In view of the fact that without volunteer or contributed personnel the Program will make little progress, it is suggested that Colonel Patterson immediately commandeer a capable business executive to take office at Headquarters and handle all volunteer offers and solicit contributed service. After Labor Day the business affairs of Headquarters will grow so rapidly that the present inadequate staff is likely to become overwhelmed unless some such provision is made.

VIII. Printed Material to Expedite Organization. For the prompt launching of the organization throughout the State the following material should be

assembled in an Organization Kit or Sales Portfolio in the order noted below. This Kit would be used to inform prospective committeemen, local and county chairmen, deputy administrators and other workers regarding the organization of the program in New York State. At least 1,000 sets should be made available as soon as possible.

1. The "Because" Circular, the best short printed piece now available from the Treasury telling about the Stamps and Bonds.
2. A Memorandum Describing the New York State Organization with chart based on the early paragraphs in this memorandum. Add small map showing counties and the eight Bond Sales Divisions.
3. "The Local Committee and How It Works." A memorandum based on the foregoing paragraphs about a local committee and with the small chart showing the local committee set-up. This memorandum should contain a summary of the three specific methods by which bonds are sold locally:
 - A. The payroll deduction plan.
 - B. The group agent plan.
 - C. The bank sales plan.

This should be the Local Chairman's Bible.

4. "The Reason Why." a key statement giving the argument the Treasury has selected as its "main theme." At the moment the theme is a combination of the thrift, patriotism and price-control arguments. The appeal should be clarified. First steps to do this have been taken in a 15-page memorandum recently written by Mr. Hale.
5. Who's Who of New York State Bond Committee. A mimeographed directory identifying all committee members and executives connected with the program.

IX. Criticism of Foregoing Plan. Having described, as we understand it, the Defense Savings Plan prescribed by the Treasury for the State of New York, it is now pertinent to examine it critically and ask, will it work?

1. Lack of Basic Data. One difficulty in doing so is that the Treasury has announced no amount as a goal for New York State, for any state, or for the country. The only objective so far is to sell as many bonds as possible by the type of campaign now being conducted. And it can be added that this last phrase is a fluctuating item. There are thus no criteria by which to judge success or failure.

In the past few months Washington Headquarters has been conducting a decentralizing process, which has not yet taken hold. Only slowly are the states being organized. Only six or eight are reported as having a full-fledged selling organization at work. For that reason it is impossible to obtain data showing actual results of the present Treasury plan. Only when the wage-deduction plan is fully operating will it be possible to appraise the present plan in the light of experience.

Parentetically, there seems to be a steadily increasing pressure on Washington to modify parts of its plan. It is reasonable to assume that gradually the State Committee will take on a larger measure of self-direction.

The only figures available for New York State on the sale of Defense Bonds to date are approximately as follows (for the Second Federal Reserve Districts, which includes the northern half of New Jersey and Fairfield County, Connecticut):

	<u>"T" Bonds</u>	<u>Total Three issues</u>
May, 1941	\$22,200,000	\$134,000,000
June, 1941	16,160,000	65,000,000
July, 1941	<u>30,365,000</u>	<u>89,000,000</u>
	\$68,725,000	\$288,000,000

We are informed that the figures for August will be less than those for July.

2. Deficiencies in Present Plan.

- A. Lack of Definite Objectives. The Treasury does not make a clear-cut case for its securities. It has developed no main theme for the program. It has not set the goals and time limits to which the American people are accustomed. One gets the impression that the securities are for sale; that they are secure, low-interest obligations of the Government; and that it would please the Government if one bought some. But there is little indication of a real emergency or that one is under any pressing duty to buy. There is no answer to the question: Why must I buy now? The case remains to be developed.
- B. Literature Unattractive. In competition with current selling literature the Treasury's printed material is commonplace and lacking in punch. There is a crying need for a primer giving the basic reasons why a citizen should buy the securities - well illustrated with pictographs and drawings - a booklet which the local laundryman will read and understand.
- C. Some Questions Unanswered. The literature leaves unanswered some questions certain to be asked by potential buyers. For instance, what opportunity does the Treasury offer the wealthy

man to participate? With ceilings on amounts purchasable, labor is certain to ask how dividends, profits, and large fortunes are to be induced to do their share.

- D. Comparison with Liberty Loan "Drives." The comparison made in the "Manual" between the Liberty Loan Campaign and the present program strike one as unfortunate and not calculated to increase the reader's confidence in the Government. The Manual says: "Although it might be possible to sell quickly a large volume of bonds by using high pressure methods, the net result, however impressive financially, might be bad when measured in terms of good will and national unity." If the national deficit continues to increase as it has been increasing recently, large-scale popular campaigns to sell bonds may become necessary.
- E. Insufficient Financing. The restrictions imposed by a \$90,000 budget and Civil Service requirements imply a very large amount of volunteer or contributed service. What type of service can thus be secured is uncertain and sometimes of doubtful value. The amount of progress made at New York Headquarters since it was opened about August 15 indicates a slow start.
- F. No Central Selling Agency. The major defect in this plan is that it provides for no central selling agency in each community which will carry the Defense Bond message to all members of the community and obtain their participation. Lacking such an agency, the Treasury will miss a vast potential market of housewives, servants, retired people, wealthy residents, office workers to whom the payroll plan is not applicable. If it were it would

men and women and many others. Not only will the number of participants be disappointing, but the amount of bonds purchased will be unimpressive.

The Treasury is relying largely on publicity to move citizens to purchase Defense Securities. It is exposing the American public to this publicity. To expect large results from this process is to ignore a familiar American folkway. The American people are accustomed to being asked to do things - and to being asked with some vigor, as in the case of the Community Chest. Mere exposure is insufficient.

Treasury representatives have met this criticism by stating that the real objective of the campaign was not to sell bonds but rather to get over to the American people a lesson in thrift, patriotism, and war economics. To this our reply is that the only possible measure of the Treasury's success in its campaign of education will be the number of owners of Defense Securities. If you have sold a farmer an "E" bond, you know he is "educated"; if you fail to do so, how do you know he is "educated"?

- X. Conclusion. If the fundamental problem facing the Treasury is to persuade the people of New York State to invest their savings to meet the costs of the present war, this plan is, in our opinion, inadequate for the following reasons:
1. The case or appeal lacks clarity and force.
 2. The printed literature should be much more attractive.
 3. The presentation of the case leaves many basic questions unanswered.
 4. Comparisons with the Liberty Loan Campaigns are unfortunate.

5. Insufficient financing of publicity and organization costs has been provided.
6. Above all, the plan fails to establish local agencies capable of covering the potential market in a manner which will sell the securities.

The John Price Jones Corporation

by Robert F. Duncan
Vice President

New York, N. Y.
August 28, 1941

TREASURY DEPARTMENT

992
1941

INTER OFFICE COMMUNICATION

DATE September 5, 1941

TO Ferdinand Kuhn, Jr.
FROM Alan Barth

EDITORIAL OPINION ON FOREIGN AFFAIRS
"OUR FULL PART"

Challenge

Despite scare headlines on their front pages, newspapers discuss the submarine attack on the U. S. S. Greer with editorial restraint. They do not regard it as a casus belli. A number of them, however, do regard it as a provident occasion for fuller implementation of the President's promise to take "all additional measures necessary to deliver the goods."

Judging from the handful of eastern editorial pages available at this date, the prevailing sentiment appears to favor relentless use of the United States Navy to clear the Atlantic of U-boats, at least as far as Iceland. Full convoying to Iceland, if this should be deemed strategically desirable, would undoubtedly meet with equal approval. And the more aggressively interventionist segment of the press urges that goods be shipped in American vessels, convoyed by American warships, directly to Britain. Gallup polls indicate that a majority of the public would support such a course if the

President chose to undertake it. There is certainly no disposition to back down in the face of the Nazi challenge.

Eloquence

Editorial comment on President Roosevelt's Labor Day address consisted largely of paraphrase and quotation. The commentators echoed and applauded its now familiar analysis of America's relation to the world conflict.

But the enthusiasm seemed tinged faintly with uncertainty and impatience. The President's words were generally considered more forceful and forthright in their challenge to Hitlerism than any he had previously spoken. The bulk of the press endorsed his pledge that "we shall do everything in our power to crush Hitler and his Nazi forces." On this score only the isolationists were critical. Yet the approval of Administration supporters was tempered by some degree of doubt that the bold promise would be given literal application in deeds.

There is an emergent feeling among editorial writers that American action has fallen short of American eloquence. They are abashed at the stories in their own news pages about the paucity of plane shipments to the British. They agree with the President that the country has not yet awakened to the urgency of the times. Only dramatic action, in the field of domestic production as well as in foreign policy, an increasing

number of them contend, can bring about the necessary awakening.

Production

Among both liberal and conservative supporters of Administration foreign policy there is widespread dissatisfaction with the President's handling of the problem of production at home. That the volume of production has been pitifully inadequate, in relation both to needs and to potentialities, appears to be accepted on every hand.

Mr. Roosevelt was roundly criticized for his reply to Senator Byrd. The general feeling was that if the Senator's figures were somewhat inaccurate, the corrections made by the President were only slightly less appalling. Even so staunch an adherent of the Administration as The Nation remarked: "The Senator made a few errors, but his overall picture was correct, and it is more important to focus attention upon that than to obscure the picture by emphasizing a few minor mistakes."

A variety of causes, depending upon the point of view of the critic, have been advanced to explain the inadequacy of production. Conservative commentators grumble that strikes by labor have been largely responsible. But their chief complaint is over the President's failure to vest full executive authority in a single production chief. The establishment of the Supply Priorities and Allocations Board is rather grudgingly acknowledged

to be a step in the right direction; no high hopes, however, are entertained for it.

Liberal critics, on the other hand, insist that the failure of the defense program lies in the fact that it has been run by big business which has been unwilling to subordinate its own interests to the national need. "In an age of mechanized warfare," says The Nation, "it is folly to draft men and not to draft industry."

Among labor newspapers, there is little evidence of any keen awareness of the production problem. Editorials in most of the official labor publications confine themselves to bread-and-butter questions of union organization. They show concern over such matters as taxation, restrictions on installment buying and the impact of priorities on employment, since these affect the immediate well-being of workers. Left-wing hostility to Administration policy has undergone a marked abatement, of course, since the invasion of the Soviet Union; the isolationist influence of John L. Lewis has clearly waned. But, while the principle of aid to Britain and Russia now has general labor support, there appears to be small disposition to sacrifice everyday concerns for the sake of it.

Anniversary

Commencement of the war's third year provided the occasion for a flood of editorial appraisals of the world

situation as it stands today. The bulk of the American press appears to be in substantial agreement on two generalizations:

1. The outlook for the defeat of Hitlerism is vastly brighter than it was in the dark days of a year ago. Russian resistance affords the prime basis for this optimism. It is bolstered by the successful joint Anglo-Soviet action in Iran, by the reduction of British ship losses in the Atlantic, by continued British bombing raids, and by the signs of rebellion in parts of the conquered territory of Europe. The myth of German invincibility seems to have been completely shattered as far as American newspapers are concerned.

2. The final outcome of the war depends upon the United States. The productive capacity of this country is held to be the potential determinant of a Hitler defeat. But there is grave anxiety that it will not be thrown into the scales rapidly enough or heavily enough to accomplish this purpose.

A large portion of the press is now hopeful that the defeat of Hitler can be encompassed by immediate and full utilization of America's productive energy and resources. The newspapers subscribing to this view counsel the President to concentrate his leadership upon domestic affairs in order to get production rolling. A considerable minority of the press, however, argues that armed intervention -- at least by the United States Navy -- will be

needed.

The overwhelming majority of newspapers agree that there can be no compromise with Hitler and that whatever energy may be needed should be thrown at once into the job of defeating him.

By air mail. Copies by regular mail.

