

DIARY

Book 441

September 15 - 17, 1941

- A -

	Book	Page
Appointments and Resignations		
Assistants to the Secretary; White's recommendations - 9/16/41.....	441	183

- B -

Budget, Bureau of		
Non-defense Spending: Sample plans for cutting to be presented to Senate Finance Committee by Bureau of Budget - 10/15/41.....		2
Business Conditions		
Haas memorandum on situation for week ending September 13, 1941.....		40

- C -

Currency, United States		
International movements analyzed by Federal Reserve Bank of New York - 9/17/41.....		336

- D -

Defense Savings Bonds		
See Financing, Government		

- E -

Economic Defense Board		
See War Conditions		
Export Control		
See War Conditions		

- F -

Farbenindustrie, I. G.		
See War Conditions: Foreign Funds Control		
Financing, Government		
Non-defense Spending: Sample plans for cutting to be presented to Senate Finance Committee by Bureau of Budget - 10/15/41.....		2
Defense Aid Appropriation (supplemental): Summary and breakdown of that portion for Procurement Division - 9/15/41.....		198,198
Defense Savings Bonds:		
"Retailers-for-Defense Week" - resume' of programs - 9/15/41.....		37
Defense Savings Bonds, Series E: Sales for May, June, July, and August, by States - 9/16/41..		190

- G -

	Book	Page
General Aniline and Film Corporation		
See War Conditions: Foreign Funds Control		
General Dyestuffs Corporation		
See War Conditions: Foreign Funds Control		
Germany		
See War Conditions		

- L -

Lever Act (August 10, 1917)		
Foley report - 9/17/41.....	441	309

- M -

Murray, Thomas E.		
Appraisal of by New York Times staff - 9/17/41..		307

- O -

Oil		
See War Conditions: Export Control		

- R -

Refugees		
See War Conditions		
Revenue Revision		
Estimated revenue effect of 1941 bill as agreed upon in conference - 9/15/41.....		17
Rosenwald, William		
See War Conditions: Refugees		

- S -

Seattle, Washington		
Investigation discussed by HMJr, Irey, and Frank - 9/16/41.....		132
a) Boettiger-HMJr conversation - 9/16/41....		138

- T -

Taxation		
See Revenue Revision		

	Book	Page
Unemployment Relief		
Work Projects Administration report for week ending September 3, 1941.....	441	51
United Kingdom		
See War Conditions: Military Planning		

War Conditions

Airplanes:

Shipments to United Kingdom and overseas commands - British Air Commission report - 9/15/41.....		58
Shipments to the British, by air and sea - Kamarcck report - 9/17/41.....		332

China:

Stabilization Board: Difficulties reviewed in Fox letter to Cochran - 9/17/41.....		351
a) Exchange Control Commission: Final draft of principles of organization..		353

Economic Defense Board:

Office of Export Control placed under Economic Defense Board - 9/17/41.....		300
Stimson-HMJr conversation on membership of Board - 9/18/41: See Book 442, page 43		
a) Japan: Stimson asks HMJr "to stand shoulder-to-shoulder and not give an inch"		
b) Meeting - 9/19/41: Book 442, page 223		
Exchange market resume' - 9/15/41, etc.....		80,231,368

Export Control:

Exports of petroleum products, scrap iron, and scrap steel from United States to Japan, Russia, Spain, and Great Britain, week ending September 13, 1941.....		65
a) Ickes and HMJr discuss report - 9/16/41.....		95,289
Office of Export Control placed under Economic Defense Board - 9/17/41.....		300

Foreign Funds Control:

Central American and Caribbean area:		
Representatives of Foley's office and State Department to assist American missions - 9/15/41.....		18
General Aniline and Film Corporation		
General Dyestuffs Corporation		
(I. G. Farbenindustrie)		
Application for sale of 1,500,000 shares discussed in memorandum to Hopkins and from Hopkins to HMJr - 9/17/41.....		303

Germany:

Reichsbank mail - Federal Reserve Bank of New York reports on - 9/15/41.....		71
------------------------------------------------------------------------------	--	----

- W - (Continued)

	Book	Page
War Conditions (Continued)		
Lend-Lease:		
Second report - 9/16/41.....	441	197
Military Planning:		
Reports from London transmitted by Campbell - 9/15/41, 9/17/41.....		82,369
War Department bulletins:		
German General Staff School report - 9/15/41.....		86
German strategical picture of Smolensk and Kiev - 9/17/41.....		372
Purchasing Mission:		
Federal Reserve Bank of New York statement showing dollar disbursements, week ending September 3, 1941.....		57
Vesting order sales - 9/15/41.....		63,64
Refugees:		
Rosenwald (William) invites HMJr to meeting with Rosenman, Dubinsky, Shroder, etc. - 9/17/41.....		279
Security Markets (High-Grade):		
Current Developments: Haas memorandum - 9/17/41.....		319
Work Projects Administration		
See Unemployment Relief		

C
O
P
Y

1

THE PRESIDENT OF BROWN UNIVERSITY

September 15, 1941

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

Dear Mr. Secretary:

In response to your letter of September 11, I am happy to say that on the very day it was received the Advisory and Executive Committee of the Corporation of Brown University granted permission for Professor Brown to undertake the work in the Treasury Department. We are glad to be able to cooperate in the matter.

May I take this occasion to thank you for the strong leadership you have given toward the curtailment of non-defense expenditures during the present crisis.

Sincerely yours,

/s/ Henry M. Wriston

Henry M. Wriston
President

Copy:mew 9/20/41

~~BUDGET DIRECTOR SMITH WILL TRANSMIT TO THE SENATE FINANCE COMMITTEE TODAY SAMPLE PLANS FOR CUTTING NON-DEFENSE GOVERNMENT SPENDING FROM \$1,000,000,000 TO \$2,000,000,000 IN THIS FISCAL YEAR, BUT THE ODDS ARE 100-TO-1 AGAINST ANY SUCH ECONOMIES.~~

THE SAMPLE BUDGETS HAVE BEEN PREPARED IN RESPONSE TO A COMMITTEE RESOLUTION CALLING FOR SUBMISSION OF THREE TENTATIVE BUDGETS DESIGNED, RESPECTIVELY, TO REDUCE NON-DEFENSE SPENDING BY \$1,000,000,000, \$1,500,000,000 AND \$2,000,000,000.

IT IS UNDERSTOOD THAT THE BUDGET BUREAU'S SAMPLE REVISIONS INCLUDE DEEP CUTS IN NATIONAL YOUTH ADMINISTRATION, CCC AND WORK RELIEF APPROPRIATIONS.

10/15--EG847A

Dear Stan: Ask H. Smith let me have a copy of this report. H.M.

Very interesting
Material to check

Feb

MEMORANDUM FOR THE SECRETARY.

September 15, 1941.

So far as I remember, no public address made by the Secretary has called forth as many letters of comment as the recent Boston speech on the subject of inflation.

A number of postal cards and letters simply request copies of the speech; others make comments that obviously are suggested by the speech, but do not allude to it in any way. These two types of letters have not been abstracted, but the count together, as of this morning, Monday, September 15th, is 48.

All other letters have been abstracted and the abstracts are attached. You will note the small proportion of "sour notes" to those giving high praise to the speech.

J. C. Felber

Eugene Meyer, Cable from London. Congratulations. Your expressions carried here today-stick to them.

Franklin Hyde, Pierre, South Dakota. (Telegram) Hearty congratulations on your courage and sound common sense expressed recently regarding commodity prices. We are satisfied with present prices and would rather have Government stocks of cotton and wheat sold now than to let a ruinous inflation get started. However, action of markets today indicate positive action will have to be taken and speech making is not enough to dampen speculative spirit. Regards.

L. S. Rowe, Director General, Pan American Union. Permit me to congratulate you on your admirable address of last evening. I am certain that what you said will have far-reaching influence on public opinion.

B. C. Leffingwell, Erlowest, Lake George, N. Y. I thought your Boston speech was fine: sound, realistic, courageous as always. I hope you will continue to insist on the realities of inflation control and to resist the effort of the bankers to get higher interest rates by increasing reserve requirements. Increasing the Treasury's difficulties and interest costs won't touch the inflation problem under war conditions. It will only make the job of winning the war a bit harder.

William Fellowes Morgan, Jr., Commissioner, Department of Markets, New York, N. Y. The editorial in this morning's New York Herald-Tribune on your Boston speech coincides so completely with my views on the farm problem that I take the liberty of extending to you my congratulations. As Commissioner of Public Markets of this City for the past seven and a half years, I have had an excellent opportunity to study the farm problem from the consumer and distribution ends. I have maintained that the farm problem will never be solved solely on the farm, but must be attacked in the big distributing and consuming centers like New York..... If you are interested in my views on this troublesome problem, I will gladly send you what I have written on the subject.

Samuel Harden Church, President, The Carnegie Institute, Pittsburgh, Penna. I have just finished reading in the New York Times of yesterday your address on inflation, delivered in Boston on the preceding evening, and it leaves me with very anxious thoughts on what is going to happen on the currency question to the American people. There is one point in the address which leaves me in something of a fog, and after complimenting you on your courage in making the speech may I draw your attention to the point that has confused me. (If prices will still go up, not because the goods have been consumed, but because they are stored under lock and key, is not the Secretary the custodian of the key to open the warehouses?)

Robert L. Douglass, Collector of Internal Revenue, Reno, Nevada. I enjoyed your speech very much. Thought the Journal's article might be of interest to you.

George H. Gleason, Chicago, Illinois. I liked very much your speech last evening before the Boston Adv. club but it would have been much more timely if it came at the time of the passage of the Lease-Lend act, before the Government started making purchases of food products for England. Now that the press quotes England as having enough food for twelve months I think that if Washington would publicly announce at least a temporary withdrawal from the food market that prices would materially go down and also bring out some of these storage stocks you spoke about.

Jos. Goldberg, New York, N. Y. Referring to your illuminating address before the Boston Advertising Club in the City of Boston Tuesday evening, September 9th. The writer is in the retail field and arrived home too late to get the whole of your discourse. I mention this, for you may have covered in substance what I have in mind in the shadow though I do believe that your subject was on inflation. (Gives ideas on current conditions.)

T. J. Donnelly, Hackensack, N. J. Your broadcast, last evening, was well received by the writer and a group of friends. Except for that portion dealing with higher income taxes your entire plan received hearty endorsement. Most of this group were insurance agents (small business men). We were particularly impressed with your "hope" that the Security program may be extended, etc. This statement, general though it was, gave us a ray of hope that Social Security may be broadened to include the so-called business man notwithstanding the fact that their living depends on commission or profits rather than salary.

F. J. Hurley, Chicago, Ill. I would appreciate it very much if you would kindly send me the complete text of the address which you gave on September 9 before the Advertising Club of Boston, Massachusetts. Anticipating your courtesy in this regard, I am.

Mrs. Lillian Allman, Seattle, Washington. It was grand to read this morning that the Government is going to stop this profiteering on food.

Mrs. Stephen D. Knox, La Grange, Ill. God's richest blessings on you, and our nation, and our God chosen President in this hour, and always. His and Mr. Churchill's Eight Points for the world, and your Five Points on halting inflation, makes a thinking person know how very fortunate we Americans are.

T. J. Byerly, President, State Planters Bank, Walnut Cove, N. C. I read with deep concern, excerpts from your Boston speech. I agree with some of your remarks concerning inflation, and some of your remarks I disagree with you..... Farm products are not up much, certainly not in line with the workmen. How can any one pay high taxes and have a savings account? Why don't the U. S. Government sell all the cotton while it is up? By selling this cotton, it would stabilise the price. (Other comments on loans, bonds, railroads, etc.) Wages for the unskilled and skilled workmen are TOO HIGH now, - any kind of a "Hod Carrier" can get one dollar per hour or more for his work.

William M. Brennan, Chicago, Ill. There is not the slightest doubt in my mind about your being on the right track in trying to prevent a run-away period of wild inflation. In my business as a Bank Investment Adviser, I have printed down at the bottom of each letterhead, the following words: "The Time To Act Is Before, Not After, It Happens!" It seems to me you used a very similar phrase, about acting before, not after, in trying to stop inflation before it is quite too late. Thus, I cannot help but agree completely that steps, every step, should be taken - NOW, TODAY, - to prevent an era of skyrocketing prices and values, the disastrous results of which are not understood or appreciated by one out of a hundred Americans today.

T. I. Stoner, Des Moines, Iowa. At the outset, I want to compliment you on the frank and businesslike speech you made before the Advertising Club in Boston last night. I am writing you this letter especially with reference to a reissuing of some U. S. Savings Bonds that were issued in error. (Describes exasperating case)

Mrs. H. W. Trolander, Denver, Colo. We heard your radio address of September 9th and want to comment on the most comprehensive and sensible summing up of the present unnecessary price situation we have heard. The people in our neighborhood are very much perturbed and they want to see something done to end the rising price trend.

F. A. Keck, West Farmington, Ohio. I wish to commend you for your stand on inflation. Inflation is a danger and ought to be prevented at all costs. I think too that the Government should dispose of its surpluses. The high cost of food is worrying multitudes of people.

A Nebraska Farmer. Your speech at Boston very good but you do not expect us to believe it when the Administration buys up the butter and lard and keeps the price up then puts them on the surplus list. Also you do not see a fair and impartial referee in labor disputes with Madam Perkins. It is all for a labor.

D. J. Murphy, Regional Agricultural Credit Corporation of Minneapolis, Minn. Mrs. Murphy and I were tuned in on your broadcast Tuesday evening. We enjoyed it very much and can endorse every word you said. With all good wishes for your health and happiness, I am.

Thomas Graham, Louisville, Kentucky. I read in the Courier-Journal today of your speech on September 9th before the Advertising Club of Boston. I was so interested in the excerpts from your speech, that if possible I would like to have a copy of the full speech, if one is available. The thoughts expressed should be sent to everybody in Governmental circles all over the country. It is time we all faced the realities of the situation, and I think you are to be congratulated for the stand you have taken in very important national matters.

W. E. Bann, Texarkana, Arkansas. I was very much interested in hearing the radio broadcast of your address before the Advertising Club at Boston last night. If the address has been or will be reprinted, I would like to obtain 300 copies, and would appreciate information as to where they may be secured.

C. L. Matthews, St. Louis, Missouri. In this morning's paper, I have read your plea for inflation controls, and it occurs to me that you might be interested in an article which I have written for the September issue of MATTHEWS MATTERS on this subject and which will go out to a mailing list, something over 12,000 names, next Monday. I wish to congratulate you on your splendid efforts to stop the foolish extravagance of Congress and to warn them of the strong possibility of disastrous inflation, if they don't take proper steps to prevent it.

Harold S. Mayer, New Orleans, La. I enjoyed your talk very much from Boston last night. I presume that you have copies of this talk. If you could spare me fifty (50) copies, I would appreciate it very much. If I am asking too many, send me as many as you can. Thanks.

D. Waynard Thomas, Utica, New York. I have read with the greatest interest and profit your very able address dealing with the matter of inflation which you made for the Advertising Club of Boston. I am pleased that the New York Times printed your address in full and I am sure that it will be read by many thoughtful business men who are interested in this most important subject. Permit me to say, Secretary Morgenthau, that I consider this address one of the clearest and ablest expressions of the matter of inflation and its relation to business that I have ever been privileged to read. You have not lost any of the facts and you have shown in a very clear and sane way just what we must do to avoid inflation and also what is being done. May I congratulate you upon your address and may I also say that the American people are fortunate in having a man of your stature as Secretary of the Treasury at this critical time in the Nation's history.

An old son of a gun of a Tory. Attached from N. Y. Herald contains the only sane suggestion that has come from a member of the Administration in eight years. Common sense may yet prevail and the Supreme Court regain dignity.

J. E. McDonald, Commissioner of Agriculture, Austin, Tex. (Telegram) Your suggestion that Government stocks of cotton and wheat be thrown on the market to prevent higher prices does the farmer a rank injustice. You have suggested nothing to prevent higher wages for industrial workers who produce the things the farmer must buy. The cents per pound a farmer receives for his cotton equals the cents per hour a farmer receives for growing cotton. The minimum wage fixed by the Federal Labor Board for unskilled industrial workers is 34¢ per hour. The average price of cotton for the 10-year period 1920-1930 was 20.31. I submit that no Government cotton should be sold at a price below 22¢ per pound 7/8 middling basis and no Government wheat for less than \$1.60 per bushel for No. 1 red winter wheat.

Andrew N. Hildebrand, South Bend, Indiana. We have inflation now and it will be followed by the greatest panic in history of U. S. A. Too much taxes now may start a runaway deflation.

J. C. Jordan, Colfax, Indiana. As a small dirt farmer, who had more than his quota of wheat this year and was compelled to hold it off of the market or pay a penalty of 49¢ a bushel, I am writing you to ask if you were quoted correctly by the Indianapolis Star, from your speech at Boston when you said "Permit the entry of Canadian wheat in larger volume." (Quotes prices, criticizes Government control policies.)

Harry Sellers, New York, N. Y. Is it any wonder that millions and millions of dollars in currency are finding the way into strong boxes for lack of faith in the Administration's disregard of the capital of the middle class citizenship, with taxes and more taxes against the corporation and private income taxes, while labor demands, and gets increased wages, and no opposition from the Government.

H. L. Wood, New Orleans, La. I have claimed for over three years that the President was skillfully heading us into a war in which we should have no part. I still say the same. I think now it is only a little way off. I listened to your radio address last night and to stop inflation you want to tax us plenty more, have us spend less, save more, to invest in defense bonds and stamps.

Thomas E. Pugh, Kearney, Nebraska. Why are so afraid of inflation? Are you afraid that the International Banker's will lose the power to loan the Government money? And losing the power of the central bank, the Reserve Board from controlling the money and credit of the earth. We had better have the United States own the banks of this nation and regulate the value thereof as the Constitution provides. If we don't do that we are going into another war for the International Banker's.

Harry Terry, Vicksburg, Mich. You do not seem to be satisfied to allow Harold Ickes to have a corner on brainless ideas. You certainly have put his oil and gas shortage to shame when you suggest allowing more Canadian wheat to come into this country in order to halt inflation. Have you not heard that our farmers are being fined for raising too much wheat? Let's have a shortage of propaganda and a surplus of common sense or we will all go nuts before we can vote you "brain trusters" out of office in 1944.

Robert N. Carson, Davenport, Iowa. We know that International Bankers are behind the war hysteria being created to get the U. S. into the war. President Roosevelt has time and again stated: "We have nothing to fear but fear itself." He and his followers are engaged in promoting fear. Writer present at Centennial in Philadelphia in 1876 when Americanism was at its peak.

Unsigned. Father Coughlin, please note, saw this five years ago. He knew more about this country than anyone in Washington. All he ever said is coming true. You see things when too late. He was years ahead of you.

Philip Lant, Richmond Hill, N. Y. I get a big laugh out of some of you wise men in the new deal. When I went to school I read that Benedict was a traitor. Now I find out he was only a con man. He sold England something they never got. Today our would be Lords are paying the same for the tea that was thrown in the Boston harbor. Wife died in February of this year, can I deduct funeral expenses from my income tax return? (Protests payment of \$35 an ounce for gold.)

Harry Scott Holland, Beloit, Wisconsin. You have built up an inflationary condition. The New Deal has loaded our banks and insurance companies with Government bonds, and have kept this up for 8 years. The popular cry is defense, which in my humble opinion is the proverbial herring being dragged across the rotten trail left by approximately \$45 billions of debt. The so-called Administration in Washington would have had to meet the \$45 or \$50 billion debt situation created by them anyway, but the war has been a wonderful alibi.

A Loyal Citizen, Brooklyn, N. Y. Read your article in the Times regarding inflation. Thank God you are not going to let prices go up.

Minor E. Sutter, Pass Christian, Miss. I am writing this letter to voice my praise of your firm, courageous stand against the rapacious gentlemen that constitute the so-called "Farm Bloc". To millions of American citizens who are aware of the frightful danger of inflation that overhangs the nation, you have become our hope that this catastrophe can be avoided. We are encouraged in this hope by the belief that you are a patriot rather than a politician; an American rather than a Democrat; a wise, just man rather than a theorist and a reformer at any price. May time prove us right in our faith in you, and may God help you in your fight for America!

Martin Monti, St. Louis, Mo. (Encloses headline "Morgenthau warns U. S. must curb inflation.") Is not the enclosed statement an admission that the New Deal is an absolute failure, financially, economically and internationally? What is the loss on our purchases of foreign gold the past 8 years, and what are we going to do with the gold we now have?

Mrs. Frances H. Ott, Los Angeles, Calif. I heard your speech on inflation Sept. 9th, and approve. The cause of inflation is the constantly increasing of the too-high industrial wages. The demand of these workers, most of them aliens, many of them ex-convicts, is a menace to the country. There is so much talk of putting a ceiling on prices. Why not on wages?

Rudolph E. Reichert, President, Ann Arbor Savings and Commercial Bank, Ann Arbor, Mich. I read with a great deal of interest your statements contained in an address before the Advertising Club of Boston. I want to compliment you upon advocating that business and labor place upon itself a ceiling on wages and profits. I think if this can be voluntarily done, it would be a great asset to keeping a balanced economy and I think that in cases of emergency, the government should even be empowered, along with its taxing power, to place a ceiling on wages and profits in order to keep a balanced economy. With it we should also have forced savings and control of consumer credit. Otherwise, it is obvious that during an expansion program or war economy, inflation can take root to the detriment of our whole society and dislodge and upset a sound

- 7 -

economic program. (Also praises Defense Bond campaign and H&Jr's stand on taxation.)

Clinton Logan, Albertville, Ala. I take the liberty of addressing you on the subject of Federal Raw Cotton Stocks because of your public utterances in which I heartily concur. Indications are now for a cotton crop which will total less than domestic consumption; freezing of Government owned cotton would appear unwise, under the circumstances, but, wholesale "dumping" should not be considered. An orderly distribution of a portion of the Federal cotton giving small dealers and consumers an equal chance with their larger and more powerful competitors would doubtless prove a satisfactory solution, if it can be done without disturbing price levels to the detriment of the producer. (Outlines his idea and past experience.) Perhaps it would not be amiss to recall that when you were in the Department of Agriculture, during the early thirties, I made an application to your department and our mutual friend, Mr. Sidney Wolff of New York, telephoned you in my behalf. Mrs. Wolff is an old friend of Texas days.

J. E. Bail, Secretary, Associated Tile Contractors, Los Angeles, Calif. We have read with a great deal of interest your remarks before the advertising group of Boston, pertaining to inflation. We enclose a copy of our monthly bulletin, T.A.B., which is distributed to approximately one thousand sub-contractors in the tile business, and we direct your attention to the subject of "Higher Wages". We feel sure that it will serve as a means of creating better cooperation, which you have so rightfully stated is so vital to our country's safety. We can assure you that as an industry we are making every effort to publicize and bring into practice such methods and ideas for the benefit and welfare of our national existence.

E. R. Hubbard, San Francisco, Calif. I have been watching for some time with increasing interest the efforts of the representatives of the Government to check rising prices, thereby hoping to minimize inflation. It goes without argument to say that this is extremely advisable at this time. It appears to the writer that something must be done immediately in the way of establishing local representatives with authority to assist in controlling prices. Otherwise, we shall soon be dashing wildly in the direction of inflation which must entail all of the disasters that naturally must finally follow.

Frederick A. Thompson, Black River Falls, Wisconsin. (Summarizes price rises, etc.) Now as we have our Armies trained, go after Hitler. Don't let him tell our beloved President of our U.S.A. he is a liar, as I heard over my radio yesterday.

H. E. Clark, The Cramer-Krasselt Co. (Advertising), Milwaukee, Wis. On Sept. 9th you delivered an address before the Boston Advertising Club, which was broadcast over the Columbia Network. The Massey-Harris Co. of Racine, Wis., manufacturers of farm implements, our client, would like permission to reproduce the address in whole or in part, and we would like to receive your authorization to do so.

Professor Irving Fisher, New Haven, Conn. You can scarcely realize how much satisfaction I got from reading your Boston address. I think this is the first time that anyone except F.D.R. of Cabinet rank has given this subject the attention it deserves. After a lifetime of effort, I was beginning to feel the characteristic disappointment of impatient and aging idealists at the meager results of big movements.

John L. Lukantiel, Chicago, Ill. Your recent talk on inflation and its possible controls was very interesting; first because of your calmness and depth of delivery, which clearly indicated your sincerity; second, because indirectly and not expressed, it tended to show you fully understood, but did not care to express your genuine feelings of what is going on; and third, your appeal to the masses for cooperation, which proved you knew the question and only method of control was psychological. In my mind the question is nearly 100% psychological and can only be handled in that way. It is in my mind quite simple to get close to 100% support of all our good Americans, provided you have a cause which can honestly and sincerely be explained to us and based on sentiment expressed all around me, at home and elsewhere, this cause can only be self defense of our nation and preparation for the worst conceivable coalition of European Powers, excluding some.

Roy G. Blakely, University of Minnesota, Minneapolis. Last night we heard over the radio your very courageous and forthright address on inflation before the Boston Advertising Club. We think this section of the country, in fact, perhaps every section, needs a similar presentation of such facts. We fear that most of our various groups are thinking too much of their own special class interests and too little of the common good and are not awake to the seriousness of the emergency before us, both for defense and for post defense (or for post war).

John J. Taggart, Denver, Colo. Last evening I listened to your talk on inflation and would like to tell you what a lift I got from it. To me it was the most reasoned, temperate and understandable expression yet given by a public official. My hope is that public opinion will force Congress to pass legislation to put such a plan into effect.

Daniel Van Dusen, Lumber Products and Building Materials, Corning, N. Y. I read in the paper a short time ago that you advised if we did not curtail expenditures, it certainly would cause inflation. I was very glad to see this article, but could not help but think that if you and hundreds of others in authority in Washington had thought of this several years ago, we would not be in this shape today.

William E. Ponder, Confectionery & Fountain Supplies, Baltimore, Md. I was interested in your Boston speech but feel the responsibility for inflation rests with President Roosevelt, Vice President Wallace and yourself more than with Congress. The situation is certainly very serious and seems to result to a good extent from uncontrolled spending and borrowing for unnecessary purposes; the tremendous number of strikes with almost invariable wage increases and constantly recurring ideas for increasing the farmers' income.

Anonymous Postal Card - Your remarks about "inflation" noted by me and by the public at large, no doubt. The inequalities which the ten-year Roosevelt depression in securities produce are more apparent now than ever, with mounting living costs and shrinking net worth of many millions of people in the middle brackets.

Pen Peterson, Los Angeles, Calif. If you are an honest man (honest with yourself) instead of preaching about inflation, you will get your big boss, FDR, to stop laborers' wage demands now. You can't stop prices without it. What we need is a few men with courage to talk and act with FDR.

Chas. A. Kuitin, Seattle, Wash. We will appreciate to receive a copy of your informing and constructive address on "Combating Inflation".

R. S. Stephenson, The Union Central Life Insurance Co., San Francisco, Calif. Please pardon my informality, but I can't resist telling you how much I enjoyed your speech. Anyone with any sense at all can now answer the alibi, "How about inflation?" by saying, "Did you hear Mr. Morgenthau on that subject?". If there are any extra copies, I'd greatly appreciate one.

Mrs. Elizabeth Kinney, Yarnell Heights, Arizona. Why should you ask for inflation - haven't we enough to pay out now, and let me tell you, we are getting mighty tired of sending this money to England. Let them take care of themselves. * * * This is not our war - no one did anything to us. We are paying double prices for everything. You make it much harder for the working people. Let me tell you right now, the laboring man is worth every cent he gets.

Elias Lustic, Adam Hat Stores, New York City. After hearing your inspiring speech in Boston on the necessity of owning U. S. Defense Bonds and Stamps, Adam Hats is resolved, as an organization, to dedicate its energy and resources to further the patriotic ideal led by you.

Harry B. Fischer, New York City. I have read with a great deal of interest your address given in Boston last night before the Advertising Club, together with the newspaper comments thereon. May I take the liberty of expressing my opinion? The conclusions reached are no doubt correct. You state that "my hope and belief is that no group among us, whether farmers, working men, or business men, shall be tempted by the illusion of selfish gain in allowing prices to rise unchecked". I wish to emphasize that the individual farmer, working man or business man is faced with immediate requirements which unfortunately in practice must and do take a direction often counter to the best interests of these individuals as a whole.

J. S. Turley, Anchor Coal Company, St. Louis, Mo. The writer has just read an item in our St. Louis papers of a talk you made regarding inflation. While I am not fully advised just what is meant by inflation, nor am I fully advised how far or how near we are to inflation, but if paying 45¢ a pound for pork chops and 39¢ a dozen for eggs and like prices for food and necessities of life is inflation, I take it that it is not far off, or around the corner, but in our midst.

Rev. Charles Elrey, Portland, Oregon. Have just listened with great interest to your splendid address from Washington. Subject - "Inflation". (Expresses his ideas on the subject.) How I wish you success! How I appreciated your splendid address.

Henry P. Benson, Boston, Mass. One of your chief worries these days must be the probable inflation arising from the higher prices of commodities and labor. It seems to me that the effort to put ceilings on manufactured products is useless unless ceilings are also put on labor and raw materials which make up the cost of production. Government cotton should be put on the market gradually in an orderly manner and the people informed of the details. If eighteen or twenty cent cotton prevails, the acreage planted in the next crop will be uncontrollable.

Frank H. Meloon, Boston News Bureau, Boston, Mass. I thought you might like to have my editorial approving what you said here in Boston. I hope the columnists who say its advice will not be followed -- meaning the advice of your address -- will stand confounded very soon.

Fred Lazarus, Jr., Columbus, Ohio. I heard, with a great deal of interest and pleasure, your radio speech regarding inflation. To me it seemed the most courageous and direct handling of the subject that has been attempted by any member of the Administration. I trust that you will be successful in accomplishing your recommendations. If our retail group can be at all helpful in so doing, I trust that you will call upon us.

L. M. Dill, Demarest, N. J. Your New England speech on the dangers of inflation echoes my sentiments. It was a delightful speech. How about more of them. They are surely needed.

Miss Gertrude Hor, and R. J. Horn, Alton, Ill. We wish to express our hearty approval of your doctrine, as was made public yesterday, namely: That in order to avoid inflation, the people should spend less, save more, that the working men who are receiving good wages should not clamor for higher wages, that in order to keep down the public debt, the people should be willing to pay more taxes. This letter is in appreciation for your efforts to keep the financial condition of our Government in as stable a condition as possible during these trying times.

Mrs. S. Katherine Maddux, Chicago, Ill. I just happened to get the rebroadcast of your talk on inflation. It was an excellent talk, phrased for the understanding of most people and one that brought home to each of us our own close relation to inflation and what we can do to help the Federal Government in controlling it. It is possible that I shall wish to use excerpts from the talk in a forthcoming issue of THE ZONTIAN as I believe that the more than 150 Zonta Clubs in the U. S. can be of real help in controlling this menace.

J. A. Sorensen, Springfield, Ill. I just read synopsis of your address before the Advertising Club of Boston and found it interesting. (Ideas follow)

- 11 -

Leland F. Marsh, Scranton, Pa. I read with a good deal of interest your news release regarding the public to spend less and save more to save danger of inflation. Don't you think that the U. S. Government, whom you represent, should practice what you preach? For illustration: The City of Scranton has lost in population, since 1930, over 15,000 people. There are over a thousand homes vacant, not including apartments and flats. People are and have been moving from Scranton by the hundreds due to our not having defense plants and the coal mines playing out in this region, but despite all of this, the U. S. Government is going ahead with a Housing Project costing one and a quarter million dollars. The taxpayers of this region fought this project, but to no avail.

George M. Craig, Port Arthur, Tex. I became much interested in reading your speech made in Boston yesterday until I read down to where you said, "It is bad banking, in the long run, for any banker to exploit the present demand for funds by seeing to charge unreasonable interest rates". When I read this, I lost interest in all you said, for if your other statements were so out of line as this one, it destroyed all the advice you gave. It is known by all borrowers and lenders that there has never been a time in the memory of man when interest rates were lower and loans harder to get than the present. We are buying Treasury paper yielding from one-half of one per cent to one per cent in order to keep our money working, and yet we have over half of our deposits idle. You should know this is true of all banks.

Richard S. Robie, Cambridge, Mass. I read with a great deal of interest your talk on inflation given before the Advertising Club of Boston yesterday. I think it one of the most straightforward talks on the consequences of inflation that I have heard. If your talk is reprinted I would appreciate, if possible, receiving two hundred copies which we will have distributed to the employees of our company. (U-Dryvit Auto Rental Co.)

Daniel Bloomfield, Director, Boston Conference on Distribution. I want to tell you how much I enjoyed listening to your excellent speech last night. It was a direct and instructive message which, I am sure, will do much good.

(This covers correspondence received up to and including the first mail on Monday morning, September 15th.)

(Comments Received After the First Mail on Monday, September 15th)

Abram I. Elkus, New York City. My heartiest felicitations on your recent address before the Boston Advisory Club on the perils of inflation. It was a notable address, well worthy of you and unlike many addresses it contains many constructive suggestions. It hits upon the key for the best control of inflation by using surplus commodities and encouraging unlimited crop production. You correctly advocate the use of these surpluses and farm products. You delivered a noteworthy address. It was courageous and I congratulate you upon it. Your mother and father must indeed be proud of you.

Paul T. Beardley, Sloan, Iowa. This morning's press reports you advocate importation of one-half billion bushels of Canadian wheat to break the domestic wheat price. Such a statement, accredited to you, is unbelievable. (Gives ideas and figures in support of his views.) We must produce at a profit price to maintain our capital economy, and to provide a large base of national income from which sufficient federal revenues can be collected.

Mrs. A. Harvey, Englewood, N. J. It has been heartening to read that there is at least one member of the Cabinet who has a sane attitude toward the matter of releasing some of the stores we have been piling up, and of course keeping from the consumer. Cotton is one of the things the ordinary housewife finds it most difficult to purchase, particularly when her income is low. I note by your address before the Boston Advertising Club that it is now seven million bales. I am writing Secretary Wickard to ask him if there is no way whereby a person could get some cotton goods at a reasonable price. I now pay twenty-five cents a pair for very cheap cotton stockings at Woolworth's chain store. It all seems highly ridiculous. I trust your influence may prevail, and that a saner policy may be adopted.

Robert B. Burton, Barrington, R. I. It gave me great pleasure to read in the Herald-Tribune a report of your address at Boston this week, in which you stated your views on the advisability of releasing the stored stocks of cotton, grain, etc., held by our Government. I am much gratified to see that at least one of our high Administration officials has the courage to handle this subject without gloves, and to state his views with clearness of thought. Mr. Secretary, you "hit the nail on the head", and I trust that you have driven a wedge which will result in doing just what you recommend. I fully appreciate, Mr. Secretary, your clearness in thoughts from time to time so expressed, and your quantity of common sense exhibited.

Honorable John J. Cochran, House of Representatives. I am enclosing a very nice editorial published in the St. Louis Post-Dispatch of September 11th, relative to your speech at Boston, which I thought you would like to read.

- 13 -

James H. Sheppard, Grand Rapids, Mich. Having written you two or three days ago a letter in which I was compelled to differ with your conclusions regarding the impact of taxes upon the ability of benevolent and charitable institutions to sustain themselves, it is a pleasure to tell you how much I enjoyed reading the admirable speech of Mr. Morgenthau before the Boston Advertising Club. All of the measures advocated by Mr. Morgenthau should meet with the complete approval of all those who are aware of the necessity of combating an inflationary rise in prices. Mr. Morgenthau did not claim that the measures which he advocated would alone be sufficient, and I think he was right in this. Both economic and financial means must be taken. Mr. Morgenthau is particularly to be thanked for bringing out into the open the question of the agricultural surpluses. It is certainly an insane policy to try to combat a rise in the cost of living without feeding these surpluses into the market, and the attitude of some agricultural members of Congress in this respect is completely indefensible. (Letter to Mr. Kuhn - a previous "protester".)

Confidential until 3 PM Sept 15th 17

Estimated revenue effect ^{1/} of the Revenue Bill of 1941 (H.R. 5417) as agreed upon in Conference September 11, 1941

(in millions of dollars)

	Estimated increase (+) or decrease (-) over yield of:		Estimated increase or decrease (-) over yield of percent law
	House Bill	Senate Bill	
Income taxes:			
Corporation:			
Normal tax	+ 26.8	+ 7.8	493.3
Surtax	+ 118.4	- 2.1	763.1
Excess profits tax	- 86.0	- 18.3	1,112.1
Total corporation income taxes	+ 59.2	- 12.6	1,382.1
Individual	+ 279.8	- 4.1	1,144.6
Total income taxes	+ 339.0	- 16.7	2,526.7
Miscellaneous internal revenues:			
Capital stock tax	0	+ 38.4	22.3
Estate tax	+ 5.7	0	341.6
Gift tax	0	0	16.0
Total	+ 5.7	+ 38.4	379.9
Manufacturers' and retailers' excise taxes:			
Distilled spirits	+ .7	+ 5.0	123.0 2/
Wines	+ 5.4	- 4.0	10.4 2/
Passenger automobiles, parts and accessories	0	0	72.2
Automobile trucks, busses and trailers	0	0	16.1
Tires and tubes	0	0	44.6 2/
Refrigerators, refrigerating apparatus and air-conditioners	0	0	16.6
Matches	0	0	8.2 2/
Playing cards	0	0	1.0
Radio receiving sets and parts	0	0	9.4
Photographs and phonograph records	0	0	4.5
Musical instruments	0	+ .3	3.6
Sporting goods	0	0	8.5
Luggage	0	0	4.5
Electric, gas, and oil appliances	+ 19.2	0	31.8
Photographic apparatus	- .1	0	9.9
Electric signs	0	0	2.7
Business and store machines	0	0	13.0
Rubber articles	0	0	21.3
Washing machines	0	- 5.3	.4
Optical equipment	0	0	.3
Soft drinks	- 22.6	0	0
Electric light bulbs	+ 4.0	+ 4.0	4.0
Jewelry, etc.	+ 3.5	+ 16.6	52.7
Furs	0	0	20.7
Toilet preparations	0	0	19.7
Total manufacturers' and retailers' excise taxes	+ 3.1	+ 8.6	493.1
Miscellaneous taxes:			
Admission	+ 2.4	+ 16.2	62.4
Cigaretts, roof gardens, etc.	0	0	2.0
Club dues	0	0	2.8
Safe deposit boxes	0	0	1.7
Telephone, telegraph, radio and cable facilities, leased wires, etc.	- 1.7	+ .6	24.9
Telephone bill	+ 8.7	- 34.9	52.3
Transportation of persons	- 1.0	0	35.5
Use of motor vehicles and boats	0	0	160.2
Bowling alleys and billiard and pool tables	- .7	0	1.3
Coin-operated amusement and gaming devices	- 4.3	0	4.6
Radio broadcasting	- 12.5	0	0
Outdoor advertising	- 1.7	0	0
Total miscellaneous taxes	- 10.8	- 18.1	347.7
Total excise and miscellaneous taxes ...	- 7.7	- 9.5	546.8
Total miscellaneous internal revenue ..	- 2.0	+ 28.9	1,026.7
Total	+ 337.0	+ 12.2	3,553.4

Treasury Department, Division of Research and Statistics.

September 11, 1941.

- 1/ Tentative. All estimates show full year effect. Estimates for corporation and individual income taxes and the gift tax are based on levels of income estimated for calendar year 1941; all other estimates are based on income levels estimated for fiscal year 1942.
- 2/ Excluding nonrecurring floor stocks taxes -- distilled spirits \$38.0 millions; wines \$2.1 millions; tires and tubes \$6.7 millions; matches \$.7 million.

TREASURY DEPARTMENT

18

INTER-OFFICE COMMUNICATION

DATE September 15, 1941

TO Secretary Morgenthau
FROM Mr. Foley

At the suggestion of the State Department, Josiah DuBois of my office, and John Hooker of the State Department have left for countries in the Central American and Caribbean area to assist the American Missions at those places in working out a satisfactory program, in connection with the black list and freezing control. It is expected that the job will take from two to three months.

In these countries certain firms, whose names appear on the black list, occupy an important place in the economic life of such countries. The problem arises as to how to deal effectively with the operation of such firms so as not to disrupt the national economy. Costa Rica and Guatemala had already submitted, through our Legations, certain proposals for dealing with this problem and our Legation in Haiti advises that Haiti has recently enacted a law freezing the assets of the firms on the black list.

I believe that DuBois and Hooker can do a worthwhile job in assisting the Missions and through them perhaps the local governments in working out a satisfactory program to deal with this situation.

S. H. F. L.

TREASURY DEPARTMENT

19 ✓

INTER-OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau

September 15, 1941

FROM E. H. Foley, Jr.

Attached is a reply which I wrote to Vice-President Wallace at the direction of the Foreign Funds Control Committee with regard to the application of the Standard Oil Company of New Jersey to sell its properties in Hungary to Germany for about \$24,000,000. The Standard Oil people had written to the Vice-President about the matter.

E.H.F.