VOLUNTARY

EFFECT ON THE WORKING OF THE GOLD STANDARD
IN SWITZERLAND OF THE BLOCKING OF EUROPEAN CREDITS
IN THE UNITED STATES

From MAURICE W. ALTAPFER, American Consul

Zurich, Switzerland. Date of completion September 5, 1941.

Date of mailing September 5, 1941.

Approved: JAMES B. STEWART
American Consul General

The blocking of European credits in the United States has caused great confusion on the Swiss money market and the full effects of this move are just beginning to make this visible. The Schweizerische Handelszeitung, Zurich, of August 28, 1941, quotes from the weekly report of the well-known private bank of Bar & Company, Zurich, which gives an interesting picture of the effects of the blocking of European credits on the gold standard. This report which covers the situation so well within the scope of a few paragraphs, is considered of sufficient interest to quote in its entirety:

"HAS GOLD CEASED TO FUNCTION?"

"Owing to the blocking which took place in June of all European credits in the United States, the gold standard, at least as far as this applies to European countries which have not yet adopted legal currency restrictions, has in a measure ceased to operate for these countries. Virtually only two countries were left in Europe, namely Switzerland and Portugal, which still disposed of more or less free currency markets. Thus, for instance, dollar notes last week dropped to 5.00, i.e. 18 percent below par, with only a slight recovery since then. As a matter of fact, dollar notes now possess a market

theoretical value in Europe; the market is completely unbalanced and no longer automatically reacts to any casual large offer or big demand. Banks are no longer interested in purchasing dollar notes in order to transfer them to their credit accounts in the United States, since such transfers are placed to the credit of blocked accounts and can only be disposed of at the well-known, prohibitive restrictions. In the past, disparities existed at times, but to a lesser extent, and it is characteristic that they occurred whenever rumors were current as to the freezing of accounts by America. As far as could be ascertained, offers during the past week came mainly from France; however, it is difficult to judge whether this represented notes which had been brought from the occupied zone into unoccupied territory, or whether these notes merely represented hoarded capital from the unoccupied zone. This offer of notes, made by France and probably representing money smuggled across the frontiers, can only be made to Switzerland, since all other countries adjacent to France have restrictive currency regulations, which prevent their sale or re-export.

"What appears to be more unaccountable than this disparity on the banknote market, which is completely free, that is to say which functions without any official intervention, is the simultaneous weakening of the Argentine peso, at a time when this currency in New York shows, if anything, an upward trend. A relatively weak demand led to a noticeable decline to around 96, a rate in singular contrast to the New York parity of about 102 3/4 for Swiss francs. Here would have been a chance for the National Bank, which naturally and justifiably has always anxiously hoarded its stock of currency and gold, to increase the latter by acquiring loose pesos and using them to purchase dollars in Buenos Aires, or, inversely, by selling pesos in New York. Since, by virtue of a general license, our central note issuing institute has free access to its assets in New York, such a transaction appears feasible. Until a satisfactory agreement has been reached between the Swiss and the United States Governments concerning the unblocking of Swiss assets in the United States, such transactions are not practicable for private accounts. Whereas on the one hand currency offers from private sources have, so to speak, disappeared into the void, on the other hand, the gold and currency stocks of the central note issuing institute have declined by several millions during the period under review. Even today there still exists a disparity between Zurich and New York of approximately 6 percent in the peso quotation.

"This demonstrates once again that the gold standard can not operate so long as, owing to onesided or manifold restrictions, agreement can not be reached at the top. The commodity exchange naturally suffers, unless the only possible remedy is resorted to, namely the introduction of a clearing, which, through the inevitable official direction, in turn impedes the free exchange of commodities.

"It is interesting to note that, notwithstanding the difficulties obstructing the present gold transport with its accompanying high charges, the price of gold has shown an upward tendency in the free market here. When it is considered that the private ownership of gold in most countries and even in the United States is prohibited, this is an even more remarkable phenomenon. In spite of the fact that gold as a currency basis has today largely been divested of its primary function, it has lost none of the attraction which it has held for thousands of years."

In sextuplicate.
Copy to the American Legation, Bern.

851.6/MWA/mc/ugt.

Enclosure:

Extract from "Schweizerische Handels-
Zeitung" no. 35, August 28, 1941.

COPY

TELEGRAM RECEIVED

GRAY

FROM: BEIRUT

DATED SEPTEMBER 5, 1941

Rec'd 11:38 a.m.

Secretary of State,
Washington,

348, September 5, 9 a.m.

Since the preparation of cost of living report dated May 10, 1941, and particularly since the recent hostilities and military occupation of this (*) all prices of foodstuffs and other necessities have advanced on an average over 100 percent. Living is now at least as expensive here as in Palestine and it is therefore urgently recommended that a cost of living allowance be granted this office effective retroactively to July to July 1st.

URGENT

RR

(*) Apparent omission.

120.34 Cost of Living/1098

COPY

312

DEPARTMENT OF STATE
WASHINGTON

In reply refer to
EA 640.51 Frozen Credits/3342

September 5, 1941

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits herewith copies of the paraphrase of telegram no. 215, dated September 3, 1941, from the American Consulate General at Singapore concerning the application to transfer to the Singapore branch of the Banque de l'Indochine the blocked account of the Bangkok branch of the Banque de l'Indochine with the Chase National Bank of New York.

The Secretary of State would appreciate being advised of the reply to be made to the communication under reference.

Enclosure:

Paraphrase of no. 215 from Singapore,
September 3, 1941.

Copy:wec:9-5-41

COPY

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consulate General, Singapore.

DATE: September 3, 1941, 5 p.m.

NO. : 215.

The managers of the Singapore and Bangkok branches of the Banque de l'Indochine have asked the Consulate General to request the Treasury Department to give consideration to their application to transfer to the branch at Singapore the account of the Bangkok branch with the Chase National Bank at New York which is now blocked. It has been alleged that an application to release this account had previously been made through the British and American Legations at Bangkok and this application was made on the basis of guarantees made to the British Legation that the Bangkok branch would comply with the instructions of the British Legation in the conduct of its business.

In order to lend strength to their case with the Treasury Department it is now considered desirable by the manager of both branches that permission be requested to transfer this account to the branch at Singapore as a prerequisite to the release of the account. Thus the operations of the account would be directly controlled by the Malayan Foreign Exchange Control.

A letter from the Colonial Secretary has been received by the Consulate General stating that should the account be so transferred, all operations on the account would be completely controlled

controlled by the Exchange Control Officer appointed to inspect the Singapore branch of the Banques de l'Indochine. However, the Colonial Secretary further states that approval of the application for this transfer will be granted only if assurance can be given that the Treasury Department concurs and has full knowledge of the transaction.

ALDRIDGE

NPL

EA:VCL

Copy:hbr:9-5-41

PARAPHRASE OF TELEGRAM SENT

TO: American Legation, Port-au-Prince, Haiti

DATE: September 8, 1941, 6 p.m.

NO.: 190

Reference is made to the Legation's despatch No. 360, dated August 29, 1941.

It would be appreciated if the Legation would send the Department essential details in regard to the Haitian Government's freezing of Axis assets. Please send such information by telegraph. Also state how complete the contemplated control is.

HULL
(HF)

EA:HCW:PAK

KA:PAK

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro, Brazil

DATE: September 5, 1941, 2 p.m.

NO.: 1224

Reference is made to telegram No. 563, dated July 22, 10 p.m., from the Departments

The matter under reference has been taken up with the Bank of Brazil and the Foreign Office on numerous occasions.

The matter has been studied for several weeks by the legal department of the Foreign Office. The Foreign Office informed the Embassy only today that it could only accept the Federal Reserve Bank's proposal on the condition that full responsibility is assumed by the Bank.

CAFFERY

EA:PAK

860H.51/1049

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE September 5, 1941.

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£62,000
Purchased from commercial concerns	£19,000

Open market sterling remained at 4.05-1/2, and there were no reported transactions.

In a narrow market, the Canadian dollar improved to a closing discount of 10-3/8%, the best rate for that currency since November, 1939. Yesterday's final quotation was 10-1/2%.

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

Argentine peso (free)	.2373
Braxilian milreis (free)	.0505
Colombian peso	.5800
Mexican peso	.2070
Venezuelan bolivar	.2750
Uruguayan peso (free)	.4400
Cuban peso	1/2% discount

In the unofficial exchange market in Shanghai, the yuan advanced 1/32¢ to 4-27/32¢. The sterling-dollar cross rate worked out to 4.04-3/8, up 3/8¢.

There were no purchases or sales of gold effected by us with foreign countries today.

The Treasury issued licenses under both the Gold Reserve Act and Executive Order No. 8389, as amended, permitting the Federal Reserve Bank of New York to effect the following transfers of gold in its vaults:

\$1,125,000 in foreign gold bars and coin from the National Bank of Denmark's account to B.I.S. account No. 2. Gold in the latter account is the property of the B.I.S. This gold will be converted into United States Assay Office bars and then transferred to the account of the Swiss National Bank.

The aforementioned transfers represent a purchase of gold by the B.I.S. from the Danish Bank and a sale of gold by the B.I.S. to the Swiss Bank, with payment being made through the respective accounts on the books of the Federal.

No new gold engagements were reported.

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.



CONFIDENTIAL

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BRITISH EMBASSY,
WASHINGTON.

5th September, 1941.

PERSONAL AND
SECRET.

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

R. I. Campbell

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D.C.

Telegram from London dated 3rd September, 1941.

H.M. Ship Triumph claims one possible hit on cruiser entering Straits of Messina a.m. 26th in company with one battleship, one cruiser, ten destroyers. Confirmed by British naval officer prisoner returning to Syria who sighted cruiser sic beached at Messina a.m. 26th.

2. On the 2nd three Beauforts claim two hits with torpedo on 7,000 ton merchant vessel off Stavanger. One Beaufort missing but one of five attacking M.E.'s shot down at 10 yards range. Three Blenheims scored hits on merchant vessel estimated 4,000 tons off Dunkirk, left sinking. One escort ship set on fire.

3. Night of 31st/1 nine Wellingtons attacked Tripoli (1) one medium sized ship left on fire and another believed sunk. Following night seven Wellingtons bombed Tripoli power station. 1st September seven Blenheims attacked Crotone three hits set fire to ship estimated at 4,000 tons; explosion caused in munitions factory.

4. Night of 2nd/3rd two hundred aircraft attacked various targets of which 172 are believed to be confirmed.

CONFIDENTIAL

MILITARY INTELLIGENCE DIVISION
WAR DEPARTMENT
Washington, September 5, 1941

TENTATIVE LESSONS BULLETIN
No. 154
G-2/2657-235

NOTICE

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

This document is being given an approved distribution, and no additional copies are available in the Military Intelligence Division. For provisions governing its reproduction, see Letter TAG 350.05 (9-19-40) M-B-M.

ORGANIZATION OF GERMAN
ARMORED DIVISIONS

SOURCE

This bulletin is based upon reports submitted by American official observers in London and in Cairo. The report from London was dated July 7, 1941, and that from Cairo, May 17, 1941.

An earlier bulletin, Tentative Lessons Bulletin, No. 86, contained information on new types of German Armored Divisions. This present bulletin should not be considered a revision of that earlier one, but rather an addition to it which brings the subject more up-to-date.

CONTENTS

1. GENERAL
2. 5TH LIGHT COLONIAL ARMORED DIVISION
3. NEW ARMORED DIVISION

ORGANIZATION OF GERMAN
ARMORED DIVISIONS

1. GENERAL

The organization of the 15th Armored Division,¹ one of the colonial divisions now in Libya, is broadly that of the normal armored division, with the exception that the latter has two tank regiments. The armored divisions employed in the Balkans appear to have been organized along the same lines as the 15th Armored Division.