Attachment

SEP 15 1941

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My dear Mr. Vice President:

Reference is made to your letter of August 23, 1941, to the Honorable Sumner Welles, Under Secretary of State, enclosing a letter from Mr. Orville Harden of the Standard Oil Company of New Jersey, which was referred to me as Chairman of the Interdepartmental Committee on Foreign Funds Control.

The Foreign Funds Control Committee, consisting of representatives of State, Treasury and Justice Departments, gave careful consideration to the application of the Standard Oil Company of New Jersey for a license under Executive Order No. 8389, as amended, involving the transfer of the ownership of a Hungarian corporation (MACHT) in return for \$5,500,000 in currency, a promissory note of I. G. Farbenindustrie for \$5,000,000, and = \$13,500,000 in gold, to be delivered in Lisbon, Portugal.

In view of all the facts and circumstances, it was found that the approval of the application would not have been in accordance with the policy of this Government in administering Executive Order No. 8389, as amended. Accordingly, the application was denied.

A tentative draft of a confidential memorandum of the basic policy in cases of this type has been prepared but has not been made public and is enclosed for your own confidential information.

Sincerely yours,

(Signed) H. H. Foley, Jr.

Acting Secretary of the Treasury.

The Vice President,
United States Senate.

Enclosure.

JJL:EBH:ard - 9/15/41

Mr. Vice President:

This is a draft of a proposed letter which you may wish to use in replying to Mr. Harden.

Dear Sir:

Reference is made to your letter of August 19, 1941, enclosing a copy of a memorandum concerning a proposed transaction disposing of your oil producing property in Hungary and a copy of your application to the Treasury Department for a license for that transaction.

The proposed transaction was again carefully examined in the light of your memorandum by the Foreign Funds Control Committee, consisting of representatives of State, Treasury and Justice Departments, which has jurisdiction of such problems. The Committee, after this reconsideration, came to the conclusion that in view of all the facts and circumstances the approval of the application would not be in accordance with the policy of the Government in administering Executive Order No. 8389, as amended.

Sincerely yours,

Vice President of the United States.

Mr. Orville Harden,
Standard Oil Company,
Rockefeller Center,
New York City.

JJL:flw 9/14/41

STRICTLY CONFIDENTIAL

A TENTATIVE DRAFT OF POLICY
WITH RESPECT TO THE SALE OF AMERICAN-OWNED
PROPERTY IN GERMANY, ITALY, OR COUNTRIES
OCCUPIED BY THEM.

1. For the guidance of Foreign Funds Control, the State, Treasury and Justice Departments have approved the principle that American-owned property in Germany or German-controlled countries should not be sold for payment out of accounts blocked in the United States belonging to nationals of Germany or the occupied countries. This principle was adopted for several reasons.

It was felt that such sales would result in the disposal of blocked assets in favor of particular investors or creditors in the United States, who would thus enjoy a preferred status with respect to such blocked assets to the detriment of other claimants. The policy of first come, first served, with respect to the disposition of such assets, would not be desirable; but this is not a true first come, first served, situation. Due to its rigid control over the owners of the blocked assets the German Government would be effectively dictating which interests in the United States should be paid in full and which interests should receive partial payment, or no payment at all.

With respect to the use of blocked assets of occupied countries in these transactions, there is always the possibility of duress, with the result that the blocked assets which Foreign Funds Control seeks

- 2 -

to protect would be used to facilitate German acquisition of ownership of European industries or properties under a cloak of legality. It was felt also that even in cases in which the initiative appeared to come from groups in occupied countries who were apparently acting in their own interests and free from duress, the proposed transactions might nevertheless be on behalf of German interests and inimical to the interests of the United States.

Usually the physical evidences of title are located in this country and the proposed transaction contemplates the removal of these physical evidences to some other country where they will no longer be readily amenable to our control.

2. When the parties interested in purchasing American holdings in Germany and the occupied countries became aware that Foreign Funds Control would not permit such purchases out of blocked accounts in the United States, they turned to the use of gold or other assets looted from occupied countries and held physically outside of the United States. Illustrative of this development was a proposal that German interests purchase American properties in Europe for gold which was to be delivered in Lisbon. It seemed clear that this proposal represented an attempt by the Germans to use assets for which, under existing conditions, they had little other use, to acquire "clean" title to American-owned property in Germany and the occupied countries. This proposal also involved an

attempt to obtain American support for a breach of the British blockade, through the transportation of the gold to this country. It would, moreover, have involved the purchase by the United States Government of gold the title to which was not "clean". Even though the gold offered in any particular transaction may have been acquired in normal commercial channels, it must always be borne in mind that transactions involving such gold are inextricably intertwined with transactions involving other assets acquired by conquest or duress.

3. More recently proposals to acquire American-owned properties in Germany or occupied countries have turned from the use of gold to the use of the currencies or foreign exchange of neutral countries, both European and South American. As in the case of gold, the Germans have been attempting to use looted assets which otherwise have little present value to them. The probable origin of these assets is indicated by the fact that it was in the late summer and early autumn of 1940 that the Germans suddenly initiated large-scale purchases of American holdings. In one instance American sellers of properties in Germany have indicated that their proposals were suggested to the Germans prior to the fall of France and were rejected by the Germans at that time—presumably because of the German shortage of foreign exchange—whereas the Germans on their own initiative recently reopened negotiations on this transaction.

4. Most recently---after it had been indicated that Foreign Funds Control would reject the use of blocked dollar assets, gold, or foreign exchange held openly in German names for the purchase of American-owned property in Germany and the occupied countries--the Germans have apparently begun to use as go-betweens the financial institutions of neutral countries, allegedly acting on their own behalf. In one transaction for which approval was recently denied, certain interests in a neutral country would have acquired majority ownership of important industrial properties in German-occupied territory. In spite of the fact, confirmed by the applicants themselves, that the German Government was in complete control of the properties, these interests were willing to make loans and purchase securities to an amount which seemed out of all proportion to past earnings and probable economic gains from mere ownership of the property in question. The suspicion was, therefore, deemed to be well founded that the interests which put forward the proposal, either on their own initiative or in collusion with German interests, contemplated the subsequent disposal of the assets to German interests. It was thought unwise that Foreign Funds Control should permit actions through a neutral cloak which would not be permitted if they were undertaken openly on German account.

5. The same principles which apply to Germany and German-occupied countries should, of course, be applied to Italy and Italian-

occupied countries. The application of these principles to other Axis countries will depend on the extent to which these countries follow the German and Italian models in economic affairs.

It is believed that the principles set forth in this memorandum represent a logical interpretation of the provisions of Executive Order No. 8389, as amended. Any other interpretation would result in a discrimination between American owners of assets under Axis control, the delegation to the Axis Governments of the power to make discriminatory concessions to favored American interests, and the use of American commercial channels in disposing of looted property.

September 15, 1941.

DEPARTMENT OF STATE
WASHINGTON

August 28, 1941

My dear Mr. Foley:

Enclosed you will find a copy of a letter sent to me by Vice President Henry A. Wallace transmitting a communication from Orville Harden, Vice President of the Standard Oil Company of New Jersey. I understand that the action of the Department of the Treasury, referred to in Mr. Harden's letter, was based upon the recommendations of the Interdepartmental Committee on Foreign Funds Control. I am, therefore, transmitting to you the letter from Vice President Wallace, together with its enclosures, in order that the Interdepartmental Committee on Foreign Funds Control may reply. Vice President Wallace has been advised of this reference.

Sincerely yours,

W. A. Ruggles
Under Secretary

Enclosure:

From Vice President Wallace,
August 23, 1941, with
enclosures.

Edward H. Foley, Jr., Esquire,
Chairman, Interdepartmental
Committee on Foreign Funds Control,
Treasury Department,
Washington, D. C.

OFFICE OF THE VICE PRESIDENT
Washington

August 22, 1941

Honorable Edward G. Collins
Under Secretary of State

Dear Senator:

I would appreciate getting a memorandum from
the State Department with regard to the problem posed
by Mr. Charles Nathan, Vice President of the Standard
Oil Company of New Jersey.

Sincerely yours,

WALTER A. WALLACE

Enclosure

It has been our intention to provide a more complete
coverage of the purchase of all remaining shares of the
company. In addition, the sale to the British Government
for a further 100,000 shares, the only one that has not been
made, your Committee is advised that international
conferences, arrangements for creating a market and
other matters, as well as the international
nature, we are reviewing the situation with the
approval of the Treasury. We believe a committee will
expedite the proposed transaction as well as any other
steps to be taken.

The sale of the shares of the company to the
British Government will be made at a price of
10/- per share. The sale to the British Government
for a further 100,000 shares, the only one that has not
been made, your Committee is advised that international
conferences, arrangements for creating a market and
other matters, as well as the international
nature, we are reviewing the situation with the
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other matters, as well as the international
nature, we are reviewing the situation with the
approval of the Treasury. We believe a committee will
expedite the proposed transaction as well as any other
steps to be taken.

If you have any other matter of our concern, shall be glad to
hear from you. In closing, this matter further if you are
in a position to furnish any additional information which you may wish.

Very truly yours,

Arthur Hurd

Enclosure (2)

CONFIDENTIAL

Several months ago the I. G. Farbenindustrie AG, of Germany, inquired over the telephone whether we would be interested in selling our petroleum property in Hungary. This property which produced in 1940 1,025,000 barrels of oil is owned by a Hungarian Corporation (MAKOT) which is in turn 100% owned by the European Gas & Electric Company, an American corporation, subsidiary of Standard Oil Company (New Jersey) with a minority interest. After referring the matter to the State Department, we told I.G. that we would be willing to discuss the question with them, and they stated they would send a representative to New York for the purpose. Their representative Dr. FORTIN proceeded to Rio de Janeiro but was unable to get a visa to visit the United States. Dr. FORTIN Vice President of our company went to Rio for the purpose of ascertaining what proposal would be made.

The last offer from the I.G. Farbenindustrie, which from our standpoint is highly acceptable, was to buy all of the shares issued by MAKOT and to pay as follows:

- 1. 50% probably mostly German coin \$11,500,000
 - 2. Delivery to be taken by us in Lisbon, Portugal; the gold to be purchased by I.G. from the Reichsbank, Berlin, and to come from within Germany.
 - 3. SWISS FRANCS and/or CENTRAL or SOUTH AMERICAN CURRENCIES 5,000,000
- The Swedish and Swiss Francs are held by large Swedish and Swiss banks. The Central and South American currencies will be on deposit in banks in several countries.
- 4. PROMISSORY NOTE OF I. G. FARBENINDUSTRIE 5,000,000
- This promissory note will be payable in U.S. dollars with interest three months after the end of the war and will require the full payment of the instrument will be guaranteed by collateral represented by the American holdings and assets of the I.G. Farbenindustrie.

21,500,000.

It will be noted the foregoing represents a total of \$21,500,000. We would like promptly. We understand that the Treasury would not be able to accept gold delivered in Portugal but we would endeavor to arrange for shipment of gold to New York by steamer and if the sale of our petroleum property were approved by the United States Government in principle, then we would expect to be invited to establish a pavilion from the British Government

The offer outlined above was received by the Secretary of the Treasury Department under date of July 20, 1942, and on August 1, 1942, he received a reply from Mr. Tolson, as follows:

Received your letter of July 15, 1942, and with reference to the application filed by the General Electric Company, No. 24000, to transfer the property of the General Electric Company, No. 24000, to the General Electric Company, No. 24000.

It is noted that the application of the General Electric Company, No. 24000, to transfer the property of the General Electric Company, No. 24000, to the General Electric Company, No. 24000, is being considered by the Secretary of the Treasury Department. The sale of the General Electric property would be subject to the following conditions:

1. The German domination over Hungary and the interests therein by which Germany if and when needed, regardless of circumstances.
2. If Germany needs the Hungarian oil, the rights of the oil fields on the basis of producing the maximum amount of oil over the shortest possible time, at whatever price the oil fields would have relatively high value.
3. In the event of the war ending fairly soon the amount of oil which would not be in position to produce or produce being taken out so that from the standpoint of the American stockholders it is essential to visualize that the amount of oil would be retained from our supplies to the extent that it is necessary to meet the needs of the American people.

The Secretary would not consider any other conditions which might be attached to the transfer of the property. However, the premise is accepted that Germany will need the oil fields if and when needed, that it seems to be that the oil fields should be to the extent of whatever assets we may be able to realize from the sale of the property. This premise was accepted by the Secretary of the Treasury Department.

Division of Economic Warfare, Department of the Treasury, Washington, D. C.

APPLICATION FOR A LICENSE TO ENGAGE IN A FOREIGN EXCHANGE TRANSACTION, TRANSFER OF CREDIT, PAYMENT, EXPORT OR WITHDRAWAL FROM THE UNITED STATES, OR THE EARMARKING, OF GOLD OR SILVER COIN OR BULLION OR CURRENCY, OR THE TRANSFER, WITHDRAWAL, OR EXPORTATION OF, OR DEALING IN, EVIDENCES OF INDEBTEDNESS OR EVIDENCES OF OWNERSHIP OF PROPERTY.

to be executed and filed in triplicate with the Federal Reserve Bank for the district or with the Governor or the Commissioner of the territory or possession of the United States in which the applicant resides or has his principal place of business or principal office or agency. If the applicant has no legal residence or principal place of business or principal office or agency in a Federal Reserve district or such territory or possession the application should be filed with the Federal Reserve Bank of New York.)

EUROPEAN GAS & ELECTRIC CO. / Z
Washington, D. C.

COPY

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In accordance with Executive Order No. 6560 of January 15, 1934, as amended, relative to transactions in foreign exchange, transfers of credit, and the export of coin and currency, and the regulations issued thereunder, the undersigned hereby applies for a license to execute the transaction described below:

A. The name of the applicant is EUROPEAN GAS & ELECTRIC COMPANY (Incorporated in Delaware) the applicant's residence or principal place of business is located at

30 Rockefeller Plaza New York New York

and the citizenship* of the applicant is United States of America

B. The applicant has since 1931 been engaged in the business of

PETROLEUM (State nature of business.)

C. The applicant desires a license in order to:
(State in detail the nature, purpose and amount of the transaction, and the name, address, nationality* and extent of interest of every party, including the applicant, involved or interested in the transaction.)

* In the case of a corporation give country of incorporation, countries in which corporation is doing business and also profession or citizenship of stockholders.

sell and transfer to I. G. Farbenindustrie A. G., Frankfurt on Main, Germany, all shares issued by Magyar Amerikai Gajipari R.T., a Hungarian entity, Budapest, Hungary, owned 100% by European Gas & Electric Co. The present number of shares issued and outstanding is 17,857 having a par value of 1,000 pengos each. A stock dividend was authorized at the General Meeting held May 1, 1941 to increase the capitalization to 25,000 shares but government approval is required for the increase and we have not been informed whether this has been obtained.

accept in payment for the above shares the following:

GOLD, mostly German coin \$ 15,000,000.00

Delivery to be taken by us in Lisbon, Portugal; the gold to be purchased by I. G. from the Reichsbank, Berlin, and to come from within Germany.

SEVERAL CROWN, SWISS FRANCES and/or CENTRAL or SOUTH AMERICAN CURRENCIES . . \$ 5,000,000.00

Swedish and Swiss funds are held by large Swedish and Swiss banks. Central and South American currencies will be on deposit in banks several countries.

PROMISSORY NOTE OF I. G. FARBENINDUSTRIE \$ 5,000,000.00

promissory note will be payable in U.S. dollars with interest three months after the end of the war and will reside that due payment of the principal will be guaranteed by collateral represented by the American claims and assets of the I. G. Farbenindustrie.

\$ 25,000,000.00

(Return reverse side)

Applicant's No.

DUPLICATE

HUNGARY

E.G. & E. Co.

sell the gold to the U.S. Treasury, sell the foreign currencies for U.S. dollars and collect U.S. dollars for the promissory note with interest after the end of the war, or sell or dispose of the relative collateral to satisfy the note.

The applicant represents and warrants that no party other than those mentioned in item C above has any special, direct or indirect, in the transaction or transactions for which a license is applied for herein. If there are any exceptions, note them below.

The applicant represents and warrants that all the facts herein stated are correct and true and that he does not have knowledge of any material facts in connection with such application which are not fully and accurately set forth herein. (Attach hereto schedules of any additional material information.)

The applicant represents and warrants that he has complied, and agrees that he will comply, in all respects, with the Executive Order No. 6140 of January 15, 1934, as amended, and the regulations issued thereunder, and with any and all licenses issued to the applicant pursuant thereto, and that, with respect to the transaction here licensed, no other application of the substance of a license has been filed or is pending.

EUROPEAN GAS & ELECTRIC COMPANY

By **E. F. Schmitt**
Assistant Treasurer

State of **NEW YORK**
County of **NEW YORK**

United States

COPY

I, **E. F. Schmitt**, do hereby depose and say that I am the applicant in the above application for license, or the **Assistant Treasurer** of **EUROPEAN GAS & ELECTRIC COMPANY**.

of **EUROPEAN GAS & ELECTRIC COMPANY**, which is the applicant in the above application for a license; that I am duly authorized to make the foregoing application on behalf of the applicant; that I have personal knowledge of the facts as set forth in said application, and know the same to be true and accurate; and that I do not have knowledge of any material facts in connection with such application which are not fully and accurately set forth herein.

Witness my hand and seal of office at **West Orange, N. J.**, this **30th** day of **May**, 194**1**.

Subscribed and sworn to before me this **30th** day of **May**, 194**1**.
(Notarial Seal) **Robert Petersen**

RECOMMENDATION OF FEDERAL RESERVE BANK

Secretary of the Treasury:
The above application is forwarded to the Secretary of the Treasury with the recommendation that a license should be issued in the following amount: **\$100,000.00** for use from within Germany.

Remarks: **100,000.00** for use from within Germany.
The above license shall be held by the applicant and shall be used for the purpose of purchasing and selling securities.
The license shall be valid for a period of **12** months.

This application covers gold in any form the amount of the Presidential Regulations issued under the Gold Reserve Act of 1934 may be credited with.
If this form may be obtained by request to any Federal Reserve Bank, subject to the approval of the Treasury Department, D. C.

TREASURY DEPARTMENT

35

INTER OFFICE COMMUNICATION

DATE September 15, 1941

TO Secretary Morgenthau
FROM Mr. White
Subject: Summary of Developments concerning the Economic
Defense Board

Unfinished Business

1. A discussion of the policy to be followed vis-a-vis Japan, raised by the Vice President as the first problem confronting the Board, is awaiting the outcome of the current negotiations with Japan.
2. The Vice President stated at the third meeting, August 27, that he would appoint a committee to secure priority for the shipment of goods for Latin America.
3. After the presentation of a preliminary report, State and Agriculture were asked at the second meeting, August 20, to study further the question of preclusive buying of French African oils.
4. Negotiations are under way in Brazil to eliminate the Italian air line to South America by denying it the use of Brazilian airport facilities.

Next Meeting

The Economic Defense Board will consider at the next meeting a report on the coffee situation prepared jointly by State and Agriculture. The memorandum states that prices of coffee rose rapidly from November 1940 to August 2, 1941. At that time, to prevent further increases, the United States import quota was raised by 20 percent. Since August 2, there has been no further price rise but the Interdepartmental Coffee Committee is continuing to watch the situation.

Material Received from the Economic Defense Board

1. "The Proposed Purchase of Peanuts, Palm Kernels, and their Products, from French Africa," (memorandum presented by Assistant Secretary of State Acheson at meeting, August 20, 1940).

No definite recommendation is made. The trend of argument indicates that no action should be taken until more information is available.

- (a) French West Africa is an important peanut, palm kernel and palm oil producer, producing 500,000 tons of peanuts, 65,000 tons of palm kernels, and 15,000 tons of palm oil a year.
- (b) Peanut oil is being used to fuel French submarines at Dakar.
- (c) The U.S. could use a large part of the peanut production. The demand for palm kernels and palm oil is not known.
- (d) Weygand suggests the U.S. take some peanut oil in place of North African olive oil. He also suggests the U.S. furnish the fuel oil necessary to transport peanut oil for North African consumption, thus releasing more olive oil for the U.S.

2. "Interim Report on the Program for the Acquisition of Strategic and Critical Materials" (memorandum presented by Assistant Secretary of State Acheson at meeting, August 20, 1941)

- (a) Very little progress has been made in the creation of stock piles because most of the materials bought have been going into consumption.
- (b) Instances of pure preclusive buying are few. However, since the Axis needs many of the same materials we do, there is incidental preclusive effect in most of the purchasing.
- (c) We have made an agreement with Brazil and one with Mexico guaranteeing the purchase of specified strategic commodities.
- (d) Negotiations are under way for the purchase of the entire Colombian platinum production, the entire tungsten output of Portugal, the 1942 Turkish output of chrome, rubber and tin from Thailand, rubber from Indo China, zinc from Spain, and cork from North Africa.

DEFENSE SAVINGS STAFF

37

REPORT OF RADIO ACTIVITY RELATIVE TO "RETAILERS FOR DEFENSE WEEK"

September 15, 1941.

A series of three interviews, two five-minute and one ten-minute, was mailed to 863 radio stations for broadcasting during "Retailers For Defense Week". The stations were asked to invite prominent local retailers to their studios and broadcast the interviews pertaining to the sale of Defense Stamps and the part being played by the retailers of America in the National Defense Program.

A series of forty-five one-minute spot announcements, for use on September 12 through 20, was sent to all radio stations. Accompanying these were sets of sixteen twenty-five-word announcements and shorter spot announcements.

Station WINX in Washington covered the opening day of "Retailers For Defense Week" with a broadcast from the National Airport at 10:30 A.M., September 15, upon the arrival of the twenty Powers Models from New York City. Later there was a broadcast from the Mayflower Hotel at 12:00 o'clock noon when Donald M. Nelson, Executive Director of the Supply Priority and Allocations Board, Director of Priorities for Office of Production Management, and Honorary Chairman of "Retailers For Defense Week", sold the first Defense Stamp to Mrs. Roosevelt. The broadcast carried Mr. Nelson's speech and his appointment of the Powers Models as sales captains at 12:30 P. M.

Brown and Williamson Tobacco Corporation distributed for use during "Retailers For Defense Week" 30,000 posters all over the United States to be placed in windows of retail stores in connection with one of their products. Adam Hat Stores, Inc., through both radio and full color advertisements in seventeen leading Sunday newspapers is urging all its customers to buy Defense Savings Stamps at the 158 Adam Hat Stores.

Telegrams were sent to leading radio sponsors on September 10 urging them to include plugs on Defense Stamps in the commercial material on radio shows during "Retailers For Defense Week". As a result, the following sponsors are carrying special "Retailers For Defense Week" announcements on their programs:

SPONSORS

Adam Hat Stores
American Oil Company
The Anacin Company

Bayer Company
Bristol-Myers
Brown and Williamson

Carnation Milk Company
Colgate-Palmolive-Peet Company

E. I. du Pont de Nemours & Co.
Emerson Drug Company
Eversharp Company
General Electric
General Mills

Gillette Safety Razor Company
Gunther Beer Company
Edna Wallace Hopper
The Andrew Jergen Company

Kraft Cheese Corporation

PROGRAMS

Fight Broadcasts
Edwin C. Hill
Easy Aces
Our Gal Sunday
Front Page Farrell
America The Free
Young Widder Brown
District Attorney
College Humor
Uncle Walter's Doghouse
Plantation Party
Wings of Destiny
Paul Sullivan
Contented Program
Stepmother
Woman of Courage
Myrt and Marge
Ellen Randolph
Bess Johnson
City Desk
Cavalcade of America
Vox Pop
Take It Or Leave It
"Hour of Charm"
Arnold Grimm's Daughter
Hymns of All Churches
Mystery Man
Light of the World
Kathleen Norris
Valiant Lady
Betty Crocker
Lone Ranger
Jack Armstrong
Louis-Nova Fight
"Quiz of Two Cities"
Romance of Helen Trent
Walter Winchell
The Thin Man
Kraft Music Hall
"The Great Gildersleeve"

(More)

SPONSORS

Lever Brothers

Lewis-Howe medicine Company
Philip Morris

Miles Laboratories

Modern Food Process
Mutual Broadcasting SystemNational Broadcasting Company
Pacific Coast Borax Company
Phillips Company
Procter and GambleThe Quaker Oats Company
RCA Manufacturing Company
Standard BrandsTexas Company
Williamson Candy Company
Wm. Wrigley, Jr., Inc.PROGRAMSAunt Jenny
Big Town
Meet Mr. Meek
Big Sister
Grand Central Station
Uncle Jim's Question Bee
Hollywood Premiere
Lux Radio Theatre
"Treasure Chest"
"Johany Presents"
Crime Doctor
Great Plays
Quiz Kids
National Barn Dance
Moylan Sisters
"America Preferred"
"The Great Gunns"
"For America We Sing"
"Death Valley Days"
"Lorenzo Jones"
Knickerbocker Playhouse
Against the Storm
Life Can Be Beautiful
The Guiding Light
Truth and Consequences
Ma Perkins
The Goldbergs
Portia Faces Life
Lone Journey
Vic and Sade
The O'Neills
"That Brewster Boy"
"Music You Want When You Want It"
Chase and Sanborn Hour
What's My Name
One Man's Family
Treasury Hour "Millions for Defense"
"Famous Jury Trials"
Gene Autry's "Melody Ranch"
Ben Bernie's "Just Entertainment"
Dear Mom
Scattergood Baines

The following programs are under the direction of the Treasury Department:

Treasury Hour - "Millions for Defense"
"For America We Sing"
"America Preferred"

TREASURY DEPARTMENT

40

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE September 15, 1941

TO Secretary Morgenthau
FROM Mr. Haas
Subject: The Business Situation,
Week ending September 13, 1941

Summary

(1) Industrial production in August showed no more than a seasonal increase over July, and will probably increase no more than seasonally in September, according to preliminary information from the Federal Reserve Board. Thus the seasonally-adjusted FRB index in August and probably September will hold steady at the July figure of 161 (revised).

(2) The advance in commodity prices shows no slackening. The BLS all-commodity index continues to rise at a rate of nearly 2 points a month, closely similar to the average increase in 1916. (It has risen 10½ points in the last 6 months.) Prices of basic commodities, particularly foodstuffs, advanced strongly during the past week.

(3) The cost of living rose 0.6 percent further during August, according to the Conference Board index, which compares with a gain of 0.5 percent in July. The August index of 89.4 (1923 = 100) is 4.7 percent higher than in August last year, and 6.4 percent higher than the pre-war level of August 1939.

(4) The cost of constructing a standard house in St. Louis increased 2.5 percent further in August to \$7,317, as compared with \$7,142 in July. The cost is now 22 percent higher than in July 1940. Lumber prices have been steadily advancing in recent weeks.

(5) Weekly business indexes, seasonally adjusted, continued to sag in the first week of September. The New York Times index for that week declined 1.2 points to 129.3, while Barron's index was 0.2 lower at 136.9.

- - - - -

Industrial production reflects material shortages

While production in such industries as machinery, aircraft, railroad equipment, and shipbuilding increased further during August, the effect of priorities and material shortages in curtailing production in certain other industries caused the seasonally-adjusted FRB index for August to hold at the July level of 161 (revised downward 1 point). Near-capacity operations in many industries were also an important factor in preventing further increases in output.

Considerable declines in rubber consumption and silk deliveries occurred during August, owing to curtailment programs. Furniture production, running at an exceptionally high rate, increased less than seasonally, while the production of iron and steel, non-ferrous metals, lumber, stone, clay and glass products showed little change from previous high levels.

The same influences are tending to prevent a more than seasonal increase in production during September, leading the Federal Reserve Board to expect that the adjusted FRB index for September will likewise hold at the 161 level.

The FRB index has been revised somewhat to increase the coverage of defense industries, and it is believed that the index now includes practically all defense work. The index has also been improved by certain changes in seasonal adjustments. The new index in recent months has averaged about 3 points higher than the old index, but in July both were at the same level (161).

Commodity prices continue to rise

No slackening in the commodity price advance was apparent last week. The BLS all-commodity index in the first week of September rose to 91.0 from 90.6 in the previous week, with the largest increases in prices of cattle feed, woolen goods, grains, cotton goods, meats and dairy products, in respective order.

The all-commodity index is rising steadily at an average rate of nearly 2 points a month, and has gained 10½ points in the past six months. A continuation of the rise at this rate would carry the index to 112 by this time next year, which would be the highest since January 1921 when the index stood at 114.0. The average rate of rise in the all-commodity index during 1916 was 2.0 points a month, with prices at approximately the same level as this year.

Basic commodity prices higher

Prices of basic commodities show no indication of a nearby slackening in the general commodity price advance. On the contrary, the rise in prices of these sensitive materials has been accelerated in recent weeks, especially in the case of domestic commodities. (See Chart 1.) This seems particularly significant in view of the fact that fully one-third of the commodities in the domestic group (6 out of 17) are under Government price control and have held at unchanged prices. The combined index of 28 basic commodities has risen 8 percent since the middle of August.

Pressure on ceiling prices is sufficiently strong in a number of commodities as to indicate that ceiling levels may have to be raised to avoid unfavorable repercussions on the defense program. In the case of tin, Singapore prices have risen (reportedly under heavy Russian buying) to a point where dealers in this country have been forced to curtail buying owing to lack of a sufficient margin under the present ceiling price. In the case of burlap, a similar price rise has occurred in Calcutta owing to heavy British sandbag orders, which has reportedly eliminated any profit in importing at present ceiling prices. Two price ceilings have already been raised (on certain cotton textiles and on Southern pine lumber) and recent advances in raw cotton prices have created an urgent pressure for a second upward revision in the ceiling prices on cotton goods.

Anticipatory buying a factor in prices

Various powerful factors, of course, underly the continuing rise in commodity prices. Some evidence of the extent to which anticipatory buying may be a factor came to light this week, when publication of cottonseed oil consumption figures showed the lowest consumption for any August since 1931. The decline of 29 percent from the consumption in July was attributed in part to previous over-stocking of shortening by the large consumers and distributors when prices were rising rapidly.

A continuing inflationary influence has been the rapid expansion of credit in the form of bank loans for commercial uses, a large part of which are used directly for the purchase of goods and materials. Loans by weekly reporting member banks for commercial, industrial, and agricultural purposes in the first week of September (see Chart 2) showed a gain of \$1,845,000,000, or 38.6 percent, over the corresponding week

of last year. An increase of \$28,000,000 occurred in the latest week. A large proportion of this expansion, of course, represents loans for defense uses.

Cost of living up 0.6 percent in August

The Conference Board cost of living index rose 0.6 percent in August as compared with 0.5 percent in July, with food costs showing the largest advance. The August index of 89.4 (1923 = 100) is 4.7 percent higher than in August last year, and 6.4 percent higher than the pre-war level in August 1939. The index of food costs has risen 12.8 percent since August 1940.

Building costs advance further

The cost of constructing a standard 6-room frame house in St. Louis showed a further advance of 2.5 percent in August, rising to \$7,317 from \$7,142 in the previous month. (See Chart 3.) The cost of materials and general costs advanced sharply during the month, but labor costs remained unchanged. The total advance over the \$6,004 cost of constructing this same house in July 1940 amounts to 22 percent, with labor costs 24 percent higher, materials 21 percent higher, and general costs 20 percent higher.

Details of the changes in costs for materials, labor, and overhead (see Chart 4) show the particularly sharp advances in costs of certain types of materials during the past month. The price of lumber, furthermore, has been rising steadily during August and early September, according to BLS price indexes, six successive weekly advances during that period carrying the index 6.4 percent higher than at the end of July. Ceiling prices have been placed on certain types of lumber, the most recent being those announced last week for Douglas fir, to become effective October 1.

Steel industry engaged with priorities problems

Steel mills continue to be occupied with supplying data to the OPM required in connection with the new priorities regulations, made effective at the beginning of this month. Steel trade reports indicate a growing belief that the application of priorities will reveal that the proportion of steel output needed for defense uses is considerably less than had been thought. The filing of priority forms is

having the effect of wiping considerable duplicate tonnage off the books, and the existence of some large inventories has been revealed. The correcting of these situations will result in a more equitable distribution of steel for civilian uses.

The shortage in steel scrap continues to trouble steel producers. One plant at Buffalo has had to shut down and another has tapered off operations due to lack of scrap. Looking further ahead, steel executives are concerned over the fact that the shortage of scrap is likely to become accentuated when winter weather sets in and normal scrap collection activities are hampered.

A new potential threat to high level steel operations has just developed as a result of the strike scheduled for today in "captive" (steel company owned) coal mines. CIO officials have called upon approximately 38,000 soft coal miners in 6 States to go on strike today at captive mines of 7 steel companies, including the country's three largest producers. While this strike may not have any immediate repercussions on steel operations, a prolonged tie-up in the mines could have serious consequences. The strike is reported to have been called solely for the purpose of obtaining a union shop.

Steel operations scheduled for the current week are reduced to 96.1 percent of capacity as compared with 96.9 percent last week. The moderate decline in operations appears to have been due in part to furnace repairs in the Pittsburgh district.

All pig iron producers have now received their September shipping schedules, after examination and revision by OPM, and according to the Iron Age practically all of the material is slated for shipment to consumers carrying a defense rating. Pig iron production last month rose slightly to a new record high. The operating rate for the industry increased to 97.5 percent of capacity from 97.1 percent in July, and the number of furnaces in blast on September 1 was 213 as compared with 211 a month earlier.

New orders sharply lower

Our weekly index of new orders, as revised by data recently received, shows a continuation of the pronounced decline that has been in progress since late July. (See Chart 5.) In the first week of September all groups were

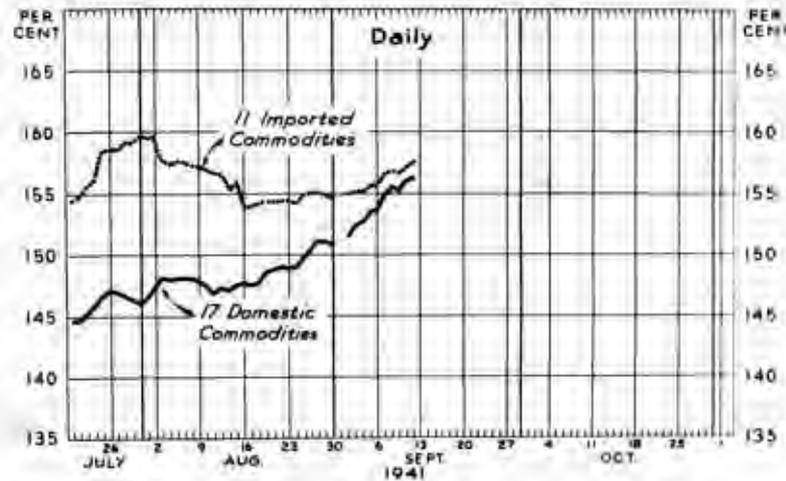
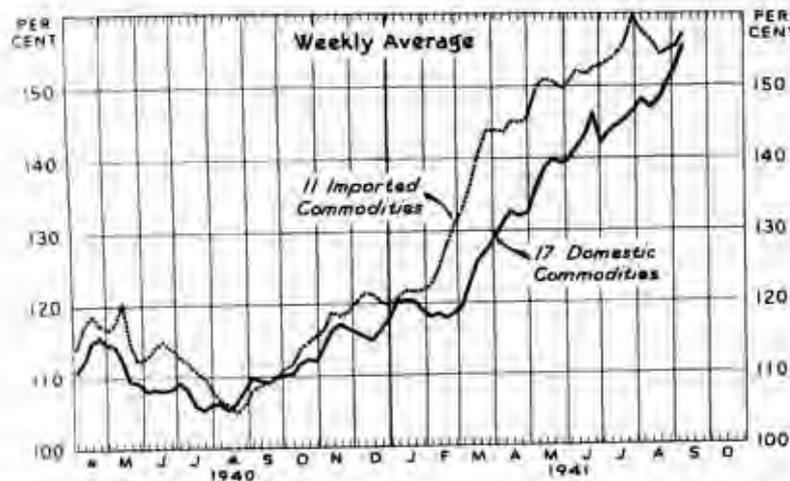
lower, doubtless reflecting the Labor Day holiday. While the substantial decline in the index is partly due to seasonal influences, the index may also be showing some influence of the shortage of materials for civilian goods, and of the sold-up condition in industry generally.

Weekly business indexes lower

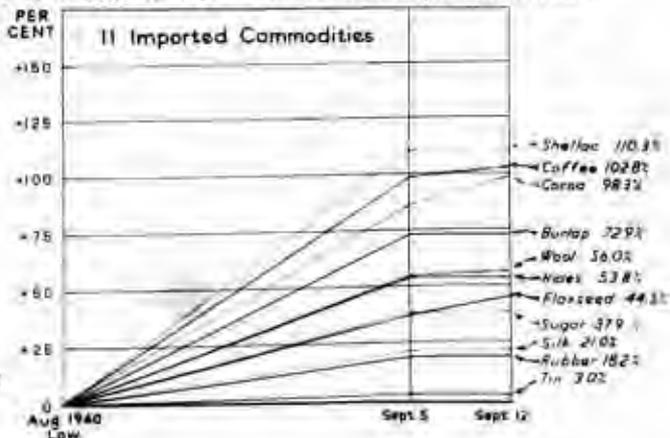
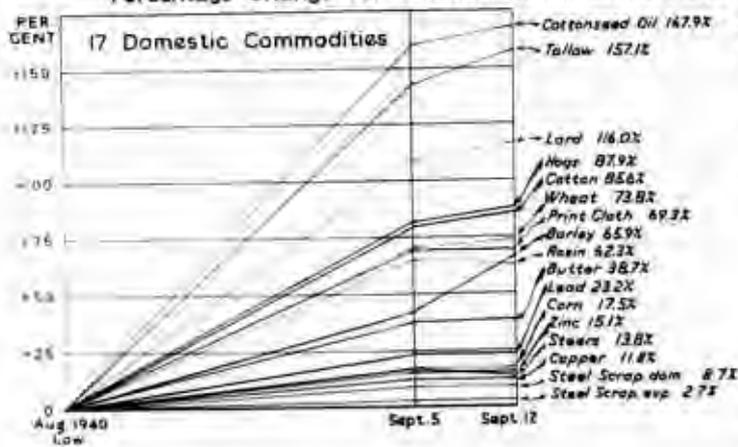
Weekly adjusted indexes of business activity in the first week of September were lower than in the previous week. The New York Times index declined 1.2 points to 129.3, with downturns in all components except electric power production and cotton mill production, which advanced. Barron's weekly index was 0.2 lower at 136.9.