The British state that there are three types of armored divisions:

- (1) Normal armored divisions;
- (2) Light colonial armored divisions - so far, only one has been identified;
- (3) Heavy armored divisions, with a proportion of 36-ton Pz.Kw.V, 45-ton Pz.Kw.VI, and 90-ton Pz.Kw.VIII. The existence of these divisions is not yet confirmed.

2. 5TH LIGHT COLONIAL ARMORED DIVISION

The organization of the 5th Light Colonial Armored Division differs slightly from that of the reduced-size division described in Tentative Lessons Bulletin No. 86. Those differences are listed below as an illustration of the flexible and ever changing structure of the German organization:

	<u>5th Light Colonial Armored Division</u>	<u>Reduced-size division of Bulletin No. 86.</u>
Tank Regiment	158 tanks	188 tanks
Infantry	Two machine gun battalions	One motorized infantry battalion
Artillery	One battalion	One assault ² artillery battalion

1. For organization of the 15th Armored Division, see Tentative Lessons Bulletin No. 136.

2. Assault artillery is artillery on self-propelled mounts. G-2.

Antitank	One antitank battalion One GHQ heavy antitank battalion, attached	One antitank battalion
Antiaircraft	One motorized antiair- craft battalion One German Armed Forces mixed antiaircraft battery, attached	One antiaircraft battalion

The complete organization of the 5th Light Colonial Armored Division, as accepted by the British War Office, is as follows:

a. Division Headquarters

b. Division Signals

One signal company;
One radio section;
One map section;
One printing section.

c. Reconnaissance Unit

One Armored Car Company, composed of

29 armored cars;
One platoon Volkswagon;
One motorcycle company;

One heavy company, composed of

3 Antitank guns;
Platoon engineer;
2 infantry guns.

d. Tank Regiment*

Headquarters;
Two light tank sections;
One light tank signal section;
One workshop company;
One transport company;

*In this regiment there are altogether 158 tanks -- 25 Ps.Kw.I;
42 Ps.Kw.II; 71 Ps.Kw.III; 20 Ps.Kw.IV.

e. Infantry

Regimental staff;

One machine gun battalion,* composed of

One engineer company;

One antitank and mortar company, consisting of

6 antitank guns;

5 mortars;

One antitank company;

Three machine gun companies;

One machine gun battalion,* composed of

Two engineer companies;

Three machine gun companies;

One antitank company.

f. Artillery

One battalion.

g. Antitank

One heavy antitank battalion, composed of

27 antiaircraft guns - 88-mm.;

One antitank battalion, including 50-mm. antitank guns.

h. Antiaircraft

One motorized antiaircraft battalion;

Mixed antiaircraft battery.

i. Air Cooperation Squadron

j. Services

Division supply commander;

*Each battalion is reinforced by ten armored troop-carrying vehicles.

Supply battalion, composed of

- One spare parts unit;
- One tire fitting unit;
- Two motor transport replacement companies;
- One tank spare parts column;
- One ammunition supply unit;
- One tire and spare part unit;
- Two light water columns;

Supply column battalion, composed of

- Three heavy motor transport columns;
- Six light motor transport columns;

Supply column battalion, composed of

- Six heavy motor transport columns;
- One vehicle workshop;
- One motor transport column for gasoline and oil;

- Field post section;
- Provost company;
- Ration store;
- Field bakery;
- Field butchery;
- Heavy water columns;

Supply column battalion, composed of

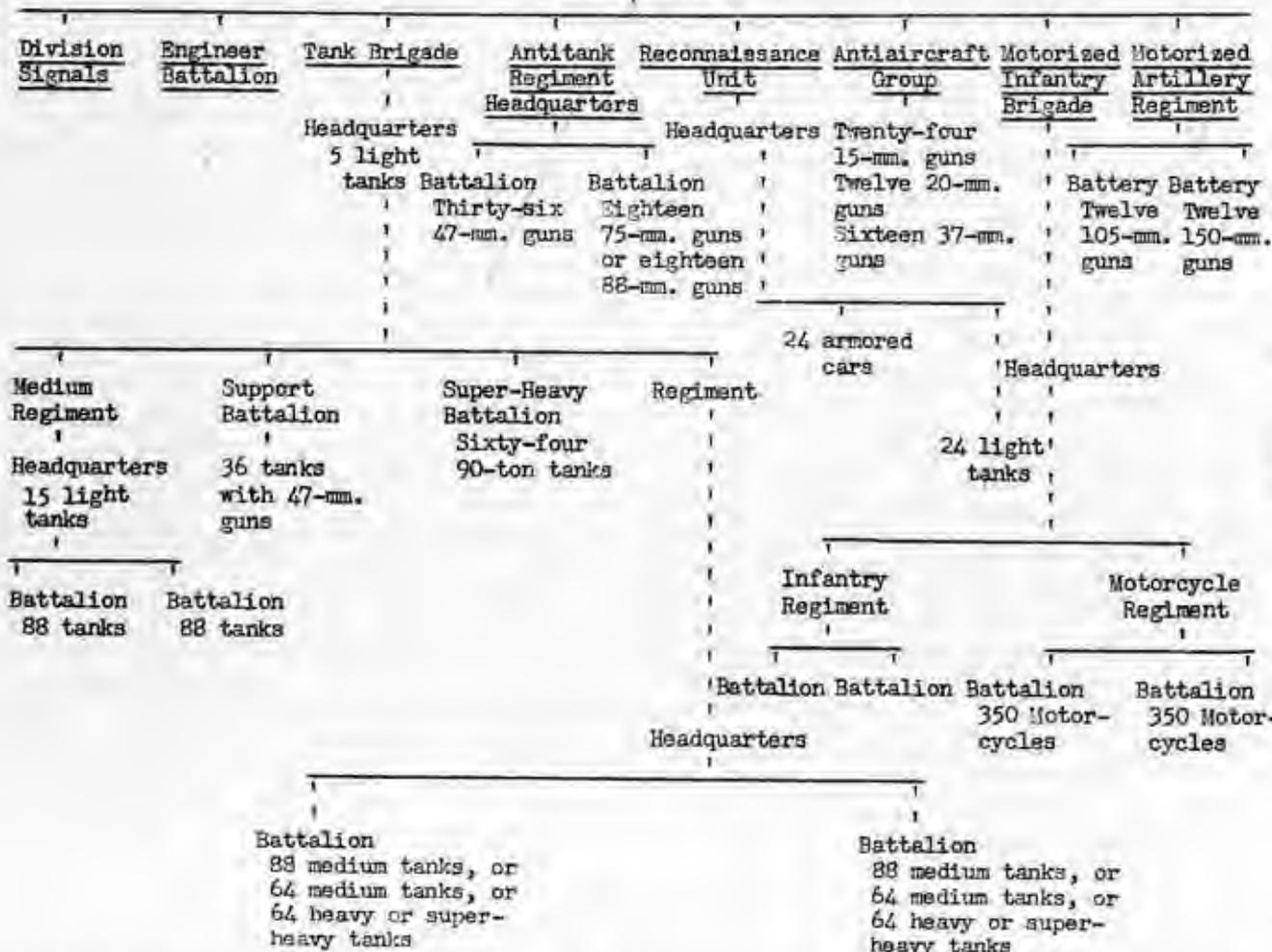
- Six heavy motor transport columns;
- One motor transport column for gasoline and oil;
- Workshop parks;
- Three heavy motor transport columns.

k. Medical Company

3. NEW ARMORED DIVISION

The new armored division is reported to be rather much larger than the old armored division. A detailed chart of the new organization is contained in Appendix A, attached hereto.

APPENDIX A
NEW ARMORED DIVISION
Headquarters



CONFIDENTIAL

CONFIDENTIAL

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RESTRICTED

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G-2/2657-220; No. 485

M.I.D., W.D.

11:00 A.M., September 5, 1941.

SITUATION REPORT

I. Eastern Theater.

Ground: Finnish troops stand along the old Finnish - Russian frontier. In their rear the town of Koivisto is held by the Russians.

German troops advancing from the south and southeast towards Leningrad have captured Kraanoye Selo, Pushkin (Detskoye or Tsarskoye Selo), and Kolpino. These towns are about 15 miles south of Leningrad. Oranienbaum, Peterhof and Shlisselburg are still in Russian hands, as is a considerable territory to the southwest of Peterhof.

Encircled Russian forces continue to offer desperate resistance in an area to the north and northeast of Luga.

To the east of Velikie Luki German troops are advancing only with the utmost difficulty. Poor roads and weather have brought the German advance almost to a standstill.

Russian counter-attacks continue on the Yartsevo - Roslavl - Bryansk front.

On the north Ukraine front the Germans appear to have forced the crossing of the Dnana river on a broad front. Chernigov is threatened from the north and east. German troops have also reached the area, just north of Konotop.

A major German effort to force a crossing of the Dnepr river is now in progress on the lower Dnepr front.

German bridgeheads at Zaporzhye, to the east of Dnepropetrovsk and to the east of Kremenchug were materially enlarged on September 2nd. Strong German forces now stand in the bridgeheads of Zaporzhye and Dnepropetrovsk.

Air: Russian air activity was reported very strong all through the theater yesterday.

Night raids were made by Red bombers on Berlin.

II. Western Theater.

Air: Daylight attacks by the R.A.F. on the Rotterdam docks were the only activity reported by either side in this theater.

III. Middle Eastern Theater.

Ground: Usual activity.

Air: The Suez area was subject to Axis attacks for the second successive night on the third.

RESTRICTED

9/6/41

358

) The top four pages are re-writes, the originals of which were sent to Secy at Farm today to include in the reading copy he had with him.

Only twenty miles from here, at Lexington and Concord, 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 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 sections of the country, to arm America.

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 520 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.

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 or controls 7 million bales of cotton in reserve, and cotton prices have risen from 9-1/2 cents a pound on August 1, 1939, to over 17 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.

Only twenty miles from here,

~~A few hours ago it was my privilege to stand
in front of the famous statue of the Minute Man by
Daniel Chester French on the green at Lexington ^{and Concord,}
the very place 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 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 sections of
the country, to arm America.~~

3489
124

3365

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.

3365
130

3235

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.

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.

3 2 3 1
1 1 7

3 1 1 8

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 who 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.

3118
111

3007

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.

3007
134

2873

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.

2873
147

2726

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.

2726
117

2609

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.

2609
132

2477

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.

$$\begin{array}{r} 2477 \\ 115 \\ \hline 2362 \end{array}$$

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. ^{1/3 there}

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, alongside the question mark, the words: "Answer depends on us". We must decide now, this year, we in Washington and you in the country at large, whether we shall have the common sense and determination to avoid what we went through twenty-five years ago.

2362
107
2213

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 ~~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 ~~is~~ that lie ahead of us.

2213
105

2108

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.

2108
107

2001

If we are to prevent the boiler from bursting, we must damp down the fires by diverting spending away from those articles or commodities in which there is a shortage, actual or potential. We must damp down the fires 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.

2001
129

1872

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.

1872
116

1756

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 those rises by voluntary cooperation.

1756
11

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.

1640
110

1530

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 certain forms of purchasing now and increase them in the future when they may be needed.

1530
124

1406

~~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.

1406
110

1296

The country should congratulate itself on the President's veto of this measure, and also upon the ^{Senate's} ~~action of the Senate Finance Committee~~ 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 ~~is on the point of being~~ ^{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.

1296
129

1167

2/3 done

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.

1167
108

1059

This is a time when we must flatten the peaks and fill up the valleys in our economic picture.

If we reduce undesirable purchasing 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.

10 59
78

981

I wonder if the housewife knows, when she pays fifteen 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 with the ultimate objective of keeping 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.

1981
149

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 ^{on contracts} 7 million bales of cotton in reserve, and cotton prices have risen from 9-1/2 cents a pound on August 1, 1939, to over ~~15~~ 17 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.

832
127.

705

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.

705
112

593

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.

593
105

488

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 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 shortsighted for a landlord to charge all that the traffic will/bear in defense centres where housing space is at a premium.

488
111

377

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.

377
107

270

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.

270
112

158

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 any one in authority to tolerate/ it now.

158
102

56

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 150 million Americans behind it. If we have that support and that understanding, I know that we shall not fail.

56



394 ✓
FIELD ORGANIZATION *News Letter*

DEFENSE SAVINGS PLAN

TREASURY DEPARTMENT, WASHINGTON, D. C.



September 6, 1941 Number 15.

TO THE FIELD STAFF:

The Bank Depositors Draft Plan — recommended by the American Bankers Association and operating in many financial institutions at the present time — is becoming an increasingly important method for the marketing of the Series E Bond.

This Plan provides a splendid method for systematic and convenient purchases of Defense Savings Bonds. A depositor signs an authorization provided and monthly the bank deducts from the account an amount sufficient to pay for the Bond. The Bond is registered according to the depositor's authorization, and delivered according to his instructions.

Financial institutions that are making this splendid plan available to depositors are acting voluntarily and without compensation, but are giving a great service to the Defense Savings Program.

Officers of banks advise that this arrangement is popular with doctors, lawyers, dentists and other professional people, as well as with many others who do not find it convenient to visit an established issuing agency regularly.

Members of the Finance Groups of State and local committees, as an important part of their work, are asking local banks to adopt this plan and to advise their depositors that it is available.

Sincerely yours,

GALE F. JOHNSTON

Field Director, Defense Savings Staff

FIELD ORGANIZATION NEWS

STATE COMMITTEES ORGANIZING RAPIDLY

During August, 10 state committees held their first, or organization, meetings. In addition to the Kansas, Oregon, Idaho, Washington and Maine meetings reported in previous issues of NEWS LETTER, -Colorado, Nevada, Arkansas, Wisconsin, and Georgia Committees held their first meetings during the past month.

A feature of the Arkansas meeting was the excellent "chalk talk" given by Deputy State Administrator Claude K. Wilkerson, Chairman of the Arkansas Committee is W. W. Campbell, President of the National Bank of Eastern Arkansas in Forrest City.

The Wisconsin Committee met in Milwaukee, August 20. At that time, State Administrator Frank J. Kuhl announced that some of the most prominent Wisconsin business firms have installed salary allotment plans, including:

ALLIS-CHALMERS COMPANY
KEARNEY AND TRECKER CORPORATION
NUNN-BUSH EPOE COMPANY

Mayor Carl Zeidler of Milwaukee and Lawrence Timmerman, Chairman of the Milwaukee County Board, attended the meeting and assured the committee of their desire to cooperate to the full. They indicated that systematic savings plans would be presented to all public employees.

Georgia's first meeting is reported on the next page.

- - - - -

To date, 24 State Committees have held organization meetings; and in 13 other states, State Administrators and State Committee Chairmen have been appointed and considerable preliminary organizational work has been accomplished.

In 28 states, it is reported that a total of 3,500 committees have been formed and that 43,860 individuals are now serving on these committees.

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G E O R G I A

Organization Meeting Launches Program in Big Southern State.

118 OF THE 125 MEMBERS of the State Defense Savings Committee for Georgia attended the Committee's organization meeting which was held recently in Atlanta.

Arthur Lucas, Atlanta Theatre executive who is serving as the chairman of the state committee, presided and Governor Eugene Talmadge was present and addressed the gathering.

Governor Talmadge initiated his regular monthly purchase plan at the meeting by buying a \$100 Defense Savings Bond. Next day, he issued a statement calling upon all public employees in the state to buy Defense Bonds:

"We are not in uniform," said the governor, "but it is just as much our duty to do this as it is for those in uniform to answer the call of our country....Georgia can lead the way in the nation in this patriotic call and I hope that we will have a one hundred percent record."

GEORGIA'S STATE COMMITTEE, is only a beginning, according to State Administrator Marion H. Allen. District, county, and city chairmen and committee members are being appointed rapidly, and it is expected that there will soon be 10,000 active Defense Savings volunteers in the state.

PAYROLL ALLOTMENT will be presented to the employees of all of the larger business concerns in the state under plans being developed by J. Arch Avary, Jr., vice-president of the Atlanta First National Bank and member of the State Committee. Mr. Avary is appointing a representative in every county who will give particular attention to explaining the allotment plan to employers and employees.

* * *

DEFENSE BOND WEEK IN GEORGIA, sponsored by the Georgia Bankers Association, resulted in a great deal of favorable publicity for the Program, Haynes McFadden, Association's Secretary, reports. A particularly full schedule of activities was developed in Savannah:

Speakers appeared in every movie house each night during the week just before the 9:00 show and gave snappy three-minute talks.... A detail of soldiers, and an army band, introduced the speaker at Savannah's leading theatre on Monday, the first night of the celebration.

All theatres carried short trailers urging immediate investment in Defense Bonds which were shown to the accompaniment of martial music. Regimental bands played every afternoon in Johnson and Wright Squares and Red Cross Volunteers distributed Defense Savings folders at nearby booths.

Searchlights and Army bombers dropping bombs made a dramatic spectacle in these parks in several pictures.

OKLAHOMA

Committee Devises Insignia and Special Sales Material

THE PIONEER MOTHER, famous Oklahoma statue in Ponca City, is linked with the "Minute Man" of the Defense Savings poster in the insignia of the Oklahoma Defense Savings Committee. (See NEWS LETTER, page 5.)

THIS LINKING of the official Defense Savings symbol with an Oklahoma theme is the feature of the special display material for retailers selling Defense Savings Stamps which has been prepared by the Oklahoma Committee. The Oklahoma Retail Merchants Association Co-operated in producing this material and in making it available at a cost just sufficient to cover printing. Large and small pieces in red, white and blue carry such messages as:

"Your best buy! Defense Savings Stamps"

"Buy a share in America - Take part of your change in
Defense Savings Stamps"

"As a service to you and to our Nation, this firm sells
Defense Savings Stamps"

"They (The Pioneer Mother and the Minute Man) did their part-
Now you can do yours."

PAY ROLL ALLOTMENT is gathering momentum in Oklahoma. L. C. Hutson, president of the Chickasha Cotton Oil Company and chairman of the Industry and Trade Group of the State Committee, is giving special attention to this phase of the program. Information concerning the allotment plan has been made available to all leading business firms in the state and many have already put the plan into effect. Harry Schwartz, president of the Tulsa Federation of Labor, and David Fowler, president of the State CIO organization, both of whom are members of the State Committee, have started a move among their groups to urge the use of this plan for the systematic purchase of Defense Bonds and Stamps.

MANY OIL COMPANIES operating in the Mid-Continent area have installed allotment plans. Among the first to do so were:

CARTER OIL COMPANY

OKLAHOMA PIPE LINE COMPANY

PHILLIPS PETROLEUM COMPANY

SUNRAY OIL COMPANY

TIDE WATER ASSOCIATED OIL COMPANY.

A SPEAKERS BUREAU for the entire state is being organized under the chairmanship of Stephen S. Chandler, member of the State Committee. In each county, the County Administrators will be asked to appoint one or more capable speakers to serve as members of this bureau. The State Headquarters plans to maintain direct contact with all members of the bureau and to provide them with speech materials.

RURAL DEFENSE SAVINGS COMMITTEES are to be organized in each county by the state headquarters working in cooperation with rural school leaders, farm organizations, and the county administrators.



Flags and bunting in lobby of Savannah Bank and Trust Company



Army bomber takes on defense bond leaflets preparatory to a flight over Savannah. 70,000 such leaflets were dropped on Savannah during Defense Bond Week

CHIEF ELK PLEDGES SUPPORT



Judge John S. McClelland of Atlanta, Grand Exalted Ruler of the Order of Elks and member of the Defense Savings Committee for Georgia, pledged the support of his organization to the defense savings program as a feature of Georgia's defense bond program. He is shown here with Georgia's Defense Savings Administrator Marion H. Allen and the famous Georgia All-Girl Military Band, which lent to the bond program in Atlanta with a concert at Five Points



Members of the State Defense Savings Committee for Oklahoma and county defense savings administrators who have been appointed in each of the State's 77 counties open an all-day session by singing the National Anthem. The scene of the meeting was the courtroom of the Federal Building in Oklahoma City.

THESE ADVERTISEMENTS FOR DEFENSE SAVINGS BONDS CATCH THE EYE!



One of the first business organizations in the country to announce that all of its employees had invested in Defense Bonds was the Women's Federal Savings and Loan Association of Cleveland, Ohio. Its billboard calls on others to do likewise.



This valuable advertising space has been donated to our program by Louis H. Brendel of Bridgeport, Conn. (NL readers will be glad to know that Mr. Brendel's affliction is only temporary.)



Attractively designed and printed in red, white, and blue, this sticker for automobile windshields is now being distributed by State Administrators. (Actual size 2x18 inches.)

Highlights From Other States

MINNESOTA

FORTY-FIVE COUNTIES now have functioning Committees. Completion of the entire field organization in Minnesota will soon be accomplished, report Administrator Reynolds and Deputy Gilstead.

STATE GOVERNMENT EMPLOYEES are to have an allotment plan. Governor Stassen and State Treasurer Schmahl are setting up the necessary machinery and making plans for an active promotion campaign to bring a strong personal appeal for participation to each of the state's 12,000 employees.

THE MINNESOTA STATE FAIR this year featured Defense Savings exhibits and the distribution of Defense Savings leaflets. Both the WPA Defense Exhibit and the exhibit of the Army Equipment had Minute Man and other posters reminding all comers that they too "can do their part."

COUNTY FAIRS in many parts of the state have had similar exhibits and local postmasters have had Defense Stamps for sale on the fair grounds.

STREET CARS operating throughout the Twin City Area during the month of September carry Defense Savings Posters.

* * *

OREGON

State Chairman, Palmer Hoyt, reports that 34 of Oregon's 36 counties now have Defense Savings Committees and that plans are being made to organize the remaining two counties very soon.

* * *

WASHINGTON

MAYOR MILLIKIN inaugurated the City of Seattle's payroll allotment plan on August 7 by authorizing a \$100-a-month allotment from his salary toward the purchase of Defense Bonds. Full information regarding the city's allotment plan is available in a pamphlet prepared for distribution to city employees.

THE ROTARY CLUB of Seattle devoted a recent meeting entirely to Defense Savings. Thomas Balmer, vice-president of the Great Northern Railway and a member of the King County Defense Savings Committee, addressed the Club; posters were displayed and literature distributed; "Any Bonds Today?" was played and sung; and four Defense Savings Bonds were raffled off.

LUMBERMEN, employees of the St. Paul and Tacoma Lumber Company in Tacoma are participating in a Defense Savings payroll allotment plan.

CARDS for all employers in the State of Washington are being made from records of the State Department of Labor and Industries, with the assistance of the NYA. A complete file will be available for use in the State Headquarters, BSS, and county chairman will be given cards for employers in their territories.

INSPIRATION FROM OUR PIONEER FORBEARS



"The Pioneer Woman," famous Oklahoma statue, is linked with "The Minute Man" in the official insignia of the State Defense Savings Committee for Oklahoma. It typifies Oklahoma fortitude which is being called upon in the interest of the defense program. The statue is the work of Bryant Baker and was a gift to the State of Oklahoma Governor E. W. Marland.



Lobby display of Winters National Bank and Trust Co., Dayton, Ohio.

FLORIDA CHILDREN SHOW ENTHUSIASM FOR DEFENSE SAVINGS MATINEES



Orlando, Florida, are wearing the Pull Theatre matinee advertisement. The children are at a Defense Savings Stamp rally at the Pull Theatre. The children are wearing the Pull Theatre matinee advertisement.