MOVEMENT OF BASIC COMMODITY PRICES Domestic and Imported

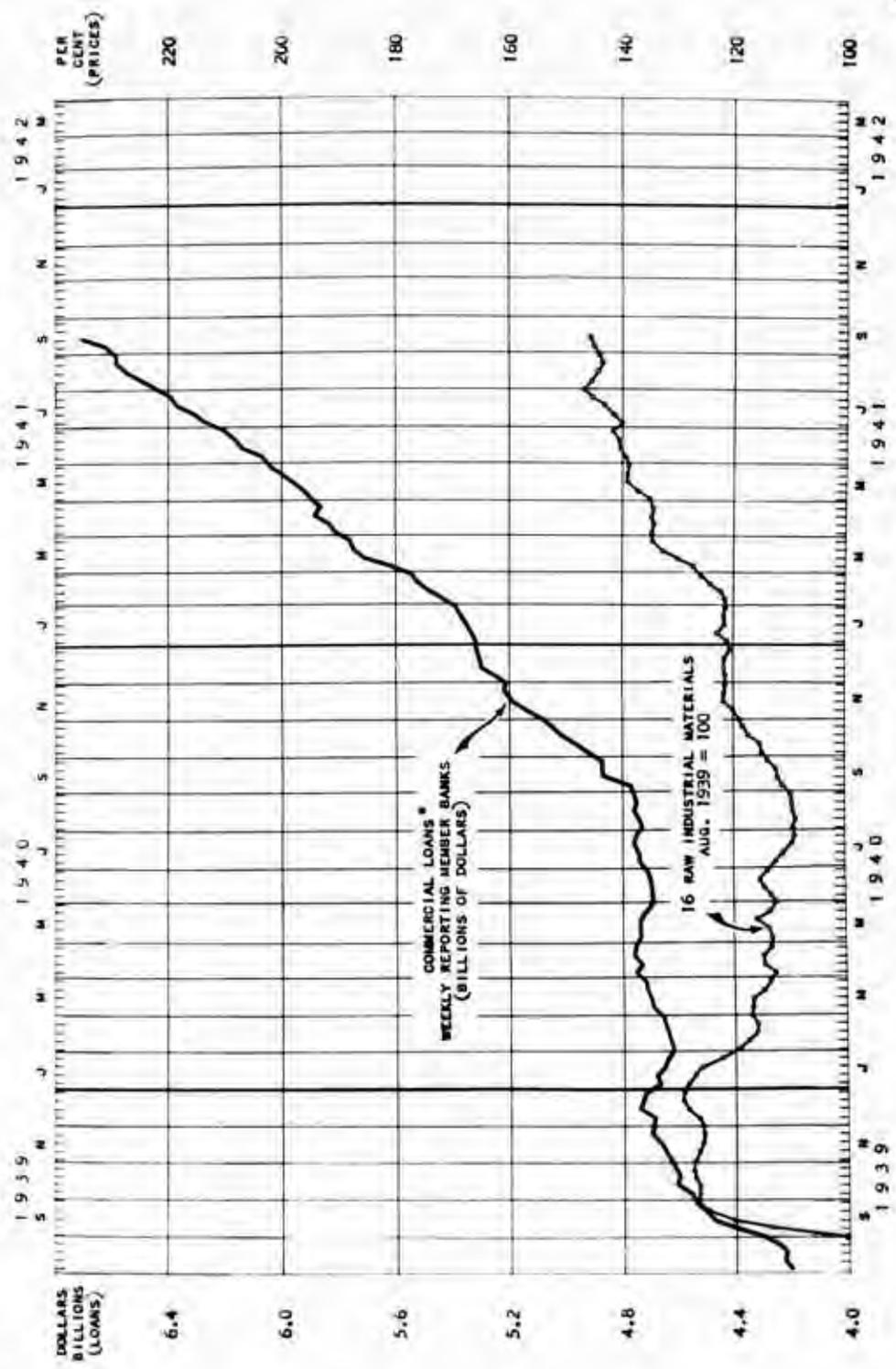
AUGUST 1939 = 100



Percentage Change for Individual Commodities, August 1940 Low to September 5, and to September 12, 1941



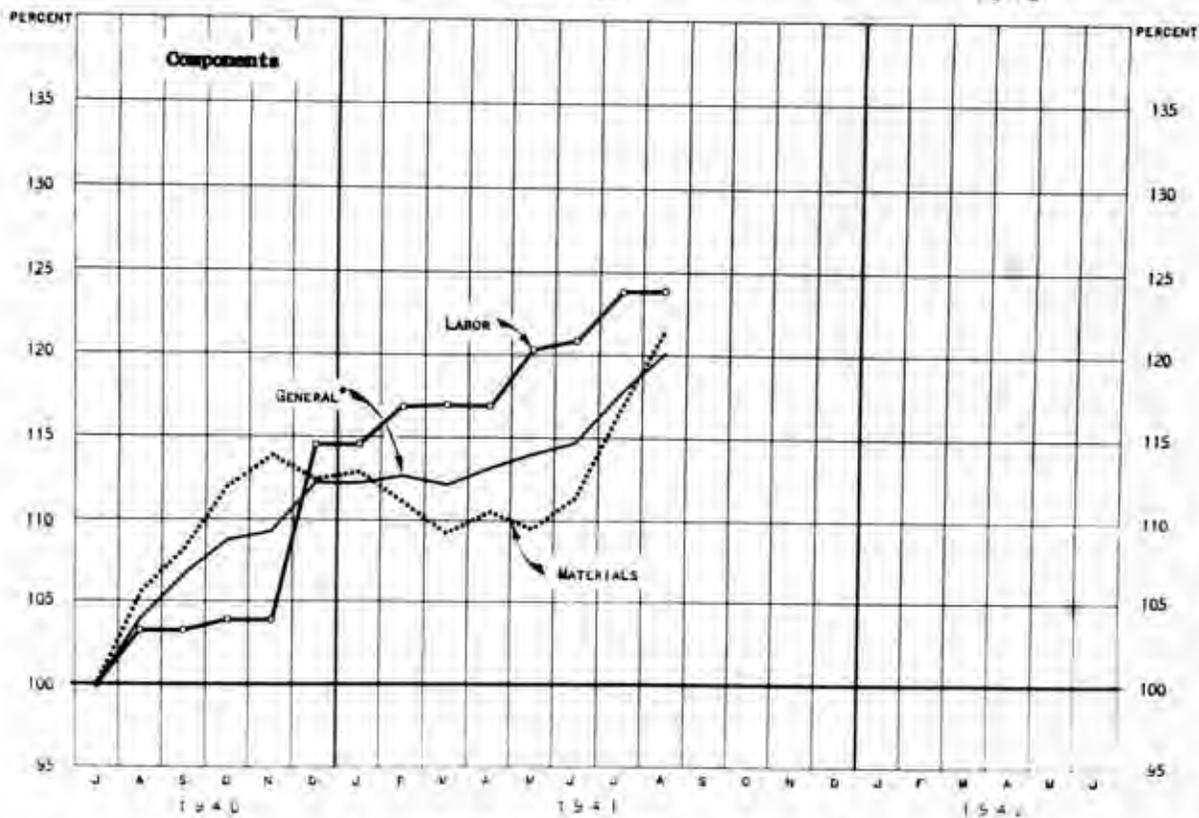
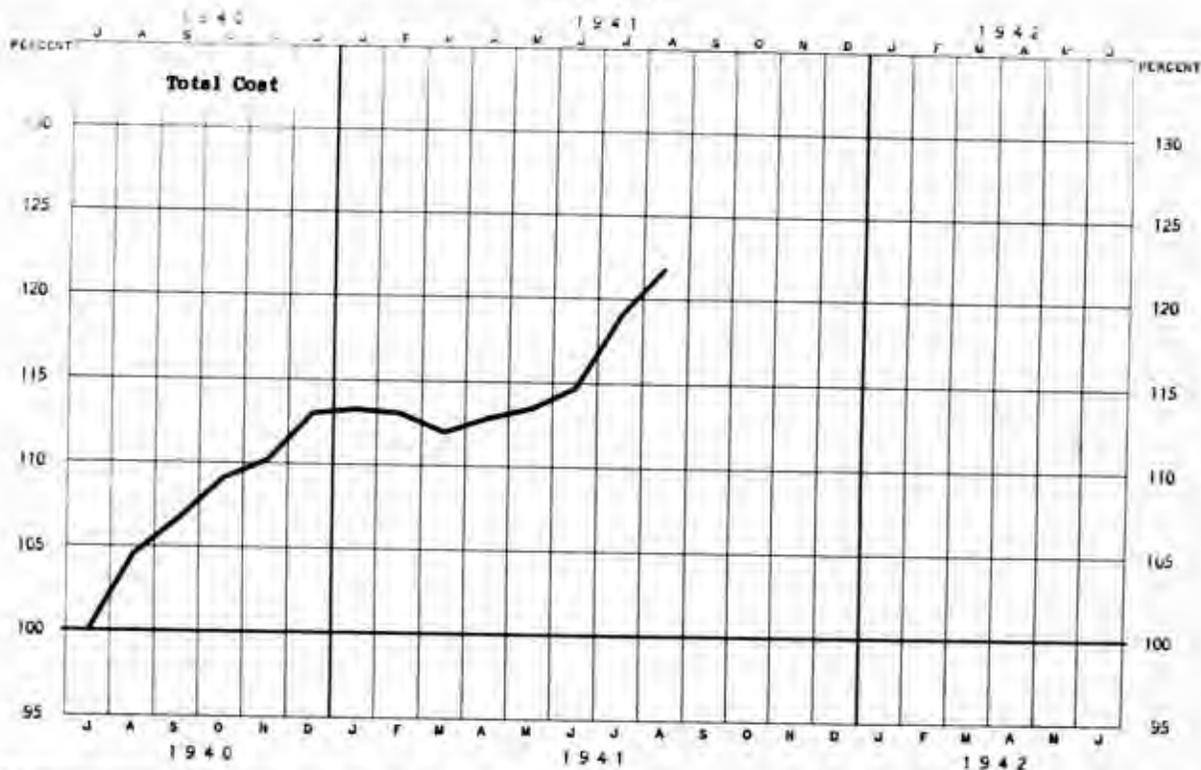
COMMERCIAL LOANS AND INDUSTRIAL MATERIALS PRICES



* COMMERCIAL, INDUSTRIAL, AGRICULTURAL LOANS AND OPEN MARKET PAPER

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

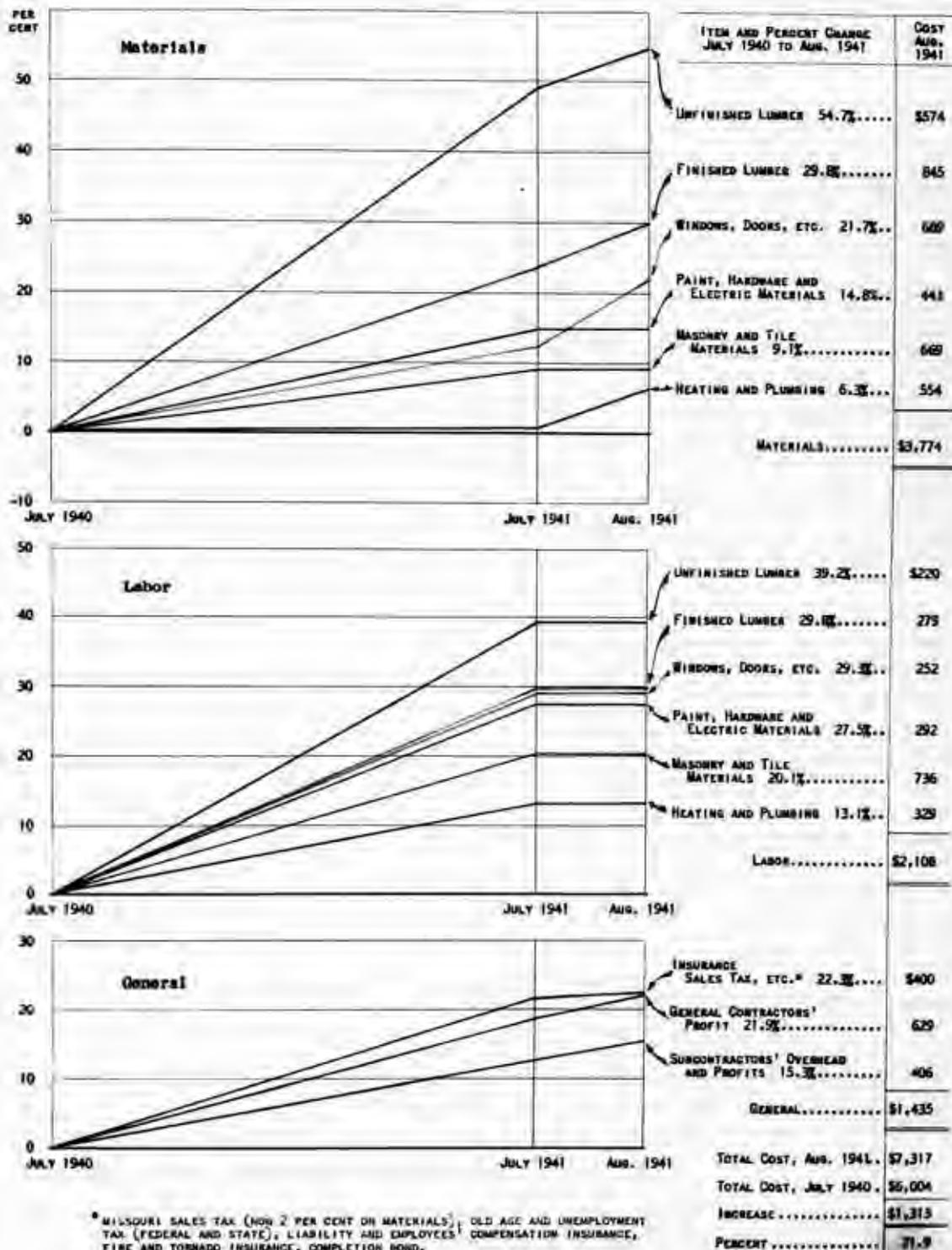
JULY 1940 = 100



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

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

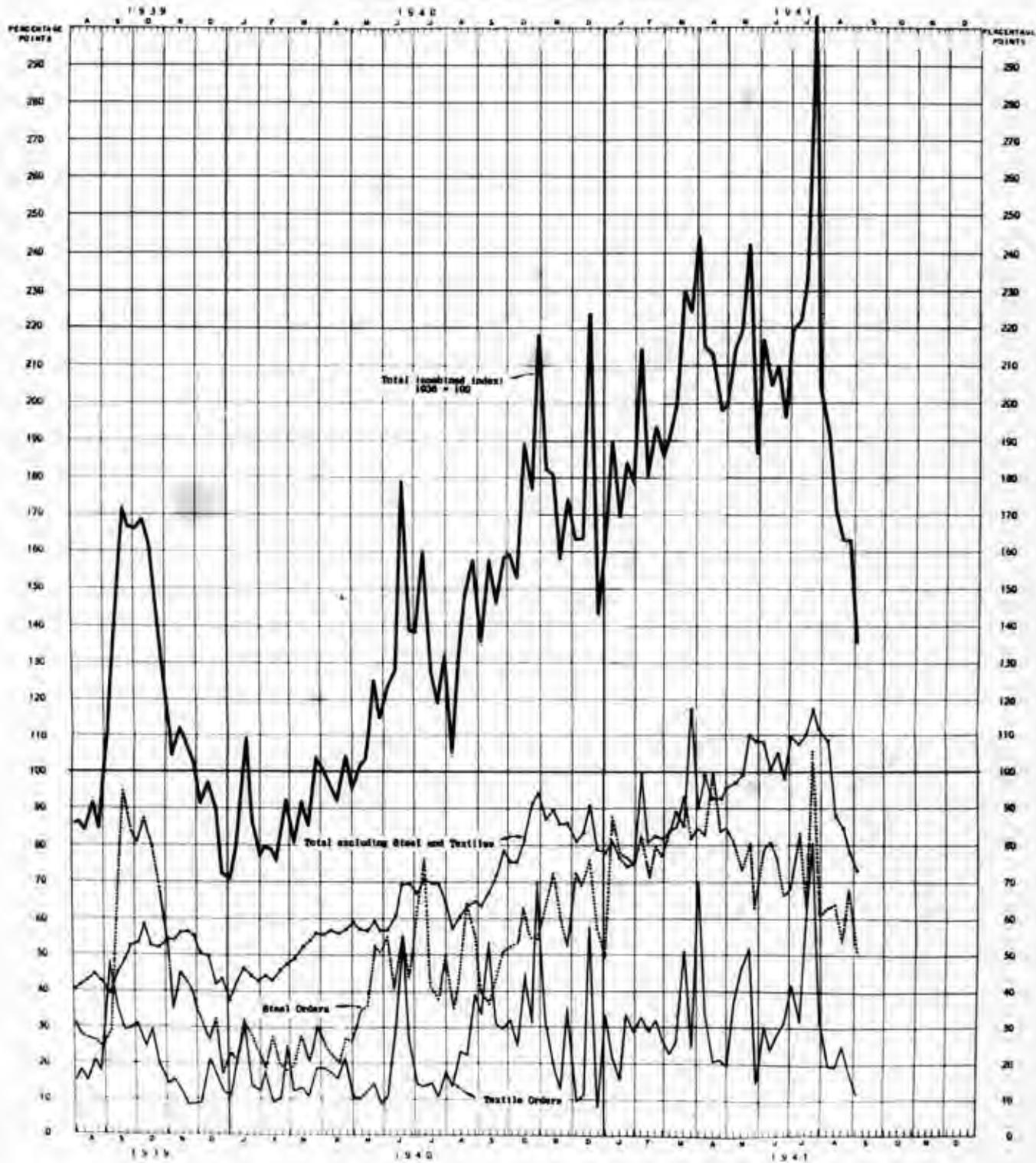
Percentage Change, July 1941 and August 1941 over July 1940



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

SOURCE: REAL ESTATE ANALYST.

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



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 15, 1941

TO Secretary Morgenthau
FROM Mr. Haas

Work Projects Administration employment declined from 1,045,000 to 1,043,000 persons during the week ended September 3, 1941.

Attachments.

WORK PROJECTS ADMINISTRATION
Number of Workers Employed - Weekly
United States

Week ending 1941	Number of Workers (In thousands)
February 5	1,892
February 12	1,893
February 19	1,885
February 26	1,867
March 5	1,806
March 12	1,764
March 19	1,736
March 26	1,708
April 2	1,662
April 9	1,634
April 16	1,607
April 23	1,586
April 30	1,560
May 7	1,519
May 14	1,497
May 21	1,474
May 28	1,464
June 4	1,442
June 11	1,423
June 18	1,410
June 25	1,368
July 2	1,172
July 9	1,030
July 16	1,016
July 23	1,025
July 30	1,036
August 6	1,041
August 13	1,042
August 20	1,043
August 27	1,045
September 3	1,043

Source: Work Projects Administration.

WORK PROJECTS ADMINISTRATION
 Number of Workers Employed - Monthly
 United States

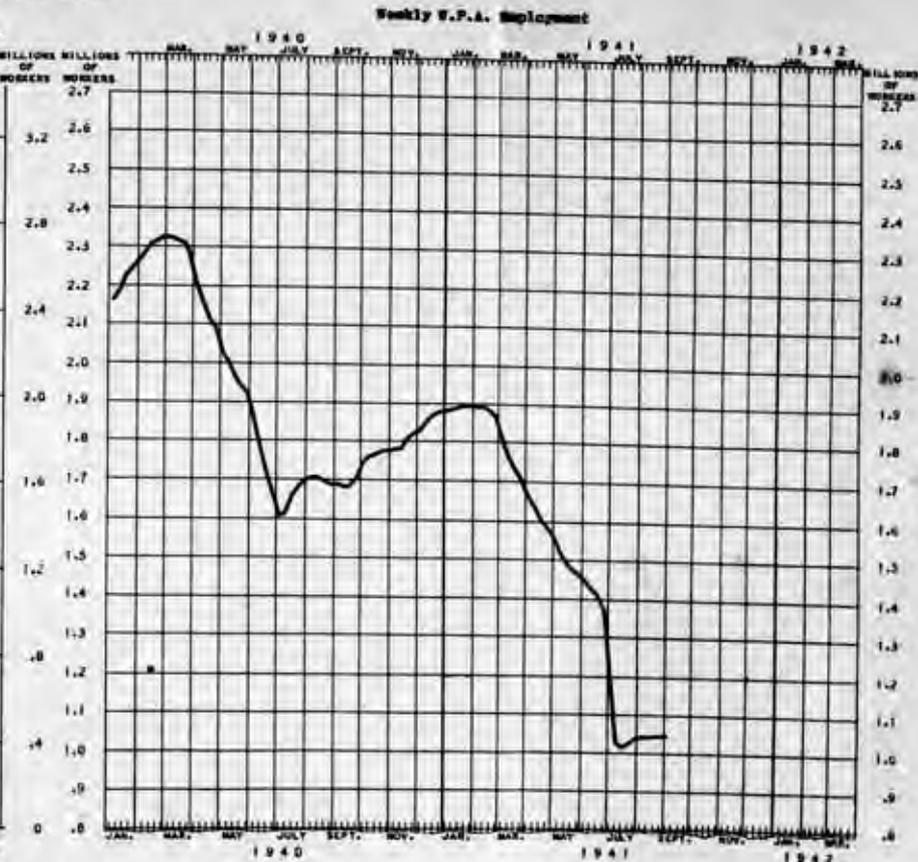
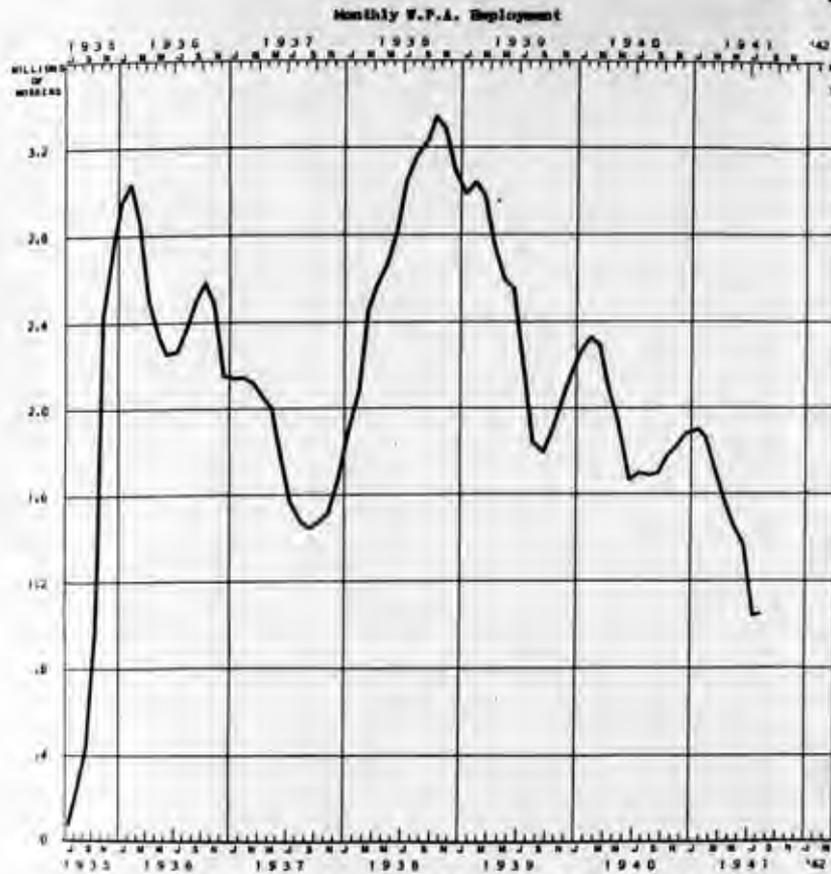
	Number of Workers (In thousands)
1939	
January	2,986
February	3,043
March	2,980
April	2,751
May	2,600
June	2,551
July	2,200
August	1,842
September	1,790
October	1,902
November	2,024
December	2,152
1940	
January	2,266
February	2,324
March	2,288
April	2,092
May	1,926
June	1,665
July	1,701
August	1,691
September	1,704
October	1,779
November	1,821
December	1,878
1941	
January	1,895
February	1,867
March	1,708
April	1,560
May	1,464
June	1,368
July	1,036
August	1,045

Source: Work Projects Administration

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

They include certified and noncertified workers.