RETAILERS FOR DEFENSE WEEK

Many Developments Leading Up to
the Week of September 15-20

"I'll take a loaf of bread, a dozen eggs, a pound of butter
- and a 50-cent Defense Stamp."

This may be a common order in the nation's corner grocery stores in the near future.

By September 15th, Defense Savings Stamps will be on sale in more places than either chewing gum or cigarettes! It is estimated that there will be more than 500,000 outlets for these Stamps in retail establishments of every kind, in every State in the Union.

* * *

A DEFENSE SAVINGS CLINIC will be held in Washington, D. C. at the Mayflower Hotel on Monday, September 15, under the auspices of the Retail Advisory Committee, Defense Savings Staff, Treasury Department, Major Benjamin H. Namm, announcing this meeting, said:

"With the other members of the Treasury's Retail Advisory Committee, I believe this Clinic will be of great help in the Defense Savings Program. Retailers all over the country have manifested enthusiastic interest in the sale of Defense Savings Stamps, which is the principal objective of Retailers-for-Defense Week. By attending this Clinic, a retailer--whatever his type of business--will not only be able to see the material available for his use in promoting the sale of Savings Stamps in his store, but also will learn just how he can organize and conduct the campaign among his customers. In addition to exhibits, there will be discussions led by prominent retailers, members of the Retail Advisory Committee and representatives of the Defense Savings Staff. Secretary Morgenthau has been asked to deliver a message of welcome to the merchants who will attend the Clinic."

The exhibits to be seen at the Clinic will be sent on tour of the country, the first showing to be in New York City at the Grand Central Palace, September 22, where the exhibition will remain on view during the Civilian and National Defense Exhibit being held there.

Following the Washington Clinic, there will be an informal dinner at the Mayflower, sponsored by the National Retail Dry Goods Association, at which Donald Nelson, Honorary Chairman of Retailers-for-Defense Week, will be the guest of honor.

"Sale of national defense stamps through retail stores of the nation is a great idea..... Making the stamps easy to get is a sure way of selling them. All of us want to buy them, and now we will hardly have the excuse of putting the buying off until the mythical tomorrow we are always planning on."
--The Boston Post--

RETAILERS FOR DEFENSE (Continued)

STANDARD BRANDS, INC., a nation-wide food distributing organization, has agreed to cooperate with local Defense Savings Committees in the distribution of display posters and other advertising material to some 300,000 grocery stores and 30,000 bakeries which its trucks visit regularly.

NATIONAL FOOD DISTRIBUTORS ASSOCIATION, through its President John E. Cain, has also offered the facilities of its members for distribution of sales materials to restaurants and other food stores.

NATIONAL RETAIL GROCERS ASSOCIATION has ordered 45,000 kits of display materials, which it is distributing to all of the stores represented in its organization.

RETAILERS FOR DEFENSE NEWS - a clip sheet containing stories, pictures and suggested advertising copy, has been mailed to every newspaper in the country.

* * *

HIGHLIGHTS

IN GEORGIA, the American Legion Auxiliary has volunteered to staff Stamp booths in the larger cities of the state six days a week and in smaller places one or two days a week. Booths will be located in principal department stores. The Atlanta Junior League and Junior Chamber of Commerce are also staffing Stamp booths.

RETAILERS IN ROCHESTER, Minnesota got behind the Stamp selling program so vigorously that the post office there late in August ran out of Defense Savings Stamps.

A "VICTORY DINNER" will be held in Hartford, Connecticut under the joint auspices of the Defense Savings Committee and the Retail Trade Board on September 18, as a feature of Retailers-for-Defense Week.

BUTTONS TWO INCHES IN DIAMETER will be worn by retail store clerks in Spokane, Washington, to remind customers: "Take your change in Defense Savings Stamps." The Spokane County Defense Savings Committee is having these buttons manufactured.

THE FIRST STORE in Colorado to boost Defense Savings in its regular advertising was the Crews-Boggs Dry Goods Company of Pueblo.

DALLAS RETAILERS met August 20 with W. A. Thomas, Chairman of the Dallas Committee, to perfect plans for the sale of Defense Stamps.

SPECIAL KITS of posters and display materials for use by retail stores which have Defense Stamps on sale have been prepared by the retailers committee in Oklahoma. The kit contains posters, kits, newspaper advertisements, stickers for store windows and other places.

DEFENSE SAVINGS ON THE AIR
Radio Programs For Coming Week

Tuesday, Sept. 9	<u>FOR AMERICA WE SING</u>	7:30-8:00 P. M. (EST) NBC Blue Network
Wednesday, Sept. 10	<u>MILLIONS FOR DEFENSE</u>	8:00-9:00 P. M. (EST) CBS Network

* * * *

BIGGEST NEWS from the radio front is that "Millions for Defense" is to be continued throughout the Winter. When the present 13-week run, the contribution of the Texas Company, comes to an end on September 23, Bendix Aviation Corporation will continue the show.

Beginning on Tuesday, September 30, the program will be heard for 13 consecutive weeks at the same time (8:00 to 9:00 PM, EST) but over stations on the NBC Blue Network instead of CBS.

NEW ENGLAND'S ROLE

"New England has always played a key role in national defense. A Yankee likes to man his stone walls and live in peace with his neighbor, but the 'live and let live' philosophy works two ways in the land of the Minutemen. Battle monuments at Concord and Bennington enblazon New England's answer to invasion. Tombstones in village churchyards from Maine to Connecticut testify to the sacrifice of New England sons on 'foreign battlefields' from Louisburg to the Argonne.

"New England men and women have created a way of life for themselves and for the nation. Every schoolboy knows of their contribution to American democracy — the first religious freedom, the first written constitution, the first town meeting, the first public school law, the first printing press, the first college, — the long, long list of New England's firsts.

"But let's add another — let's have New England be the first to respond and go over the top in the present Defense Stamp and Bond Campaign."

—From Defense Varieties,
Boston's Own Defense Bond Radio Show.

* * * *

BONDS FOR DEFENSE

By Edgar A. Guest

"Ten years from now—if I am here—
I'll bring these out and say:
'I bought them in a troubled year
Against an evil day.

"There was a time the air was tense
With doubt and bitter dread:

And so in liberty's defense
These bonds of faith were spread,

'But now the tyrant threats no more,
And Freedom's walls have stood;
Our flag still flies from shore to shore,
And all its bonds are good.'"

BIG CALIFORNIA BANKS INSTALL ALLOTMENT PLAN

The Bank of America with headquarters in San Francisco, 495 branches and more than 10,000 employees has announced that it has installed a Defense Savings Allotment Plan.

The Security-First National Bank of Los Angeles, outstanding Southern California Bank with 116 branches and resources of over \$600,000,000 has also adopted a partial-payment plan by which its 3,000 employees can purchase Defense Bonds conveniently.

BANK DRAFT PLANS INCREASE IN POPULARITY

Among the banks which have recently announced that it would be possible for their customers to invest in Defense Bonds regularly by simply authorizing the bank to charge their checking accounts are:

Bank of America, San Francisco, California.

First National Bank

Great Falls National Bank

Montana Bank and Trust Company

(These three Great Falls, Montana, banks are jointly advertising their "Buy-Me-A-Bond" Plan.)

National Bank of Commerce, San Antonio, Texas

(This is reported to be the first bank in Texas to offer to accumulate monthly allotments of any amount—in multiples of \$3.75—towards the purchase of Defense Bonds.)

BANKS CONTINUE THEIR EFFECTIVE ADVERTISING

In all parts of the country banks are using newspapers, billboards and other advertising media to impress upon the public the necessity of supporting the Defense Savings Program.

"Keep Ahead of Trouble" keynotes the Depositors Trust Company with offices in a dozen cities of the State of Maine. "This country is in grave peril...No one knows what the next few months will bring...This is the time to put your financial affairs in order. Budget your income so that you can include a regular purchase of Defense Bonds."

"Wake up! America! It's time to mobilize for Freedom—Buy Defense Savings Bonds—Now," says the Citizens and Southern National Bank of Atlanta in one of the most stirring advertisements in its current series on Defense Savings.

"These men gave up their good jobs to help us preserve our way of life. What can you do? Buy Defense Bonds and Stamps." This is the message of the Macon (Georgia) Clearing House Association.

MORE BONUSES, PREMIUMS AND PRIZES
In Defense Savings Bonds and Stamps

Whitehead Brothers Rubber Company, Trenton, New Jersey

-announced that practically all of its 300 employes had agreed to accept payment of a 10% pay increase in Defense Bonds and Stamps.

Motor Supply Company, Savannah, Georgia

-gave \$25 Defense Bonds to each of its 63 employes.

Owens-Illinois Glass Company

-announced that salesmen in its beverage division would compete for prizes totalling \$2,550 to be paid in Defense Bonds.

Tampa Shipbuilding Company, Tampa Florida

-paid bonuses in excess of \$200,000 and on each of the 3,000 bonus checks delivered to the workers overprinted the words:
"Buy United States Savings Bonds."

Minnesota Chemical Company, St. Paul, Minnesota

-started each employe on the road towards bond ownership with \$1 worth of Defense Savings Stamps.

Williams Oil-O-Matic heater dealers

-are distributing to owners of their equipment "Cooperative Defense Stamp Certificates." On these, the names of prospective customers may be submitted and for every sale so resulting a \$5 Defense Savings Stamp will be awarded.

Delta Electric Company, Marion, Indiana

-paid a bonus in Defense Bonds and Stamps to all its employes, distributing \$10,680 to approximately 400 persons on the basis of the length of their service with the company. The bonus launched a regular Defense Savings allotment plan.

Keeler-Murray Printing Company, St. Louis, Missouri

-launched its pay roll allotment plan by presenting each employe a \$25 Defense Bond.

Johnson Electrical Supply Company, Cincinnati, Ohio

-gave a \$25 Defense Bond to each employe.

AN UNEXPECTED HIT

Earl Mann, President of the Atlanta Ball Club, offered to give each of his players a \$25 Defense Bond for every safe hit and two Bonds for every home run in a recent game with Chattanooga. He also gave a Bond to woman in the grandstand who was hit by a foul ball!

FORT WORTH LAWYERS DRAW UP A LEGAL DOCUMENT

THIS 166th YEAR
OF OUR INDEPENDENCE

W. S. Dimes, Quarters,
and Check Books, et al.

vs

A. Hitler, B. Mussolini, et al.

IN FORT WORTH,
TARRANT COUNTY, TEXAS.

"TO THE FORT WORTH BAR ASSOCIATION:

"The American moneys of this Nation are needed now by our Government to insure our present state of Democracy and to prepare against those ruthless nations who seek to destroy all we have been taught to respect and enjoy.

"Your Bar has appointed a committee to call on the members, and forthwith solicit, demand, obtain, sequester, attach, levy or seize a sum certain (minimum 10¢) from each and every member of the Bar and their respective employees, and said committee will in exchange therefor deliver a U. S. Defense Bond certificate or stamp. . .

"All dilatory pleas, pleas in limine, pleas in abatement, pleas of confession and avoidance, exceptions, demurrers, paupers affidavits and jurisdictional pleas are hereby overruled and hold for naught.

"WHEREFORE PREMISES CONSIDERED - your Defense Bond Committee respectfully demands 100% cooperation on the part of all members of the Fort Worth Bar and we will personally be seeing you soon."

* * * * *

THE "HUMAN SIDE"
(From the Press)

ELEVEN-YEAR-OLD SHOWMAN INVESTS SAVINGS IN DEFENSE BONDS—

Bob Shayeb, for the last three years has been running a sideshow and carnival in his mother's garage at Point of Pines in Rovers, Massachusetts, and with all the sagacity of a born showman. With his own hands he built a dozen penny games and takes in as much as \$5 over a weekend. He has bought two \$25 Defense Savings Bonds so far this Summer, and is working for his third.