WORK PROJECTS ADMINISTRATION
Number of Workers Employed
United States



MONTHLY WORK PROJECTS ADMINISTRATION

MEMORANDUMFROM British Supply Council in N.A.TO Mrs. Henrietta Klotz

Compliments of E.N.Gray

STATEMENT 32.AIRCRAFT SHIPPED TO U. K. AND OVERSEAS COMMANDS.

DESTINATION	ASSEMBLY POINT	BY SEA WEEK ENDED AUGUST 23, 1941.	BY AIR WEEK ENDED SEPTEMBER 13, 1941.
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BELL

Aircobra	U. K.	U. K.	17	—
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WAS

Boston III	U. K.	U. K.	5	—
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LOCKHEED

Hudson III	U. K.	U. K. (via Gander)	—	29
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TOTALS			22	29
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British Air Commission,
September 15, 1941.

For Miss Chauncey

57

September 15, 1941.

CONFIDENTIAL

Dear Mr. Knabe:

Permit me to acknowledge for the Secretary the receipt of your letter of September 11, 1941, enclosing your compilation for the week ended September 3, 1941, showing dollar disbursements out of the British Empire and French accounts at the Federal Reserve Bank of New York and the means by which these expenditures were financed.

Faithfully yours,

H. Morie Cochran,
Technical Assistant to the Secretary.

L. W. Knabe, Esquire,
Vice President,
Federal Reserve Bank of New York,
New York, New York.

HMC:dm:9/15/41

Regraded Unclassified

COPY

58

FEDERAL RESERVE BANK
OF NEW YORK

September 11, 1941.

CONFIDENTIAL

Dear Mr. Secretary: Attention Mr. H. Merle Cochran

I am enclosing our compilation for the week ended September 3, 1941, showing dollar disbursements out of the British Empire and French accounts at this bank and the means by which these expenditures were financed.

Faithfully yours,

/s/ L. W. Knoks,

L. W. Knoks,
Vice President.

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

Enclosure

Copy:wec:9-15-41

STATEMENTS OF BRITISH AND FOREIGN ACCOUNTS
(In Millions of Dollars)

Week Ended Sept. 3, 1941

Confidential

PERIOD	BANK OF ENGLAND (BRITISH GOVERNMENT)								BANK OF FRANCE						
	DEBITS				CREDITS				Net Incr. (+) or Deor. (-) in Balance	DEBITS			CREDITS		Net Incr. (+) or Deor. (-) in Balance
	Total Debits	Debit Expendi- tures (a)	Other Debits	Total Credits	Proceeds of Sales of		Other Credits (c)	Total Debits		Debit Expendi- tures (d)	Other Debits	Total Credits	Proceeds of Gold Sales	Other Credits	
				Gold	Securities and Other (b)										
First year of war (8/29/39-8/28/40)*	1,793.8	605.5	1,187.6	1,828.2	1,356.1	52.0	420.1	+ 35.0	866.3 (e)	416.6 (e)	449.7	1,095.4 (e)	900.2	195.1 (e)	+229.0
1940															
Aug. 29 - Oct. 2	316.8	244.8	72.5	308.9	271.5	8.0	31.4	- 7.9	8.6	4.4	4.2	1.3	-	1.3	- 7.5
Oct. 3 - 30	196.7	167.8	28.9	198.5	160.5	6.0	32.0	+ 1.8	0.5	0.5	0.2	0.5	-	0.5	-
Oct. 31 - Nov. 27	241.0	201.1	39.9	259.5	210.0	18.0	31.5	+ 18.5	0.8	0.1	0.7	0.7	-	0.7	- 0.1
Nov. 28 - Dec. 31	234.6	206.8	27.8	199.0	111.4	25.0	60.6	- 36.6	2.1	-	2.1	0.8	-	0.8	- 1.5
War period through Dec. 1940	2,782.3	1,422.6	1,356.7	2,793.1	2,109.5	108.0	575.6	+ 10.8	878.3	481.4	456.9	1,098.4	900.2	198.3	+220.1
1941															
Jan. 8 - 29	197.4	162.7	34.7	259.9	176.2	52.0	31.7	+ 62.5	1.7	-	1.7	0.5	-	0.5	- 1.2
Jan. 30 - Feb. 26	164.6	137.8	26.8	101.4	26.6	28.0	48.8	- 53.2	0.2	-	0.2	0.2	-	0.2	-
Feb. 27 - Apr. 2	229.7	157.5	38.1	237.9	103.7	72.0	62.2	+ 8.2	0.7	-	0.7	1.6	-	1.6	+ 0.9
Apr. 3 - Apr. 30	186.0	101.9	24.1	218.9	125.6	15.0	78.3	+ 92.9	0.9	-	0.9	0.9	-	0.9	-
May 1 - May 28	122.6	90.6	38.0	91.0	6.3	32.0	52.7	- 31.6	0.4	-	0.4	0.8	-	0.8	+ 0.4
May 29 - July 2	140.5	113.8	26.7	105.1	1.9	11.0	92.2	- 35.4	21.5	-	21.5	0.9	-	0.9	- 20.6
July 3 - July 30	101.4	75.6	28.3	61.5	-	6.0	55.5	+ 39.9	0.5	-	0.5	0.3	-	0.3	- 0.2
July 31 - Aug. 27	131.7	92.2	39.5	143.2	-	4.0	145.2	+ 17.5	1.0	-	1.0	0.5	-	0.5	- 0.5
Second year of war (8/29/40-8/27/41)															
Aug. 28 - Oct. 1															
Oct. 2 - Oct. 29															
Oct. 30 - Dec. 3															
Dec. 4 - 31															
WEEK ENDED:															
Aug. 13	36.2	21.8	14.4	15.1	-	-	15.1	- 20.9	0.2	-	0.2	0.2	-	0.2	-
20	26.0	16.5	9.5	12.1	-	2.0	10.1	- 13.9	0.1	-	0.1	0.1	-	0.1	-
27	36.5	22.5	14.0	5.2	-	-	5.2	- 31.3	-	-	-	-	-	-	-
Sept. 3	34.5	29.9	4.6	9.0	-	2.0	7.0 (4)	- 25.5	-	-	-	0.1	-	0.1	+0.1

Average Weekly Expenditures since Outbreak of War
France (through June 19, 1940) \$19.6 million

Transfers from British Purchasing Commission to
Bank of Canada for French Account

(See footnotes on reverse side)

England (through June 19, 1940) 27.8 million
England (since June 19, 1940) 45.5 million

Week ended Sept. 3, 1941
Cumulation from July 6, 1940 162.7

million
million

* For monthly breakdown see tabulations prior to April 23, 1941.

- (a) Includes payments for account of British Purchasing Commission, British Air Ministry, British Supply Board, Ministry of Supply Timber Control, and Ministry of Shipping.
- (b) Estimated figures based on transfers from the New York Agency of the Bank of Montreal, which apparently represent the proceeds of official British sales of American securities, including those effected through direct negotiation. In addition to the official selling, substantial liquidation of securities for private British account occurred, particularly during the early months of the war, although the receipt of the proceeds at this Bank cannot be identified with any accuracy. According to data supplied by the British Treasury and released by Secretary Morgenthau, total official and private British liquidation of our securities through December, 1940 amounted to \$334 million.
- (c) Includes about \$85 million received during October, 1939 from the accounts of British authorized banks with New York banks, presumably reflecting the requisitioning of private dollar balances. Other large transfers from such accounts since October, 1939 apparently represent the acquisition of proceeds of exports from the sterling area and other currently accruing dollar receipts.
- (d) Includes payments for account of French Air Commission and French Purchasing Commission.
- (e) Adjusted to eliminate the effect of \$20 million paid out on June 26, 1940 and returned the following day.
- (f) Includes \$1.5 million transferred from New York accounts of British authorized banks.

STATEMENTS OF CANADIAN AND AUSTRALIAN ACCOUNTS
(In Millions of Dollars)

Week Ended Sept. 3, 1941.

Confidential

PERIOD	BANK OF CANADA								COMMONWEALTH BANK OF AUSTRALIA							
	DEBITS				CREDITS				Net Incr. (+) or Deor. (-) in Balance	DEBITS			CREDITS			
	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Transfers from Official British A/C	Other Credits	Total Debits		Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Other Credits	Net Incr. (+) or Deor. (-) in Balance	
First year of war (8/29/39-8/28/40)*	323.0	16.6	306.4	504.7	412.7	20.9	38.7	32.4	+181.7	31.2	3.9	27.3	36.1	30.0	6.1	+ 4.9
1940																
Aug. 29 - Oct. 2	44.3	-	44.3	43.5	16.4	-	27.3	0.2	- 0.4	8.7	2.5	6.2	8.0	6.9	1.3	- 0.7
Oct. 3 - 30	26.7	-	26.7	28.6	14.0	-	14.3	0.3	+ 1.9	10.1	7.5	2.6	7.9	6.5	1.4	- 2.2
Oct. 31 - Nov. 27	35.2	-	35.2	59.6	49.2	-	16.7	3.7	+ 34.4	3.1	0.6	2.5	3.6	2.1	1.5	+ 0.5
Nov. 28 - Dec. 31	48.0	-	48.0	60.6	42.5	-	13.7	4.4	+ 12.6	4.8	-	4.8	5.8	4.8	2.0	+ 2.0
War period through Dec. 31, 1940	477.2	16.6	460.6	707.4	534.6	20.9	110.7	41.0	+200.2	57.9	14.5	43.4	62.4	50.1	12.3	+ 4.5
1941																
Jan. 8 - 29	33.7	-	33.7	33.9	16.9	-	15.0	2.0	+ 0.2	4.8	-	4.8	5.8	5.1	1.7	+ 2.0
Jan. 30 - Feb. 26	31.1	-	31.1	24.3	14.3	-	6.8	3.2	- 6.8	5.0	1.7	3.3	3.2	0.6	2.6	- 1.6
Feb. 27 - Apr. 2	60.9	-	60.9	46.0	23.1	-	19.1	3.8	- 14.9	5.8	0.8	5.0	13.7	12.5	1.2	- 7.9
Apr. 3 - Apr. 30	34.9	-	34.9	35.9	12.5	-	10.5	12.2	+ 1.0	2.8	-	2.8	5.9	4.6	2.3	+ 3.1
May 1 - May 28	39.2	-	39.2	25.6	15.8	-	0.5	9.3	- 13.7	5.4	-	5.4	4.9	4.1	0.8	- 0.5
May 29 - July 2	43.2	-	43.2	48.2	16.3	-	-	31.2	+ 5.0	10.1	-	10.1	5.8	4.5	1.3	- 4.3
July 3 - July 20	30.6	-	30.6	21.8	15.2	-	-	6.6	- 8.8	6.4	-	6.4	6.3	4.8	1.5	- 0.1
July 21 - Aug. 27	32.5	-	32.5	23.6	10.0	1.4	-	10.2	- 8.9	5.2	-	5.2	8.1	6.6	1.7	+ 3.1
Annual year of war (8/29/40-8/27/41)																
Aug. 28 - Oct. 1																
Oct. 2 - Oct. 29																
Oct. 30 - Dec. 3																
Dec. 4 - 31																
WEEK ENDED:																
Aug. 11	10.4	-	10.4	6.9	2.9	3.4	-	0.6	- 3.5	0.3	-	0.3	0.4	-	0.4	+ 0.1
20	8.5	-	8.5	9.9	3.0	-	-	6.9	+ 1.4	0.2	-	0.2	7.0	0.4	0.6	+ 8.8
27	10.2	-	10.2	2.9	1.5	-	-	1.4	- 7.3	2.1	-	2.1	0.7	0.2	0.5	- 1.4
Sept. 3	2.6	-	2.6	26.7	0.1	-	-	26.6(n)	+24.1	0.9	-	0.9	-	-	-	- 0.9

Weekly Average of Total Debits Since Outbreak of War Through Sept. 3, 1941 \$ 1.4 million

* For monthly breakdown see tabulations prior to April 23, 1941.

SECRET
 SECURITY INFORMATION

SEP 13 PM 12 44

(c) Reflects receipt of \$5 million in connection with payment by R.F.C. for the purchase of aluminum from Aluminum Company of Canada.

OFFICE OF THE
 TECHNICAL ASSISTANT
 TO THE SECRETARY

AMOUNTS:
 Dec 1 - 21
 Dec 22 - Dec 31
 Dec 1 - Dec 31
 Dec 1 - Dec 31
 (BASED ON 1941)
 Dec 1 - Dec 31
 Dec 1 - Dec 31

1941	1942	1943	1944	1945	1946	1947	1948	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960
100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

(BASED ON 1941)
 TOTAL AMOUNT OF \$5M

SECTION

OFFICE OF THE
 TECHNICAL ASSISTANT
 TO THE SECRETARY

SECRET

TREASURY DEPARTMENT

63

INTER-OFFICE COMMUNICATION

DATE September 15, 1941.

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Official sales of British-owned dollar securities under the vesting order effective February 19, 1940:

	<u>No. of Shares Sold</u>	<u>\$ Proceeds of Shares Sold</u>	<u>Nominal Value of Bonds Sold</u>	<u>\$ Proceeds of Bonds Sold</u>
Sent. 8	1,100	31,341	N11	N11
9	1,479	34,825	1,000	791
10	480	24,454	6,500	3,703
11	N11	N11	10,000	5,810
12	1,682	59,985	5,000	3,221
13	100	2,752	N11	N11
	<u>4,841</u>	<u>153,357</u>	<u>22,500</u>	<u>13,525</u>
Sales from Feb. 22, 1940 to Sept. 6, 1941	<u>9,799,115-1/2</u>	<u>280,085,089</u>	<u>45,045,216</u>	<u>37,024,581</u>
Total Feb. 22, 1940 to Sept. 13, 1941	<u>9,803,956-1/2</u>	<u>280,238,446</u>	<u>45,067,716</u>	<u>37,038,106</u>



TREASURY DEPARTMENT

64

INTER-OFFICE COMMUNICATION

DATE September 15, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Official sales of British-owned dollar securities under the vesting order effective February 19, 1940:

	<u>\$ Proceeds of Shares sold</u>	<u>\$ Proceeds of Bonds Sold</u>	<u>Total</u>	
Sept. 8	31,341	N11	31,341	
9	34,825	791	35,616	
10	24,454	3,703	28,157	
11	N11	5,810	5,810	
12	59,985	3,221	63,206	
13	<u>2,752</u>	<u>N11</u>	<u>2,752</u>	
	153,357	13,525	166,882	
Sales from Feb. 22, 1940 to Sept. 6, 1941	<u>280,085,089</u>	<u>37,024,581</u>	<u>317,109,670</u>	
Total Feb. 22, 1940 to Sept. 13, 1941	<u>280,238,446</u>	<u>37,038,106</u>	<u>317,276,552</u>	317,276,552
* proceeds of non-vested securities sold Sept. 1, 1941 to Sept. 6, 1941			300,000	
‡ proceeds of non-vested securities sold Sept. 1, 1939 to Aug. 30, 1941			<u>232,600,000</u>	
‡ proceeds of non-vested securities sold Sept. 1, 1939 to Sept. 6, 1941			<u>232,900,000</u>	<u>232,900,000</u>
			GRAND TOTAL	<u>550,176,552</u>
‡ Units sold from Aug. 18, 1941 to Sept. 13, 1941 for				\$ 42
‡ Shares Stock Dividend sold from Aug. 18, 1941 to Sept. 6, 1941 for				\$101
‡ Shares Stock Dividend sold on Sept. 8, 1941 for				22
11 Shares Stock Dividend sold from Aug. 18, 1941 to Sept. 13, 1941 for				<u>\$123</u>
55,457 Rights sold from July 24, 1941 to Sept. 6, 1941 for				\$102,445
40 Rights sold on Sept. 10, 1941				49
40 Rights sold on Sept. 12, 1941				49
55,537 Rights sold from July 24, 1941 to Sept. 13, 1941 for				<u>\$102,543</u>

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

65

Week ended September 13, 1941

	JAPAN	RUSSIA	SPAIN	GREAT BRITAIN
PETROLEUM PRODUCTS				
Fuel and Gas Oil (including Diesel Oil)	--	85,000 Bbls.	--	354,000 Bbls.
Crude -				
Blended or California High Octane Crude*	--	--	--	--
All Other Crude	--	--	--	--
Gasoline -				
Gasoline A**	--	--	--	177,000 Bbls.
Gasoline B*	--	75,000 Bbls.	--	266,000 Bbls.
All Other Gasoline	--	--	--	--
Lubricating Oil -				
Aviation Lubricating Oil***	--	--	--	63,705 Bbls.
All Other Lubricating Oil	--	--	--	--
Tetraethyl Lead***	--	--	--	--
"Boosters", such as Iso-Octane, Iso-Hexane, or Iso-Pentane	--	--	--	--
SCRAP IRON AND SCRAP STEEL				
Number 1 Heavy Melting Scrap	--	--	--	--
All Other Scrap	--	--	--	--

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

September 15, 1941.

Source: Office of Merchant Ship Control, Treasury Department.

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

** Aviation Gasoline.

*** As defined in the President's regulations of July 26, 1940.

C O P Y

66

DEPARTMENT OF STATE

WASHINGTON

In reply refer to
EA 861.24/614

September 15, 1941.

My dear Mr. Secretary:

At the request of Ambassador Winant, there is enclosed herewith for your information a copy of telegram No. 4240, dated September 12, 1941, from London, in regard to an editorial which appeared in the September 12 issue of the London TIMES on inter-Ally credits.

Sincerely yours,

/s/ Herbert Feis

Herbert Feis
Adviser on International
Economic Affairs

Enclosures:

From Embassy, London,
No. 4240, September 12,
1941.

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

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67

KD

PLAIN

London

Dated September 12, 1941

Rec'd. 11:45 a.m.

Secretary of State,
Washington.

4240, Twelfth.

The statement of the Prime Minister in Parliament yesterday that fighter planes had already been sent to Russia and the Chancellor of the Exchequer's recent statement at Edinburgh that no financial limit would be placed on the help in munitions and materials going to Russia were taken as the occasion for a leading editorial in today's TIMES on inter-Ally credits in which it is urged that "It is regrettable when this principle (of Lease-Lend) was adopted by the United States in supplying our needs, it was not applied by the British Government in supplying the needs of our own allies." The editorial emphasizes that the case of Russia is exceptional because she will be able to pay with goods exchanged for the bulk of what she will receive, and because she had a favorable trade balance with the United Kingdom before

the war. But the announcement of credits to Russia, coming on the top of similar arrangements in the case of some of the smaller countries who will have export balances insufficient to pay principle or even interest on the credits accumulating "gives new substance to the apprehension that we have still to learn the lessons of the last war." Taking the case of Greece, "whose heroic resistance gave time to reassure the position in the Middle East", the editorial says: "surely the other partners in the struggle owe more to her in money for the lives she has sacrificed or the devastation she has suffered. There is equally no question of sending her a bill for the lives and materials lost in helping to defend her territory. Why should a money debt be marked up against her for the munitions we were able to send her for her own forces to use?" Asserting that the credits to the smaller allies are in fact a mere matter of bookkeeping, the editorial describes them, nevertheless, as "misleading and dangerous as well as useless", and says: "Subsidies would certainly be better than credits, but it would be better still to keep money out of

the picture altogether and to lend or give the actual things." After pointing out that reconstruction in Europe will need supplies in great quantities, the editorial concludes as follows: "unless some far-sighted application of the Lease-Lend principle is devised in time these countries will have to borrow money in large sums, which their creditors will expect to be repaid in money, across the exchanges. They will be driven to strive desperately for active balances of trade by exporting all they can, even if they have to subsidize their exports, and by cutting down their imports to the minimum. By their competition with one another they will drive down the prices they receive for the goods they export, and by cutting down their imports they will cause widespread unemployment among their customers and thus destroy their own markets. This is what happened after 1918. It will happen all over again unless in the meantime we can learn to think less in terms of money and more in terms of real goods and services, and to indulge less in international competition and more in international cooperation for the common good. The sacrifices for which this will call will

not be nearly so great as may appear on the surface. It must not be forgotten that a very large proportion of the loans made to foreign countries have resulted in loss for the investor through partial or complete default, and this has been especially true of the loans made after the end of the last war. Even from the business point of view it may prove more profitable in the long run to put valuable potential customers on their feet, without exacting a return, than it would be to load them with monetary obligations which they will ultimately be forced to repudiate, and which in fact they will not be able to discharge without ruining themselves and their neighbors." Please send copy to Treasury and Hopkins.