BROTHERS PUT COLLEGE FUND IN DEFENSE BONDS—

Sanford and Howard Lupovitz of Pittsburgh, Pennsylvania, 11 and 14 respectively, invested their college education fund in two \$1,000 Defense Savings Bonds. Sanford, who got the idea and convinced his elder brother, said:

"We won't need the money for a long time and the government might as well have it."

MERCHANT LIQUIDATES DEBTS WITH DEFENSE BONDS—

John A. Peters, merchant in Millard, Nebraska for 40 years, offered to wipe \$12,464 of debts off his books if the customers would invest what they owed him in Defense Savings Bonds.



Mayor Earl Millikan inaugurates Seattle's pay roll allotment plan by signing his deduction authorization card. From left to right: W. C. Thomas, City Comptroller; Gale F. Johnston, field director, DSS; Mayor Millikan; Saul Haas, State Administrator, DSS; K. Winstow, Jr.

UNION ADVERTISES TO BOOST BOND SALES

Seattle teamsters contribute this prominent billboard on top of their Teamsters Hall to defense savings program



CONNECTICUT LITHUANIAN SOCIETY INVESTS IN DEFENSE BONDS



Officers of the Lithuanian Brothers Society of Branford, Conn., are shown as they invested \$2,960 of Society funds in Defense Bonds. Seated from left to right: John Makowsky, president of the Society; Postmaster John H. Driscoll; Philip Hewes, Deputy Administrator for Connecticut DSS.

BOND BOOTH AT DEFENSE PRODUCTION CLINIC

More than 1,000 of the leading lecturers of Connecticut



...and the Defense Production Clinic held recently in Hartford, and the State defense savings committee set up there the booth shown. From left to right: Lewis Partridge, Albert M. Creighton, Mayor Vincent Scully, Ostrom Enders, Governor Robert A. Hurley, Charles E. Rolfe, George Burke, Philip Hewes, Lester Shippe and Mrs. Clarence Lynch.

QUOTABLE QUOTES

"Those of us who are in the Government service should lead the way.

"We understand better than most people, the great task the Nation has to do. In a very special sense, we owe our living to Uncle Sam. Among those who stand up to be counted as defenders of the country, we should be first.

"To much of the public, we are the Government. When the Nation calls upon citizens generally, our neighbors look to us for an example. . . . Our being behind the Government in what it is doing is an assurance to the rest of the people. They have a right to expect it of us. . . .

"The Government is saying to all of its citizens: 'Don't spend money for things that you don't need. Save a good part of what you earn, and use your savings to buy Defense Savings Bonds. In that way, you will be helping doubly. You will help America defend herself. You will help keep planes up and prices down.'

"The wise Government employee should be the first to apply this advice."

--From For Us in Government Service,
Defense Savings Staff Pamphlet #114
(now available).

"There is no business or group or organization whose welfare transcends that of the security of the nation, and all businesses must of necessity mesh their activities into a coordinated defense program. . . . In addition to mobilizing men and providing equipment we must effectively mobilize the morale of our people. We must also mobilize the finances of the country, and this can be effectively done by our members through the sale of defense bonds and the encouragement of savings. The owner of a defense bond is a partner with the United States Government, a partner in the defense program, and a conservator of assets that may be spent when earning capacities are not nearly so great as now.

"We recommend to all of our members that they vitalize their patriotism by assisting in the sale of defense bonds and by taking an active part in the defense program in their community."

--Advisory Committee,
Federal Home Loan Bank, Little Rock, Ark.

"We are helping in a tri-partite program of greatest significance: first, to enlist every man in every man's job of providing funds for defense; second, to give a new significance and stirring appeal to thrift; and third, as private spending puts pressure on prices, to help stabilize the economy by diverting increased earnings from spending to lending to Uncle Sam."

--Henry Bruders,
President of the Bowery Savings Bank and the
Mutual Savings Banks' Treasury Department
Liaison Officer.

INTRODUCING STATE ADMINISTRATORS AND THEIR DEPUTIES

- Hon. William P. Stuart
Phoenix, ARIZONA
- Hon. Roy G. Paschal
Claude K. Wilkerson, Deputy
Little Rock, ARKANSAS
- Hon. Ralph Nicholes
Louis M. Montania, Deputy
302 Colorado Building
Denver, COLORADO
- Hon. Thomas S. Smith
Phillip Hewes, Deputy
Hartford, CONNECTICUT
- Hon. John L. Paha
Karl H. Lehmann, Deputy
Jacksonville, FLORIDA
- Hon. Marion H. Allen
C. Arthur Cheatham, Deputy
Atlanta, GEORGIA
- Hon. Fred H. Kenne
John Snell, Deputy
1055 Young Hotel Building
Honolulu, HAWAII
- Hon. John R. Viley
John Churchill, Deputy
Boise, IDAHO
- Hon. Norman B. Collins
1357 Federal Reserve Building
Chicago, ILLINOIS
- Hon. Will H. Smith
Wray E. Fleming, Deputy
Indianapolis, INDIANA
- Hon. Evan Griffith
Topeka, KANSAS
- Hon. Clinton A. Clauson
Ernest L. Wellman, Deputy
Augusta, MAINE
- Hon. Daniel J. Doherty
Luther Conant, Jr., Deputy
1011 Post Office Building
Boston, MASSACHUSETTS
- Hon. Giles Kavanagh
Walter J. Wade, Deputy
334 Euhl Building
Detroit, MICHIGAN
- Hon. Arthur D. Reynolds
Leif H. Gilstad, Deputy
St. Paul, MINNESOTA
- Hon. Eugene Fly
Orrin E. Swayze, Deputy
Jackson, MISSISSIPPI
- Hon. Dan M. Nee
Earl H. Sheakelford, Deputy
Jefferson City, MISSOURI
- Hon. William E. Bertley
Fred J. Martin, Deputy
Great Falls, MONTANA
- Hon. Robert L. Douglass
Reno, NEVADA
- Hon. John E. Manning
Paul M. Canada, Deputy
Newark, NEW JERSEY
- Hon. Steven P. Vidal
Edwin G. Hobbs, Deputy
Albuquerque, NEW MEXICO
- Hon. C. H. Robertson
Forrest G. Miles, Deputy
Greensboro, NORTH CAROLINA
- Hon. John McSweeney
508 Union Commerce Building
Cleveland, OHIO
- Hon. H. C. Jones
William W. Stephens, Deputy
Oklahoma City, OKLAHOMA
- Hon. Tom R. Gumble
George E. Godfrey, Deputy
906-907 Bedell Building
Portland, OREGON
- Hon. Jos. V. Broderick
Henry R. Sullivan, Deputy
Providence, RHODE ISLAND
- Hon. W. P. Bowers
Joseph D. Miot, Deputy
Columbia, SOUTH CAROLINA
- Hon. Lipe Panalee
Jo Gibson, Jr., Deputy
Nashville, TENNESSEE
- Hon. Frank Scofield
H. Dudley Hodgkins, Deputy
Austin, TEXAS
- Hon. Fred C. Martin
William J. Whalon, Deputy
Burlington, VERMONT
- Hon. Saul Haas
William C. H. Lewis, Deputy
Seattle, WASHINGTON
- Hon. F. Roy Yoke
Robert H. Pritchard, Deputy
Parkersburg, WEST VIRGINIA
- Hon. Frank J. Kuhl
Milwaukee, WISCONSIN

September 6, 1941

Dr. Feis

Mr. Cochran

Will you kindly send the following cablegram:

"American Consul,
Hong Kong.

URGENT.

For Fax from Treasury. For your information and appropriate guidance.

Following cable has today been sent to the American Consul, Shanghai:

'United States Government, in conjunction with British Government, is requesting all friendly foreign banks in China (including those covered by General License No. 59 under freezing orders) to give their full cooperation to the Stabilization Board of China. All banks named in General License No. 59 have been notified except Underwriters Bank for the Far East, Inc., and Moscow Narodny Bank, Ltd. Please advise these two banks of foregoing and endeavor to obtain assurances of their cooperation. Report results by cable.'

Following cable has today been sent to American High Commissioner, Manila:

'The United States Government, in conjunction with the British Government, is requesting banks in Far East (including those named in General License No. 59) to give their full cooperation to the Stabilization Board of China. Please take appropriate steps to inform all banks in the Philippines, including those licensed under General License 53, of the foregoing and endeavor to obtain assurances of their cooperation. Please report to me the names of any banks refusing or failing so to cooperate.'

Following
With both cablegrams there was quoted the Treasury press release:

'The Secretary of the Treasury today announced that the United States Government, in conjunction with the British Government, had requested banks in the Far East to give their full cooperation to the newly created Stabilization Board of China. Included among the banks whose cooperation was asked were those named in General License No. 59 issued under the freezing orders.'

RECEIVED
SEP 11 1941
U.S. CONSUL
HONG KONG

This measure, the Secretary stated, was in harmony with previous measures taken by the American and British Treasuries in the field of monetary cooperation with China. Both the United States and Great Britain have previously entered into stabilization agreements with China whereby dollar and sterling exchange have been made available to the Stabilization Board of China. Such Board was established recently by China and consists of three Chinese, an American appointed by China on the recommendation of the Secretary of the Treasury, and a British national appointed on the recommendation of the British Treasury.'

Through the State Department the Netherlands and Belgian Governments have been asked to have their banks in the Far East cooperate similarly.^a

W. H. C.

September 6, 1941

Dr. Feis

Mr. Cushman

Will you kindly send the following cablegram:

"American Consul,
Shanghai.

United States Government, in conjunction with British Government, is requesting all friendly foreign banks in China (including those covered by General License No. 59 under freezing orders) to give their full cooperation to the Stabilization Board of China. All banks named in General License No. 59 have been notified except Underwriters Bank for the Far East, Inc., and Moscow Narodny Bank, Ltd. Please advise these two banks of foregoing and endeavor to obtain assurances of their cooperation. Report results by cable.

The following is a press release issued today by the Treasury Department:

The Secretary of the Treasury today announced that the United States Government, in conjunction with the British Government, had requested banks in the Far East to give their full cooperation to the newly created Stabilization Board of China. [^]Included among the banks whose cooperation was asked were those named in General License No. 59 issued under the freezing orders.

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The British Government is taking similar action.

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TELEGRAM SENT

414

September 6, 1941

8 p.m.

AMERICAN CONSUL,

SHANGHAI (CHINA)

222

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HULL

TO THE SECRETARY
TECHNICAL ASSISTANT
OFFICE OF THE

BY FEB 10 PM 3 21

DEPARTMENT
RECEIVED

FOR IMMEDIATE RELEASE,
September 6, 1941

310
Press Service
No.

The Secretary of the Treasury today announced that the United States Government, ~~in conjunction with the British Government,~~ had requested banks in the Far East to give their full cooperation to the newly created Stabilization Board of China. ^{The British Government is taking similar action.} Included among the banks whose cooperation was asked were those named in General License No. 59 issued under the freezing orders.

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TELEGRAM SENT

GRAY

417

PM

September 6, 1941.

5 p.m.

AMERICAN CONSUL,

HONG KONG (CHINA).

URGENT.

256.

For Fox from Treasury. For your information and appropriate guidance. Following cable has today been sent to the American Consul, Shanghai: United States Government, in conjunction with British Government, is requesting all friendly foreign banks in China (including those covered by General License No. 59 under freezing orders) to give their full cooperation to the Stabilization Board of China. All banks named in General License No. 59 have been notified except Underwriters Bank for the Far East, Inc., and Moscow Narodny Bank, Ltd. Please advise these two banks of foregoing and endeavor to obtain assurances of their cooperation. Report results by cable.

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to the

to the Stabilization Board of China. Please take appropriate steps to inform all banks in the Philippines, including those licensed under General License 63, of the foregoing and endeavor to obtain assurances of their cooperation. Please report to me the names of any banks refusing or failing so to cooperate.