WINANT.

MG

Copy:bj:hbr:9-15-41.

TO THE SECRETARY
SECURITY OF DEFENSE
WASHINGTON, D. C.

24 FEB 12 AM 1 54

RECEIVED
DEFENSE DEPARTMENT

C
O
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September 15, 1941.

TO Mr. H. Merle Cochran
FROM L. W. Knoke

For your information, I am enclosing copy of a memorandum prepared for our own files, which describes the procedure we are following on instructions from the Reichsbank, Berlin, in dispatching mail to it.

TO: Files

Date - September 15, 1941.

FROM: L. W. Knobe

Subject - Reichsbank Mail.

By cable dated February 6, 1940, the Reichsbank instructed us as follows: "Please send in the future your air mail destined for us in a manner you think suitable to Banco Germanico de la America del Sud Mexico in case that American mail will be subject furthermore to English or French control". In response to our request for clarification of such instructions the Reichsbank cabled on February 10, 1940: "Please send all air mail intended for us effective immediately to Banco Germanico de la America del Sud Mexico for remailing". Until March 16, 1940, we complied with these instructions by placing all communications to the Reichsbank in unaddressed, sealed envelopes and transmitting such envelopes to Banco Germanico at Mexico City for remailing to the Reichsbank. On March 16, 1940, we received a cable from the Reichsbank requesting us thereafter to send their air mail via the North Atlantic-Azores route, which we did until August 31, 1940.

By cable dated August 31, 1940, the Reichsbank again instructed us to send mail destined for them to Banco Germanico, which we did until the publication by the Treasury Department of "The Proclaimed List of Certain Blocked Nationals" containing the name of Banco Germanico. Since that time all of our Reichsbank mail has been held up pending our determination of the effect of such publication. Since the Reichsbank account was quite dormant no mail of importance accumulated until after we were authorized by the Treasury to open a free account in the name of the Reichsbank. Advices, statements and incidental letters relating to such account have now accumulated and should be mailed. The transactions in such account consist mainly of collections in the form of drafts drawn on the Secretary of State or on the Treasurer of the United States by United States

9/15/41

73

- 2 -

Foreign Service Officers, and deposits by United States newspaper and broadcasting companies, under specific and general licenses, for eventual payment by the Reichsbank to representatives of such companies in Germany to cover living expenses and salaries. Each of our statements is transmitted with a letter from our Auditing Department requesting confirmation of the balance shown on such statement. Accordingly, since the fact that Banco Germanico is on the "Proclaimed List" does not appear to prohibit us from sending to them Reichsbank mail which we could properly send directly to the Reichsbank, and since, except for the Reichsbank's instructions, we could properly send mail of this character directly to the Reichsbank, we propose again to transmit our Reichsbank mail, including that which we have accumulated, to Banco Germanico in the manner described above.

Copy:mew:wec:9-18-41

Regraded Unclassified

September 15, 1942

Dr. Feis

Mr. Cochran

Will you kindly send the following cablegram:

"American Consul,
Hong Kong.

For Fox from Treasury.

Received today your message through Spagent, Shanghai, regarding your plans.

Since your departure from Manila and return to Hong Kong we had had nothing direct from you on the operations of the Stabilization Board except 354, September 12, 11 a.m., from Hong Kong concerning the sale of dollar checks by United States officials, which matter is having our consideration.

Leckhart and Nicholson have reported upon market developments at Shanghai following institution of the plans which your Board decided upon at Hong Kong after consultation with bankers. Message also received from Aarons at Shanghai recommending against proposed modifications of General Licenses 58, 59 and 61 pending fair trial of new arrangements and opportunity to improve thereon.

Considering developments since you spoke with us from Manila, please cable promptly your observations on effectiveness of the system now in operation and your present recommendations including any revisions of the plan which was discussed with you. British have been receiving reports from Hall-Patch. We hope you are discussing the problems with

- 2 -

him and will give us the benefit of your opinion after such discussions.

Please tell Aarons in answer to his request that he is authorized to sail from Shanghai to Manila in order to proceed thence homeward by October 3 clipper.

Aarons reports Smith working with him at Shanghai. Subject to approval by Supra we are sending Saxon and Anderson from Manila to Hong Kong to relieve Aarons and Albin. What will then be your immediate personnel needs?

Have we failed to answer any of your questions which you think could be answered pending a working out of arrangements now under joint discussion? If so, please comment.

Winnipeg is here but hopes to leave within next few days for China. British in Washington have not yet received reply from London to their report of the plan which we submitted to you. Consequently no representations have yet been made by either British or ourselves to Chinese officials here on Stabilization and Exchange Control plans.²

TELEGRAM SENT

76

TK

GRAY

September 15, 1941

10 p.m.

American Consul,
Hong Kong, via N. H.

277.

FOR FOX FROM TREASURY.

Received today your message through Spagent, Shanghai, regarding your plans.

Since your departure from Manila and return to Hong Kong we had had nothing direct from you on the operations of the Stabilization Board except 354, September 12, 11 a.m., from Hong Kong concerning the sale of dollar checks by United States officials, which matter is having our consideration.

Lockhart and Nicholson have reported upon market developments at Shanghai following institution of the plans which your Board decided upon at Hong Kong after consultation with bankers. Message also received from Aarons at Shanghai recommending against proposed modifications of General Licenses 58, 59 and 61 pending fair trial of new arrangements and opportunity to improve thereon.

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Manila,

-2- #277, to Hong Kong, via N. R.

77

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EA:FL:MCE

HULL

78

(Sanced by Mr. Luthringer of the Department of State to Mr. Cochran in
the Treasury at 5:45 p.m., September 17, 1941.)

AMBASSADE DE BELGIQUE

86/14

D.6031

Washington, September 15, 1941.

No. 8867/BEE

Dear Sir:

On the 6th of this month you were kind enough to inform me that the American, English and Dutch Banks have pledged their loyal collaboration to the China Stabilization Board, in order to maintain the exchange of the China currency, and you inquired with regard to the possibility of a similar agreement with the Banque Belge pour l'Etranger in the Far East.

That same day I sent a cable to our Consul General in Shanghai, in reply to which I have received today the assurance of a loyal collaboration on the part of Banque Belge pour l'Etranger, the only Belgian Bank in the Far East, with Agencies in Shanghai and Tientsin. However, our Consul General at Shanghai is drawing my attention to the fact that the said Agencies are denied the privileges granted under the general license No. 59 of the Treasury Department "licensing, as generally licensed nationals," the Offices within China of 14 American, English and Dutch Banks. Consequently the Banque Belge pour l'Etranger has no contact whatsoever with the Stabilization Board.

Besides this inconvenience, the discrimination by the Treasury Department of the only Belgian Bank in the Far East, is greatly prejudicial to the prestige and to the interests of the Bank, and of the country altogether.

I would, therefore, be very grateful to you if you could induce the Treasury Department to modify its attitude toward the Banque Belge pour l'Etranger.

Sincerely yours,

Baron de GRUENIN

C
O
P
Y

TREASURY DEPARTMENT

79

United States Coast Guard

WASHINGTON

15 September, 1941.

S E C R E T

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

I have received information that Sun Lee Co., Room 313, Number 40 Ning Po Road, Shanghai, has received one and a half million U. S. dollars from the United States since the freezing order went into effect. The sender is J. R. Williston Company, New York stock broker. The money is said to belong to Chao Shih Cheung, Chief of Consolidated Tax Bureau, Nanking. The manager of Sun Lee is a brother of Chao Shih Cheung, and Sun Lee is believed to be Williston's China agent. We doubt such transaction as above has been effected over the books of licensed banks, but we do hear repeatedly that U. S. dollars are available in large blocks in Shanghai, which indicates a bad leak somewhere. I suggest that an investigation of Williston be made at your end.

S E C R E T

Copy: hbr:9-15-41.

TREASURY DEPARTMENT

80

INTER-OFFICE COMMUNICATION

DATE September 15, 1941.

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£80,000
Purchased from commercial concerns	£25,000

Open market sterling was again quoted at 4.05-1/2 and there were no reported transactions.

The Argentine free peso declined to a closing quotation of .2373, as compared with .2380 on Saturday.

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

Canadian dollar	10-5/8% discount
Brazilian milreis (free)	.0505
Colombian peso	.5800
Mexican peso	.2070
Venezuelan bolivar	.2755
Uruguayan peso (free)	.4400
Cuban peso	7/16% discount

In the absence of reports to the contrary, the New York banks believed that the yuan-dollar rate in the Shanghai exchange market remained at approximately 5-11/32¢.

We sold \$20,000,000 in gold to the Swiss National Bank, which was added to its earmarked account.

Under general license No. 70, and in accordance with a Treasury license issued today under the Gold Reserve Act, the Federal Reserve Bank of New York will effect the following transfers of gold in its vaults:

\$448,000 representing two transfers from the Bank of Portugal's Gold Account G to the ordinary account of the Bank of Portugal.
Gold in Account G is the property of the Portuguese Government.

The Bank of Portugal is purchasing the above amount of gold from the Government, and payment therefor will be made in dollars.

- 2 -

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.

A handwritten signature in dark ink, appearing to be 'M. M. P.', is centered on the page below the typed text.

CONFIDENTIAL

BRITISH EMBASSY,
WASHINGTON.

September 15th, 1941.

PERSONAL AND SECRET.

Dear Mr. Secretary,

I enclose herein for your
personal and secret information copies of
the three latest reports received from
London on the military situation.

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

R. J. Campbell

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D.C.

COPY OF TELEGRAM FROM LONDON

DATED SEPTEMBER 18, 1941.

1. 17 ships of homeward bound convoy totalling 63 ships attacked by U. boats off Greenland now believed torpedoed but salvage of three may be possible and one may only be missing from the convoy. Tonnage of ships torpedoed ranges from 1114-7465, total 65,360. These attacks by U. boats have not gone unanswered.
2. Three W.F.S.'s, 2 W.G.B.'s had inconclusive engagement with enemy light craft off Boulogne night of 11th/12th. Two of our boats sustained damage.
3. Panamanian "Honduras" 4,524 tons bombed and damaged in Gulf of Guex am/10th.
4. During last day or two Royal Air Force carried out several probing attacks on U. boats in the Atlantic.
5. Hudson on patrol claims two hits on merchant ship estimated 2,000 tons off Norwegian coast.
6. Night of 11th/12th. 191 aircraft despatched to deliver medium weight attacks on works and shipyards Rostock, docks Arnhemde, shipyards Kiel and light attacks Havre and Boulogne. Seven aircraft lost, two crews safe.
7. Night 10th/11th. Eight Wellingtons dropped bombs landing stage and power station Messina.
8. South west of Cape Matapan a.m./11th Blenheim aircraft scored two hits on 2,000 ton merchant ship. Observers confirmed serious damage.
9. German Air Force. 11th/12th. 26 bombers and 2 night fighters operated off East coast penetrating inland.
10. 10th/11th. Bombs dropped North Kame caused no damage or casualties. Larnaca (Cyprus) attacked without effect. German advance south eastwards from Gemel continues involving threat of encirclement to Russian troops north of Kiev.

TELEGRAM FROM LONDON DATED SEPTEMBER 18th, 1941.

1. Of seventeen ships reported probably torpedoed in homeward convoy off Greenland 11 are sunk, 3 still afloat, one missing and 2 doubtful but presumed sunk.
2. Dutch submarine O.21 on September 5th Isarec Italian 5,915 tons loaded with phosphates 70 miles west of Naples. She picked up master and 22 of the crew.
3. September 12th. 11 Blenheims escorted by fighters attacked convoy off Dutch coast. A ship medium size received two direct hits and smaller ship also believed hit.
4. Night of September 11th/12th. Seven Swordfish attacked with torpedoes convoy of six merchant ships six destroyers off Kerkennah, one ship estimated at 6,000 tons hit, probably sunk. Another estimated at 8,000 tons claimed damaged. Yesterday 8 Blenheims again attacked same convoy. Four bombs hit large merchant ship and two hits scored on another. Heavy anti-aircraft fire experienced. Three Blenheims lost.
5. Night of September 12th/13th. 162 aircraft despatched delivered heavy attack on Frankfurt and light attack on Cherbourg docks. Two missing.
6. Egypt. September 10th/11th. Six Wellingtons bombed Benghazi Harbour, and 6 more attacked about 60 enemy aircraft on landing ground near Derna destroying several.
7. Sicily. September 11th/12th. Over 16 tons of H.A. dropped Palermo docks. Drydock containing merchant vessel straddled by bombs.
8. German Air Force. Enemy activity slight over British Isles. Our night fighters destroyed two bombers and one possible.
9. Egypt. September 11th/12th. 13 enemy aircraft / bombed

bombed Suez without effect, one destroyed by Hurricanes.

10. Tobruk. September 9th/10th. Air raids reported as almost continuous. About 100 bombs and possibly some mines dropped but damage not serious. September 10th. Enemy aircraft bombs hit jetty and merchandise September 11th. Tobruk again attacked. No appreciable damage.

11. German advance held between Leningrad and Smolensk, southeast of Gomel, north from Kremenchug, and south from Serislev.

Telegram from London dated 14th September, 1941.

- At 0500/12 naval aircraft carried out attack on shipping on Bodo Fjord one ship estimated 2,000 tons sunk.
2. In Glom Fjord power station possibly hit and hits obtained on aluminium works where fires were started.
 3. Night of September 11th/12th a Soviet MTB claims torpedoed one destroyer, one transport, off Petsamo.
 4. Royal Air Force September 12th/13th. 132 tons H.E's and 5000 incendiaries dropped on Frankfurt; cloudy conditions hampered accurate bombing. 25 tons bombs dropped Cherbourg docks. Hudson made direct hit on 4,000 tons merchant vessel near Borkum, another 2,000 tons vessel probably hit.
 5. September 13th/14th. 154 aircraft despatched Brest and Havre docks. All returned safely visibility Brest was excellent until spoilt by effects of smoke-screens.
 6. Egypt. September 11th,12th Wellingtons successfully attacked Benghazi Harbour. One Italian bomber shot down near Mersa Matruh.
 7. North Russia. September 12th. Our fighters carried out sorties on aerodromes and six sorties escorting Russian bombers. One patrol destroyed two H.E. 109's probably destroyed another damaged one Henschel. We lost one fighter.
 8. Air Force September 13th/14th. 25 enemy aircraft sea-mining in Thames Estuary.
 9. Germans reported taken Syvka 60 miles east of Leningrad. Further German progress south-east of Ussel and north from Kremenchug is diminishing the prospects of successful extrication of Russians in Kiev salient.

RESTRICTED

86

MILITARY INTELLIGENCE DIVISION
WAR DEPARTMENT
Washington, September 15, 1941

TENTATIVE LESSONS BULLETIN
No. 158
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.

GERMAN GENERAL STAFF SCHOOL

SOURCE

This bulletin is based on a report submitted on July 18, 1941, by an American official observer in Berlin.

The observer, who attended the German General Staff School for one year, limited his report to "aspects of the instruction which I particularly wish to discuss."

RESTRICTED

- 1 -

GERMAN GENERAL STAFF SCHOOL

As in any school where there is a serious attempt to mould or direct the thought of the student, the basic feature of the German General Staff School is the daily mental contact between each student and his principal instructor, a tactics instructor. Each section of 20 to 25 students is directly under this instructor, who gives the students more than half their instruction and coordinates the rest, which is actually given by half a dozen specialists. The tactics instructor is solely and completely responsible for the section in every way, and at the end of the year he is required to write a letter evaluating each student from the standpoint of physical, mental, and professional ability, and also from that of character and personality. Each year the section has a new tactics instructor, the last one of whom, with his one year acquaintance with the students and the preceding letters of evaluation as a basis, is responsible for finally making or withholding recommendation for further training as a General Staff officer. There is tremendous incentive for the student to stand well. General Staff officers enjoy the special respect of the army and of the country - most of whose men are ex-soldiers; they are promoted more rapidly; and almost all general officers are selected from among them.

Obviously the success of the school depends directly and almost entirely on the caliber of the tactics instructors, who are always General Staff officers themselves and are selected for their teaching ability after a practical examination and demonstration. The observer knew well only his own instructor, a splendid officer and a fine gentleman. Like most of the others, that instructor had had nearly four years actual combat service during the World War, but unlike most, his service had all been on the West Front. He had started out as an artillery officer and was so considered, but during the years of von Seeckt's 100,000 man army he had served in the infantry and in the cavalry. Before the present war was six months old he had become Chief of Staff of an army corps - at the age of 43. He was in excellent physical condition, had been quite a show rider and had never played golf or tennis in his life. He was a bachelor and completely wrapped up in his profession.

The avowed purpose of the school is to select and train officers for the General Staff. The chief requirements are considered to be character and the ability to think through a military problem, large or small, in a logical and orthodox manner. In this sense orthodox thinking does not mean uniform thinking; but it does mean that any General Staff officer's solution to a military problem would have been considered by, and hence seems natural to, any other General Staff officer, although the latter might himself have selected a different solution. The Germans consider this agreement on military principles, and the methods of applying them, very important, while at the same time they go to such extreme

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lengths to avoid formulas of any sort that they refuse to prescribe a form for a field order lest it absolve an officer from thinking a problem through. What they want is original thought on each problem, but always within the realm of their well tried tactical and strategic principles. Thus in practice it becomes the job of the school to check on the student's character and to mould his ability to think along orthodox military lines. There is no question but that the school does a very fine job.

The check on the character comes through the close personal contact that the tactics instructor has with each student during the ten months in which they work together, and often play together, six days a week. There are sightseeing trips, military and non-military, occasional "beer evenings" and, most important of all, three trips per year lasting a week or more; all of these provide opportunities for the instructor to see the student outside the classroom.

Teaching the student to think along the desired lines, then, becomes the main preoccupation of the school and the purpose of practically all the instruction. Industry and interest are assumed to exist and apparently always do; the tactical principles are all laid down in Truppenfuehrung, and details of organization and equipment are known to all or, if new, are furnished by the specialist instructors. The latter, who are sometimes General Staff officers, sometimes not, develop the subjects of their special branches, namely: signal corps, engineers, air corps, antitank defense. They do this under the supervision of the tactics instructor, and their methods of instruction approximate his, except that they have to do more lecturing than he does. Even for them, however, the basis of the instruction is applicatory, that is, the solution of map problems. Often these problems are actually parts of more general tactical situations being studied under the tactics instructor at the time. Even military history, which is splendidly taught by excellent retired officers with experience as higher commanders, is learned in the section room. The instructor describes a historical situation as a problem confronting the commander; the student is then required to hand in a written estimate of the situation, or a written decision and the direction for carrying it out. This course is impressive in its honesty and objectivity - mistakes are mistakes, and military skill is military skill, regardless of where they are found.

The work of the tactics instructor himself is the meat of the whole course. His instruction is imparted almost entirely through the joint solution of tactical problems concerning first the reinforced regiment and then the infantry division, with the students doing the work, or as much of it as possible, in every case. At the start each student is assigned some element of the reinforced infantry regiment with which his previous service has made him very familiar and on which he gives a 20-minute talk to orient the others. Each student prepares

also a regimental problem for solution either on the map or on the ground, and most Saturdays are devoted to these student problems, in which the author acts as instructor. His effort is then critiqued, along with the actions of the other students who had been acting in the normal roles of commanders, staff officers, etc.

The instructor's method of handling a problem is extremely thorough and hence very instructive. He always begins a new situation by issuing - usually the day before - a typed description of the situation. The students put this on their maps and familiarize themselves with it at home. The next day the instructor discusses various aspects of it and forces the students to carry the discussion by asking questions and encouraging differences of opinion. After everybody is fairly well worked into the problem he may call for a written solution of some particular phase, or he may assign different students to various key positions and continue developing the situation with constant questioning of all the students as to the reactions and activities of the students assigned to the key positions. This is the most informal method of all and is never hurried in any way. All students are encouraged and, if necessary, are forced, by questioning, to take a definite stand, either with or against the statements of the key men. Key men are frequently shifted, if the problem is a long one with different phases. It is therefore impossible for anybody to fail to pay attention to, or take a definite part in, what is going on, and, though an original situation may be developed and carried on for days, it never drags.