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Through the State Department the Netherlands and Belgian Governments have been asked to have their banks in the Far East cooperate similarly.

HULL.
(HF)

EA:HF:MCE

Copy:hbr:9-10-41.

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DEPARTMENT OF STATE
WASHINGTON

420

In reply refer to
EA 893.50/251

September 6, 1941

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits herewith a copy of despatch no. 606, dated July 10, 1941, from the American Consulate General at Shanghai enclosing a memorandum prepared for the Treasury Department's representative, Mr. Manuel Fox.

Enclosure:

Despatch no. 606 from Shanghai,
with enclosures,
July 10, 1941.

NO. _____ Embassy, China

NO. 606

THE FOREIGN SERVICE
OF THE
UNITED STATES OF AMERICA

431

AMERICAN CONSULATE GENERAL

Shanghai, China, July 10, 1941.

CONFIDENTIAL

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

THE HONORABLE

THE SECRETARY OF STATE

WASHINGTON

SIR:

I have the honor to refer to the Department's instruction of May 10, 1941, (file no. 893.50/242), conveying the request of the Treasury Department for data on economic and financial subjects, to my despatch No. 548 of June 16, 1941, in reply, entitled "Background Information on Problems of Maintenance of an Exchange Stabilization Fund in Support of the Chinese yuan in the Shanghai Foreign Exchange Market", to my despatch of July 2, 1941, enclosing two memoranda on subjects or questions on which Mr. Fox had asked for information or expressions, and to enclose herewith copies of three further memoranda, as prepared in this Consulate General for Mr. Fox at

his

his request, by Assistant Commercial Attache, A. Bland Calder, giving salient information on the scope and character of operations on the Shanghai foreign exchange market, the cotton yarn exchanges, and the gold bar market.

Respectfully yours,

Frank P. Lockhart,
American Consul General.

Enclosures:

- 1/- Facts Regarding the Shanghai
Open Foreign Exchange Market
- 2/- Facts Regarding the Shanghai
Cotton Yarn "Curb" Market
- 3/- Facts Regarding the Shanghai
Fictitious or "Paper" Gold Bar Market

ABC:JCB
851/851.51

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

Enclosure No. 1 to despatch No. 606 dated July 10, 1941 from Frank P. Lockhart, American Consul General, Shanghai, on the subject: "Transmittal of Memoranda Prepared for Treasury Department Representative, Mr. Manuel Fox."

CONFIDENTIAL

Shanghai, July 1, 1941.

Facts Regarding the Shanghai Open Foreign Exchange Market

1. Volume of Transactions:

Estimated Ratio:

For period just prior to July 7, 1927.....1
August 17, 1937 to March 8, 1938.....2 or 3
March 8, 1938 to May 30, 1940.
Average 5 or 6
Highest 10 to 20
During year ended June 30, 1941, Average 5 or less

(NB: Volume in direct proportion to fluctuation in rates)

At present average daily transactions amount to about US\$500,000 or less (in all currencies, but business is mostly in US Dollars.)

During periods of wide fluctuations daily transactions totalled as much as US\$10,000,000 (all currencies).

Roughly about 80% of the transactions have been speculative.

The maximum overbought position has amounted to as much as US\$15,000,000 and the maximum oversold position has amounted to as much as US\$7,000,000.

2. Dealers:

Brokers handle accounts for (1) The Control, (2) Foreign and Chinese banks, (3) Merchants - importers and exporters - who are at times speculators and (4) speculators.

Exchange Brokers' Association: Committee consists of 9 members with Mr. C.M. Wentworth (American) as President. There are at present 52 foreign members of which 7 are Japanese and 16 Chinese members.

Brokerage: For US Dollars - interbank transactions $1/32$ of one percent and for merchant deals (import or export) $1/16$ of one percent. The sellers pay the brokerage.

3. Comments:

Large brokers set off their clients' positions one against the other without going to banks for cover. Thus, they act as banks. White, White & Co., the largest local concern, alone are reported to have netted as much as yuan 40,000 daily (peak) in brokerages.

One individual speculator is reported to carry often a position of as much as US\$1,000,000 or more. Prominent speculators (Chinese) are K.C. Chung (allegedly on behalf of Chungking officials), Ko Sau-ling (broker who handles Japanese and Nanking regime accounts), and Hsu Shih-hao (local lawyer operating on own account.)

At present the cost for changeover (from July to August delivery) is nothing or at most $1/128$ of a cent, U.S. currency. However, changeovers have been at rates as high as 6 percent per mensem when cash was tight.

A true copy of
the signed original

A. Bland Calder.

Copied by: EAW
Compared with: JCB

CONFIDENTIAL

Shanghai, July 2, 1941.

Facts Regarding the Shanghai Cotton Yarn
"Curb" Market

1. Historical Survey:

- (a) The officially recognized exchange was The Chinese Merchants Cotton Yarn Exchange, which was closed on August 13, 1937. In late 1936 when yarn prices soared from yuan 180 to yuan 280 due to heavy purchases for shipments to up-river points (in anticipation of possible Sino-Japanese hostilities) as a part of national defense activity, the public was annoyed by persistent rumors that Madam H. H. Kung and her "associates" were planning to corner the market. Generalissimo Chiang Kai-shek summoned certain brokers of the Yarn Exchange and other prominent persons in Shanghai for investigation. Later, the case was handled by the Chinese Court in Shanghai at a public trial. No concrete evidence could be produced at the court to convict the "alleged culprits".
- (b) Cotton yarn dealers traded only in physical yarn for export shipments or local consumption during the period from August 14, 1937, until about August, 1938.
- (c) A mild speculative trading market was developed in August, 1938, at the Cotton Yarn Dealers' Association on Peking Road. This Association is not a legally authorized exchange market. Hence all trading is on "curb" basis. Most of the members were originally in the cotton yarn trade. At present there are about 1,500 traders participating in these transactions. Brokers are almost non-existent as they collect only yuan 0.25 per bale for contacting a buyer with a seller. The broker has no obligations at all. Curb trading in 1939 (when prices were low and fluctuations were narrow) was done on the basis that a seller issued a "scrip of sale" to the buyer who was to pay the seller margin to the amount of yuan 15 to yuan 30 per bale. From late 1939 up to the present, the margin has risen to as high as yuan 200 per bale.

(d) Japanese

- (d) Japanese and pro-Japanese Chinese formed a "Cotton Yarn Exchange" in 1940 on Kiukiang Road (at site of the former Gold Bar Exchange). Trading is restricted to products of Japanese mills.
- (e) S.S. Pan (local gangster) formed a "Cotton Yarn Exchange, Limited" on June 2, 1941, on Avenue Edward VII, with forty brokers as members. Participants are professionally non-traders. It is a purely speculative market.

2. Volume of Transactions:

The maximum amount of business done in the three markets (1. Curb, 2. Japanese Market, 3. Pan's market.) in a single day has totalled as much as 50,000 to 60,000 bales, with an average of about 15,000 bales per day. The "Curb" market also handles the transfer of physical yarn for exporters or consumers, averaging about 1,000 bales per day. Total yarn production by all Shanghai mills (Chinese, Japanese, and British) amounts to about 60,000 bales per month at present. Present accountable yarn stocks in Shanghai are estimated at about 300,000 bales. This may be increased to 400,000 bales if private holdings are included.

3. Raw Cotton Transactions:

Speculative trading in raw cotton is also done but on a much smaller scale because raw cotton, unlike cotton yarn, cannot be standardized, being of different qualities and from different sources whereas a bale of cotton yarn of 20 counts marked "Double Horse" is a standardized product, hence can be traded in with ease.

Copied by EAW
Compared with: JCB

A. Bland Calder

A true copy
of the signed
original.

eh:copy
7-10-41

Enclosure No. 3 to despatch No. 60E dated July 10, 1941 from Frank P. Lockhart, American Consul General, Shanghai, on the subject: "Transmittal of Memoranda Prepared for Treasury Department Representative, Mr. Manuel Fox".

427

C O N F I D E N T I A L

Shanghai, July 3, 1941.

Facts Regarding the Shanghai Fictitious
or "Paper" Gold Bar Market

1. Number of Actual or Physical Bars:

Estimates of Stocks in Shanghai -

1. In hands of Gold Hong
and Goldsmiths - - - - - 5,000 bars or roughly 50,000
troy ounces valued at
US\$1,750,000.

2. Privately Hoarded
Holdings - - - - - 15,000 bars or roughly
150,000 troy ounces valued
at US\$5,250,000. Mostly
bought in early 1938 and in
the year ended April, 1939,
at around yuan 1,250 and
yuan 2,000 which were fairly
constant prices for those
periods.

2. Volume of Transactions:

It is difficult to estimate the total volume of transactions done day by day as there are "curb" deals in bars in addition to the trading ("official") at the Shanghai Gold Exchange, Limited, (24 Central Road, owned by S. S. Pan).

- (a) The daily turnover of the Shanghai Gold Exchange, Limited, varies from 1,000 to 10,000 bars. At present the weekly turnover is about 100,000 bars.
- (b) Including "curb" deals, the daily turnover amounts to as much as 50,000 bars.
- (c) Daily turnover of "physical" bars during the past six months has varied from 10 to 50 bars, averaging about 25 bars daily.

3. Trading Organizations, Past and Present:

1. The Shanghai Gold Stock Exchange was closed on August 14, 1937. It was the officially recognized institution prior to the outbreak of hostilities.
2. Up to the middle of 1939 several gold hong and goldsmiths traded in actual bars privately.
3. From the middle of 1939 to October 20, 1940, these gold hong and goldsmiths traded in futures in limited way besides actual turnover of physical bars.
4. From October 25, 1940 to the present the "Shanghai Gold Exchange, Limited" has functioned. Its membership consists of 40 brokers (including several old Kiukiang Road brokers) who have deposited yuan 20,000 each with the Exchange. Transactions are in "paper" bars. S. S. Pan assumed full control of the Exchange toward the end of 1940. Brokerage is yuan 0.50 per bar for either selling or buying, payable to the Exchange by the brokers. However, the brokers charge yuan 1.30 per bar (or as high as yuan 5.00 per bar depending upon the ability of the clients to pay the required margin.) The Exchange requires the brokers to furnish yuan 1,000 per bar as margin, but the brokers actually collect only about yuan 300 from their clients. Hence the brokers have to raise about yuan 700 per bar to make up the difference. The brokers charge their clients higher brokerages because they are obliged to raise funds from banks in order to finance the deals.

4. Operations:

Please see the attached sheet regarding the parities between the prices of "paper" bars and the interbank spot selling rates of foreign exchange. The traders are allowed to set-off their position on delivery dates at the "merchant rates" (for foreign exchange) of the Hongkong & Shanghai Banking Corporation as announced on that particular day. In case changeover to later delivery is desired, the charge therefor is determined by direct negotiation between buyer and seller.

"Crossing" or "hedging" may be done at the following approximate parities - US\$10,000 equal to 30 "paper" bars or 90 bales of "Double Horse" brand 20 count cotton yarn.

5. Brokers' Comments:

Brokers have no faith in the soundness of the Exchange. They are worried over the possibility that some day, if conditions are upset, their deposits or margins may be lost to them. On the other hand, clients have no lasting faith in the brokers because the clients in most cases demand settlement with their brokers as frequently as possible in order to avoid accumulation of large margins or profits in brokers hands.

The "owner" of the Exchange is a local gangster. San-sing Pan, who was only "small fry" in Shanghai prior to the outbreak of the hostilities in 1937. He was employed as a bond salesman by the Central Savings Society. He is now regarded as a local "big-shot" or "well-known personage" and holds no official position in the Nanking regime or in its "special service" (76 Jessfield Road). As a matter of fact, he has been at times on bad terms with the Husi Gang (76 Jessfield Road, or Nanking's Gestapo). He regards himself as the second Tu Yueh-sen* (who is now in Hong Kong and associates with the Chungking Government personalities). The underworld does not consider him as "generous" or "fraternal" or "broad" minded as Tu Yueh-sen. The Exchange pays him about yuan 200,000 to yuan 400,000 monthly. With other income he is able to meet monthly expenses of about yuan 500,000 (with which he feeds a number of followers and henchmen). He is not regarded as a rich man as he has not possessed any large fortune in the past.

Quite a number of Chinese and foreign exchange brokers in Shanghai permit their clients to sell or buy exchange by hedging on the paper bars.

- * - One of three notorious gangsters who built a large fortune out of kidnapping, for ransom well to do Chinese in Shanghai during the disturbed years 1925 to 1930, later, because of his control over gangster hordes, being accepted in official circles and given appointments to positions in Government banks.

Copied by: MKD
Compared with: JCB

A. Bland Calder.

Copy:bj:9-9-41

EQUIVALENT BETWEEN U. S. DOLLAR EXCHANGE RATES

PER YUAN AND GOLD BAR PRICES

<u>U. S. \$</u>	<u>Yuan</u>	<u>U. S. \$</u>	<u>Yuan</u>
5# - - - - -	6965	5-1/2# - - -	6332
5-1/64 - - - -	6943	5-33/64 - - -	6314
5-1/32 - - - -	6922	5-17/32 - - -	6296
5-3/64 - - - -	6900	5-35/64 - - -	6278
5-1/16 - - - -	6879	5-9/16 - - -	6261
5-5/64 - - - -	6858	5-37/64 - - -	6243
5-3/32 - - - -	6837	5-19/32 - - -	6226
5-7/64 - - - -	6816	5-39/64 - - -	6208
5-1/8 - - - -	6795	5-5/8 - - -	6191
5-9/64 - - - -	6774	5-41/64 - - -	6174
5-5/32 - - - -	6754	5-21/32 - - -	6157
5-11/64 - - - -	6733	5-43/64 - - -	6140
5-3/16 - - - -	6713	5-11/16 - - -	6123
5-12/64 - - - -	6693	5-45/64 - - -	6106
5-7/32 - - - -	6673	5-23/32 - - -	6090
5-15/64 - - - -	6653	5-47/64 - - -	6073
5-1/4 - - - -	6633	5-3/4 - - -	6056
5-17/64 - - - -	6614	5-19/64 - - -	6040
5-9/32 - - - -	6594	5-25/32 - - -	6024
5-19/64 - - - -	6575	5-51/64 - - -	6007
5-5/16 - - - -	6555	5-13/16 - - -	5991
5-21/64 - - - -	6536	5-53/64 - - -	5975
5-11/32 - - - -	6517	5-27/32 - - -	5959
5-23/64 - - - -	6498	5-55/64 - - -	5943
5-3/8 - - - -	6479	5-7/8 - - -	5928
5-25/64 - - - -	6460	5-57/64 - - -	5912
5-13/32 - - - -	6441	5-29/32 - - -	5896
5-27/64 - - - -	6423	5-59/64 - - -	5881
5-7/16 - - - -	6404	5-15/16 - - -	5865
5-29/64 - - - -	6386	5-61/64 - - -	5850
5-15/32 - - - -	6368	5-31/32 - - -	5834
5-31/64 - - - -	6350	5-63/64 - - -	5819

Basis or constant -- US\$348.25 per bar of slightly more than 10 troy ounces of U. S. standard fineness.

Copied by: MKD
 Compared with: EAW:JCB

A. Bland Calder.

Copy:bj:hbr:9-9-41.

DEPARTMENT OF STATE
WASHINGTON

September 6, 1941.

My dear Mr. Bell:

Immediately upon your request, I spoke to the representative of the Belgian Embassy, and enclose a copy of our memorandum of conversation.

Sincerely yours,

/s/ Herbert Feis

Herbert Feis
Adviser on International
Economic Affairs

Enclosure:

Memorandum of Conversation, "Cooperation with the China Stabilization Fund on the part of Belgian banks in the Far East"

The Honorable

D. W. Bell,

Under Secretary of the Treasury.

ADVISER ON INTERNATIONAL ECONOMIC AFFAIRS
DEPARTMENT OF STATE

432

MEMORANDUM OF CONVERSATION

DATE: September 6, 1941.

SUBJECT: Cooperation with the China Stabilization Fund on the part of
Belgian banks in the Far East

PARTICIPANTS: Baron Herve de Gruben, Counselor of Belgian Embassy

Mr. Feis

COPIES TO:

I spoke with Baron de Gruben this morning in the same sense as Assistant Secretary Acheson spoke to the Counselor of the Netherlands Legation yesterday as regards cooperation with the China Stabilization Fund on the part of Belgian banks in the Far East. In the light of my earlier talk with Mr. Bell, I emphasized the request applied not only to the Shanghai agencies of these banks, but to all branches they might have in the Far East. Baron de Gruben stated that the only Belgian bank operating in the region was the Banque de Belge pour l'Etranger. He said he would immediately cable the Belgian consul in Shanghai (and as might be necessary, the home office of the Bank) requesting cooperation with the Board. He said that he would ask them to acknowledge and let us know the replies next week.

- 2 -

I explained to Baron de Gruben that it was impossible to state what might be required of the banks; that that would depend on the situation with which the Board was dealing from day to day. The Board would currently keep the banks informed of what it wished from them.

EA:HF:LWW

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PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Port-au-Prince, Haiti

DATE: September 6, 1941, 3 p.m.

NO.: 184

Reference is made to telegram No. 190, dated September 6, 5 p.m., from the Department.

As yet, the decree law has not been published. From unofficial sources (to be confirmed by cable), the decree law in question is to apply only to persons named in the Proclaimed List. The decree law will freeze the funds of such persons and will subject them to requirements for licenses for all of their transactions except those involved in local liquidation of existing stocks of goods, except export products, all of which are subject to licensing requirements.

WRITE

840.51 Frozen Credits/3378

EA:HQW:PAK

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rome, Italy

DATE: September 6, 1941, 8 p.m.

NO.: 1388

Italy's inflationary trend is gathering momentum. This is reflected in the progressive and marked increase in stock prices represented by a rise in the index for 30 representative stocks from 267 at the start of 1941 to 362 on July 31 — just before the summer Bourse holidays —. This was followed by an abrupt increase to 394 when the Bourse was reopened on the eighteenth of August and to 428 as of the fourth of September. (The latter figure — 428 — shows an increase of sixty percent since the first of the year and, since September 1939, 114 percent.

In view of the official attempts to curb speculation in securities through the heavy tax rates on stock transactions, the recent increases are all the more significant. (See despatch No. 1064, dated July 22, 1941, from the Embassy.)

Although less susceptible of measurement, similar trends are in evidence in the prices of real estate — in spite of the tax of 60 percent which exists on profits from the sales of real estate — and of jewels and precious metals. As regards precious metals, these trends lead to the publication of a decree in the OFFICIAL GAZETTE of September 3 which suppresses the purchase or sale of gold, platinum, silver, pearls, and precious stones as well as articles which contain such materials.

-8-

The decree of September 3 is obviously designed to aid in the checking in internal flight from the lira. This decree, incidentally, appears to be so timed as to facilitate the flotation of a new issue of Government bonds, which, in spite of official reticence on the subject, is reported to be pending by generally reliable sources. The familiar nine-year bonds, it is understood, will be offered to the public; the terms expected to be those of the February issue—offering price 97.5; rate five percent.

It is obvious that funding operations are overdue for the financing of war expenditures. This is in view of the fact that since the participation of Italy in the war only one issue of this kind has been floated—that of February, 1941, which produced only 15,000,000,000 lire in fresh cash. This figure is to be compared with the 1940-41 national deficit of 65,000,000,000 lire.

PHILLIPS

865.50/260

KAIPAK

TOP SECRET

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE September 6, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£17,000
Purchased from commercial concerns	£46,000

Open market sterling was quoted at 4.03-1/2. The only reported transaction consisted of £3,000 purchased from a commercial concern.

The Canadian dollar improved to a new high of 10-1/4% discount.

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

Argentine peso (free)	.2373
Brazilian milreis (free)	.0505
Colombian peso	.5800
Mexican peso	.2070
Venezuelan bolivar	.2750
Uruguayan peso (free)	.4400
Cuban peso	1/2% discount

In the unofficial exchange market in Shanghai, the yuan remained at 4-27/32. The sterling-dollar cross rate was again 4.04-3/8.

There were no gold transactions consummated by us today.

No new gold engagements were reported.

The Federal Reserve Bank's report of September 3, listing deposits of banks in Asia with the New York agencies of Japanese banks, showed that such deposits totaled \$56,464,000, an increase of \$240,000 since August 27. Also reported were selected items from the statement of the Yokohama Specie Bank's New York Agency. The latter's principal dollar liabilities to and dollar claims on Japanese banks in Asia stood as follows on September 3:

	<u>September 3</u>	<u>Change from August 27</u>
Liabilities: Deposits for Japan and Manchuria.....	\$41,753,000	+ \$451,000
Deposits for China.....	9,794,000	+ 6,000
" : U.S. Treas. Bills, comm. paper, etc.....	25,138,000	- 583,000
Claims : Loans.....	\$18,306,000	- 2 91,000
" : Other - mainly Jap. import bills.....	8,366,000	- 2,000

RESTRICTED

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G-2/2657-220, No. 486 M.I.D., 7.D. 11:00 A.M., September 6, 1941

SITUATION REPORT

I. Eastern Theater.

Ground: Estonia, with the exception of the islands of Dagoe and Oesel, is in German hands. Leningrad is under German heavy artillery fire.

Russian counterattacks are reported at many points along the front. The Germans continue to press the siege of Odessa.

Air: Odessa was the objective of a heavy German bombing directed against port facilities. The Russian communique reported that attempts to bomb Leningrad were driven off.

II. Western Theater.

Air: The main daylight activity consisted of an attack on East Coast railway objectives in Scotland.

III. Middle Eastern Theater.

Ground: Nothing of importance.

Air: The Suez area was subjected to its third daily bombing attack last night. British planes bombed Axis objectives in North Africa, according to the Italian communique.

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Paraphrase of Code Cablegram
Received at the War Department
at 7:58 a.m., September 6, 1941

SECRET

London, filed: 1:06 p.m., September 6, 1941.

1. British Air Activity over the Continent.

a. Day of September 5. Bad weather prevented the dispatch of bombers. A total of 200 fighters were employed as follows: 141 in the protection of shipping, 39 on interception patrols and 20 on special missions.

2. German Air Activity over Britain.

a. Day of September 4. 10 reconnaissance aircraft and 5 long range bombers were used.

b. Night of September 4-5. The strength was 5 fighters, 5 reconnaissance aircraft and 30 long range bombers.

c. Day of September 5. Reconnaissance of shipping was carried out on a small scale.

d. Night of September 5-6. Long range bombers were active over St. Abb's Head and Whitley.

3. Aircraft Losses Reported.

a. British losses. No casualties occurred on September 5.

b. Axis losses. On September 5, a Ju-88 crashed in Britain from an undetermined cause.

4. British Air Activity, Other Theaters.

a. North African Theater. Military depots at Tripoli were attacked by 13 Wellington bombers during the night of September 4-5. In this raid 18 tons of HE and incendiaries were dropped from 500 feet, resulting in hits on warehouses and the starting of many fires.

5. Axis Air Activity, Other Theaters.

a. Middle Eastern Theater. The Suez Canal area was attacked the night of September 4-5, by 16 Axis aircraft. The results of this raid have not been reported.

LEE

I. B. # 6, 9:30A, 9/8/41

Distribution:

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