A slightly more formal method consists in appointing students to key positions when the situation is issued and leaving them there for the duration of the problem, which is never more than one day. The instructor himself acts as both the enemy and higher authority, and he always details a student as his assistant to keep track of time and space, and to work out other detailed points of the problem. The student commander has a similar assistant or else is assigned one or more students as staff officers. In such cases the commander confers with them and then acts as he thinks best. Afterwards in the critique all questions are minutely examined and no effort is spared to clear things up for everybody.

A striking feature of all discussion and critiques is the mutual respect shown by instructor and student. A student's ideas are always given the greatest consideration, especially if they differ from those of the instructor. Intellectual honesty is absolute. Students are never declared flatly wrong unless they have miscalculated time or space, or have obviously violated some principle laid down in Truppenführung. Because the instructor's experience and position as a General Staff officer give him so much prestige, and because he so obviously knows what he is doing, there is never a lack of respect for his expressed opinions. Clearly, only officers of exceptional ability and considerable

experience can instruct successfully under such a system.

Having such excellent instructors who have proved their own tactical knowledge and have been tested for their teaching ability, the school gives them a very free hand. Each instructor makes his own schedule and decides the relative importance of the various subjects. If records were kept, the observer saw little sign of them. During the school year, although it was his instructor's first year, the commandant inspected only once and the assistant commandant only three or four times. One of the latter occasions was an all day problem during a week of tactical rides entirely away from Berlin. The instructor and section both seemed to feel it an occasion of some importance. This same attitude of confidence and interest carries on to the students who, having been specially selected, are admittedly good and are not graded, at least not visibly. Their fate is in the hands of the instructor, but they are never reminded of that fact; they know it and they do not forget it.

The German candidate for instruction at the school has to be recommended by his regimental and division commanders; then he takes both a written and practical examination, including a personal interview, given by the division or corps. The results are excellent; only good material comes to the school, and no equally good material is left out.

A noteworthy feature of the school is the principle of making officers serve with several branches. After the academic year, the students are assigned for summer duty in a branch other than their own; that experience is very valuable. What can be done when there is really good coordination between all the elements of a large command is one of the chief lessons in this war. That lesson is undoubtedly due in large part to the fact that so many German officers now in key positions are experienced in two or more branches.

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G-3/2657-220; No. 493 M.I.D., W.D. 1100 A.M., September 15, 1941.

SITUATION REPORTI. Eastern Theater.

Ground: The German Arctic force which is attacking Murmanak has gained the east bank of the Lista River.

German troops advancing towards Leningrad have reached the area eight miles southwest of the city.

The Russian forces encircled northeast of Luga continue to offer stubborn resistance.

Southeast of Lake Ilmen, German forces advancing from Staraya Russa and Kholm have reached a line approximately fifteen miles west of the town of Valdai.

Two separate Russian groups have been encircled in the area south of the Staraya Russa - Valdai railroad line.

No information has been received with regard to operations on the Central Front.

The leading armored division of the advancing wedge of armored divisions, advancing southeastward from Gomel, reached Lokhvitza during the evening of Friday, September 12. It is believed that these armored divisions constitute the armored army of Generaloberst Guderian.

To the northwest of Lokhvitza, Russian forces are withdrawing on both sides of Nezhin in a southerly direction. German forces have captured Kremenchug on the middle Dnepr and are advancing northward towards the Kiev-Poltava railroad. These forces reached the line of the Khorol river on September 12.

German forces advancing from the bridgehead of Berislav on the lower Dnepr have reached the isthmus of Perekop, the land bridge to the Crimea.

Air: The German Air Force is concentrating against Russian air fields, troop concentrations and fortifications on the isthmus of Perekop, Crimea.

II. Western Theater.

Air: Fleet air arm activity in the Arctic war zone off the northwest coast of Norway constituted all reported action in this theater.

III. Middle Eastern Theater.

Ground: Increased patrol activity in North Africa is reported.

Air: R.A.F. planes aided British ground troops in driving back Axis columns advancing into Egypt from the Libyan-Egyptian frontier.

Axis planes raided Alexandria and supply centers at Birhabaka, North Africa.

British planes attacked Tripoli and Benghazi while Axis planes bombed Tobruk.

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London, filed: 4:25 p.m., September 15, 1941.

1. British Air Activity over the Continent.

a. Night of September 13-14. The amount of bombs dropped was as follows: on the Scharnhorst and Gneisenau, 162 tons of HX, including 2 - 4000 pound and 30 - 2000 pound armor piercing bombs, and 800 incendiaries; on the Prinz Eugen, 12 tons of HX, including 1 - 4000 pound bomb, and on Le Havre, 10 tons of HX.

b. Day of September 14. A total of 220 fighters were employed as follows: 120 in the protection of shipping, 86 on interception patrols, 7 on offensive missions and 9 on special operations. 12 Heinkel were dispatched to attack shipping. These bombers were not intercepted.

c. Night of September 14-15. The operation of bombers was prevented by bad weather.

2. German Air Activity over Britain.

a. Day of September 13. 20 reconnaissance aircraft and 10 long range bombers were used.

b. Night of September 13-14. 35 long range bombers were employed.

c. Day of September 14. No enemy aircraft appeared over Britain. Other operations were on a very small scale except for an attack on shipping off the east coast.

d. Night of September 14-15. A little activity against shipping occurred off the Scilly Isles, Tyne and Lowestoft.

3. Aircraft Losses Reported.

-3-

- a. British losses. None reported.
- b. Axis losses. None reported.
- 4. British Air Activity, Other Theaters.

a. Mediterranean Theater. 19 tons of HE were dropped by 10 Wellingtons on the airbases of Malaga and Heraklion the night of September 12-13. Fires were reported to have resulted in both of these raids.

b. North Russian Theater. Royal Air Force fighters made 13 attacks on German held airbases and 6 flights escorting Russian bombers. 1 R.A.F. fighter was lost. German losses were: 2 Me-109's shot down, 1 Me-109 probably destroyed and 1 Messerschel damaged.
[REPORTED EARLIER BY U.K. EMBASSY]

5. Axis Air Activity, Other Theaters.

a. North African Theater. Very little damage resulted from raids on Tobruk and Mersa Matruh on September 12.

In accordance with information considered reliable, the Air Ministry believes the following to be a correct estimate of the damage done in Berlin by British bombing raids during September: railway lines leading to Anhalter Station hit in 8 places, causing disruption of traffic for a week; hits on the elevated railway which will probably cause an interruption of traffic for several weeks; 22 houses between Anhalter and Potsdamer stations completely destroyed; Potsdamer Station hit resulting in the destruction of facilities; and hits over the tunnel leading to the post office, which caused the death of 180 persons.

LHE

I. N. # 12, 2:15P, 9/15/41

CONFIDENTIAL

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, September 16, 1941.
9/15/41

Press Service
No. 27-55

The Secretary of the Treasury announced last evening that the tenders for \$100,000,000, or thereabouts, of 91-day Treasury bills, to be dated September 17, and to mature December 17, 1941, which were offered on September 12, were opened at the Federal Reserve Banks on September 15.

The details of this issue are as follows:

Total applied for - \$493,411,000
Total accepted - 100,043,000

Range of accepted bids: (Excepting two tenders totaling \$260,000)

High	-	100.				
Low	-	99.985	Equivalent rate	approximately	0.059	percent.
Average						
Price	-	99.987	"	"	"	0.050 "

(2 percent of the amount bid for at the low price was accepted)

- o o o -

September 16, 1941
2:50 p.m.

HMJr: Hello. Harold?

Harold Ickes: Henry, any oil going to Japan these days?

HMJr: Any oil going to Japan these days? I don't think so, but it is going to Spain.

I: Hell of a lot going to Spain.

HMJr: I know there's a lot, but.....

I: Could you send me the figures on it?

HMJr: Just one second, and I can tell you in one minute. There's none gone last week. Russia - no, there was none last week to Spain.

I: None last week to Spain.

HMJr: But you want to know what's been going.....

I: Keep me informed on currently, will you Henry?

HMJr: I think I send you a statement every week.

I: Well, that may be. You see, I've been away.

HMJr: Well.....

I: I haven't been able to get down to the top of my desk yet.

HMJr: Well, supposing I have a little statement prepared, say, from the first of July to date?

I: I'd like to have it.

HMJr: How would that be?

I: Fine.

HMJr: And I'll get it over to you - well, either tonight or the first thing in the morning.

I: Yes.

HMJr: How are you?

I: And can you show me.....

HMJr: Hello.

I:the amount sent last year, or would that be a fair comparison?

HMJr: What would you like to have now?

I: I'd like some figures to show me what the amount of the increase was.

HMJr: Well, supposing we set it up beginning with the first of January, by month?

I: Fine.

HMJr: And then compare it by month?

I: Fine.

HMJr: How would that be?

I: I'd appreciate it, Henry. Thanks a lot.

HMJr: I'll do it right away.

I: All right.

HMJr: Thank you.

I: Good-bye.

September 16, 1941
3:00 p.m.

GROUP MEETING

Present: Mr. Cochran
Mr. Thompson
Mr. Haas
Mr. Kuhn
Mr. Foley
Miss Chauncey
Mr. White
Mr. Schwarz
Mr. Graves
Mr. Bell

H.M.Jr: Hello, gents. Is this all there is. I don't know whether you people feel the heat, but I do. Could you fellows come closer? I can't see those fellows down at the end of the room. It is just as well to come right up where I can spit in your eye.

Where is Schwarz?

You can tell General Burns and Mr. Young for me, I should think they would want to do something for Russia, and I am committed now to taking this - you handle Lend-Lease don't you, Harry?

(Mr. Schwarz entered the conference.)

White: Yes.

- 2 -

H.M.Jr: It is just damn silly nonsense they can't find enough money to repair that Russian boat, and I am not going to take an answer of "No." It is just damn nonsense.

(Mr. Graves entered the conference.)

H.M.Jr: Hello. See? It is ridiculous. God, they buy every other thing in the world. Why can't they repair a boat? They repair all the English boats.

White: They do it under Lend-Lease.

H.M.Jr: Well, our Navy yards are full of English boats.

White: But under Lend-Lease, I think.

H.M.Jr: What do they say? They say they can't do it under Lend-Lease.

White: I don't think it is a legal restriction. I think it is a policy restriction.

H.M.Jr: Nuts! You can tell them, too. (Laughter) Whatever it is, I mean - this is Harry Hopkins, General Aniline and Film.

Foley: Yes, I will have an answer prepared.

H.M.Jr: Do you want to hold it and prepare the answer?

Foley: Yes.

H.M.Jr: So we don't get ten different people handling this thing, here is a letter from the American Bankers, when do I get there.

(Mr. Bell entered the conference.)

H.M.Jr: Hello, Dan. It is none of his business. I will be there in time to talk, you see, and if he will have a room and a parlor for me.

Schwarz: Shall I send a note with my signature?

H.M.Jr: Yes. Tell them I will be there in plenty of time and just give me the number of the room and the parlor, see? The only other thing is that Harold's friend from South Carolina, the banker, B. M. Edward, he should be invited to that lunch, you see.

Schwarz: I will point that out.

H.M.Jr: Will you?

Chauncey: Is Mr. Kuhn going with you?

H.M.Jr: I don't know, I had a lot of trouble with him on the last trip.

Chauncey: They asked in the letter.

H.M.Jr: Does Mr. Kuhn want to go?

Kuhn: It is up to you.

H.M.Jr: He should whisper those things to me. I will talk to you (Kuhn) about it. We have plenty of time. It is very embarrassing. (Laughter)

Oscar Cox has an idea on sterling which I refer to you (White).

Harold, there is a Mrs. Carlebach comes in as a volunteer up to that organization that is supposed to be selling bonds. She has got a lot of ideas. She is a friend of Mrs. Morgenthau's. I think we did it through you. She was supposed to help Mrs. Lytle

Hull. I thought when you went up there you might send for her and talk to her, you see.

- Graves: Fine.
- H.M.Jr: Now, I am being visited this afternoon by the Acting Secretary of Agriculture. You (Foley) had better sit in.
- George, I hope you know now how to sell some cotton, because that is what I want to tell them. Do you know how to do it? (Laughter).
- Haas: Very easy. The inertia is not on our side.
- H.M.Jr: The President told them they should sell - start by selling two hundred fifty thousand bales of cotton every time it went above parity.
- Haas: They are limited to three hundred thousand a month.
- H.M.Jr: A month?
- Bell: Limited by what, George, statute?
- Haas: Statute.
- H.M.Jr: They can't sell more than that?
- Haas: I am pretty sure I am right on that. Do you know, Ed?
- Foley: No.
- H.M.Jr: Don't make any mistakes now, boys. I told the President they could sell six million bales. Can they sell it?
- Haas: But there is a time limitation. I think it

is three hundred thousand bales a month.

H.M.Jr: In the law?

Haas: I think it is.

H.M.Jr: Well, you had better know.

Foley: When is he coming in?

H.M.Jr: Four o'clock, boys, four o'clock.

Don't you (Bell) want to sit in on this?

Bell: I will.

H.M.Jr: Would you like to? It is going to be fun.

Bell: I would like to sit in on an educational conference.

Haas: That is fine. He is going to do the same on wheat?

H.M.Jr: Wheat hasn't reached parity yet, has it?

Haas: That is right.

H.M.Jr: If the President would announce it--

Haas: The press, the people will interpret the wheat market in view of what you are doing in the cotton anyway.

H.M.Jr: Now let's see. You (Foley) will come in now and then. I am going to drop you out of it after this. I will just bring you in today. I am going to handle it myself with George. All right?

Foley: Sure.

H.M.Jr: I put you in as a pinch hitter.

Kuhn: Did you see the Baltimore Sun piece?

H.M.Jr: I have got it right here.

Kuhn: I have some more copies of it if anybody wants it.

H.M.Jr: But George, for God's sake now, know what you can do so when I pound the desk--
(Laughter)

Haas: I will have to see Ed. He is the lawyer.

H.M.Jr: Get the statute out. You can read.

Haas: I read it some months ago, so I am just depending on memory.

H.M.Jr: He is not a farm lawyer. All right. You think they can sell that much?

Foley: Well, the question is, Mr. Secretary, do they have six million bales, and the answer is that we were correct in that memorandum and they do have it. They mentioned the six million bales when I was over there; and Shields, who is the head of that Agricultural Adjustment Division, says that they have six million one hundred twenty-six thousand bales on hand. I think that the financial statement of the Commodity Credit also shows as of the thirty-first of July--

H.M.Jr: Well, the point is--

Foley: They have over six million bales.

H.M.Jr: You see me through this meeting, and I will let George pick it up there, because he has

- 7 -

got a lot of farmers back in his organization.

Bell: We get out an audit report of March 31 on it which shows the number of bales and also we get up a statement every month showing the cotton they have taken over.

H.M.Jr: Who handles that for you, Dan?

Bell: Heffelfinger gets up the statement for me. Remember, we send it in to you every month showing the number of bales of cotton?

H.M.Jr: It is four o'clock, so you will have a little time to be ready. On the wheat, too, what they could sell.

Haas: Yes, we can have that.

H.M.Jr: What have you got, Professor Bell? Is that lunch on for Thursday?

Bell: Yes, except Henderson. He can't come any day this week except Friday. I told him I didn't think you would want it Friday. He is talking to a Floyd Odlum group, including a number of Congressmen on Thursday, and the Press Club tomorrow. I told him that I would talk to you and maybe he could send someone or we could talk to him later. He suggests, however, that you might want Jesse Jones in that picture because he is a big operator.

H.M.Jr: Well, let me just get this. Where does the idea spring from?

Bell: The idea came out of a luncheon conference that we had last week with Ronald Ransom and his whole group and our group as to whether or not this whole inflation picture couldn't better be controlled through Nelson and

Henderson's organizations, being supplemented or backed up by the fiscal and monetary organizations. I talked a little to Nelson about it, and he liked it, and thought that we ought to get together with some sort of a committee among the four organizations just to explore it to see what could be done. I think that everybody at that group meeting the other day thought it had possibilities.

Am I speaking for you fellows, or are you against that idea? I thought everybody agreed at that meeting that that did have possibilities.

White: Definitely.

Haas: Yes.

Bell: That might be the best place and one central place to control it, and the only thing that the monetary and credit authorities would do would be to back them up.

H.M.Jr: It is always easier to add people, but it is awfully hard to get them off, so just let's leave it this way. Let's try to get Henderson to have somebody there to represent him. Who would come, Hamm?

Bell: I don't know, but he said he could have somebody if you were agreeable.

H.M.Jr: We will just have somebody and just sit down and talk about it.

Bell: Nelson was quite enthusiastic about it.

H.M.Jr: I don't want to add other people until we see--

Bell: I haven't read his speech of last night, but

- 9 -

he said he was going to town on it, that he was going to tell the American people--

Graves: He did a good job. I heard it.

Bell: That they were going to have to cut down on the things they now want to use, and the time has come when they want to start. I don't know whether they told him or not.

Graves: He did tell them.

H.M.Jr: Would you (Kuhn) have somebody digest Nelson's speech on one page so your people can give it to me tomorrow?

Kuhn: Right.

H.M.Jr: What else?

Bell: I talked to Currie about the Chinese situation, and he doesn't like Mr. Niemeyer, and he doesn't want to go to China with him, so that is out. I am in favor of sending no one if Currie can't go.

H.M.Jr: All right. O.K.

Bell: That is all I have.

H.M.Jr: Could you have somebody give me, tomorrow morning, a breakdown of what the President said about what went to England? You get the financial reports, don't you, on that? It was very misleading, and I was simply amazed to see Arthur Krock say, "It was wonderful." I just can't imagine what got into Arthur Krock.

Whoever does it, have them read tonight the fellow who writes for Scripps-Howard.

Schwarz: Ray Clapper.

H.M.Jr: Yes. Have them read Ray Clapper. But I would like a breakdown, because I can't make head or tail out of it. I think Ray Clapper is right, and I think Arthur Krock is wrong. Krock thinks it is wonderful, but Clapper thinks it is awful. I think Clapper is right.

Bell: You mean as to actual deliveries?

H.M.Jr: Yes.

Bell: About five hundred million dollars worth, as I recall it, including services.

H.M.Jr: Much less than that.

Foley: Less, about two hundred million.

Bell: Four hundred thirty-one million or something.

H.M.Jr: Let's have a breakdown for the nine-thirty group tomorrow morning.

Bell: All right.

H.M.Jr: Edward?

Bell: I think I ought to talk to you sometime about the financial picture, go over it for the next few months. We haven't done that for some time.

H.M.Jr: Pick me up tomorrow morning at about eight-thirty.

Bell: Delighted

Foley: Congressman Saunders from Louisiana, who is a very good fellow, called me just before I came in. He said he wanted to register a complaint about the difficulty he had purchasing tax anticipation notes. He first went to the post office and was told he couldn't buy them there.

H.M.Jr: A little louder there.

Foley: He went to the post office and he was told he couldn't buy them there and then his wife went to the local bank down near the hill there some place and they didn't know anything about it, never had heard of them. So she came to his office and he called up the cashier and the cashier said that they didn't - he didn't know much about it but as a kind of a personal favor to the Congressman he would take it up with the Federal Reserve Bank of Richmond.

He said he really wanted to buy those Tax Anticipation Notes so he could set aside a certain amount a month to have available to pay taxes with next year and he thinks it is outrageous. I feel a little bit aggrieved because I had a little difficulty too. Our circular says you can buy them here in the Treasury and you can't buy them here in the Treasury and the banks here have to send the stuff to Richmond and if you live in New York --

H.M.Jr: This is Bell's exclusive baby.

Foley: You don't like to deal through the Richmond Bank.

H.M.Jr: It is.

Foley: He said, "Have you given any consideration to selling them through the post offices?" and I said, "We did a little experimenting" and that we were just waiting to see how this went and that wasn't foreclosed.

H.M.Jr: Ask Bell. I don't know a thing about it. It is Bell's exclusive baby.

Bell: Well, we did give consideration to all those

matters. These Notes have to be inscribed in the name of the taxpayer and there ought to be a record kept in a central point where they are going to be redeemed so that when they come in they can tell whether or not they are going to be properly used. We are not going to have registration records here in Washington, which are very expensive. So we did it, we thought, the cheapest way, by having the records centralized in each Federal Reserve district. Every bank, certainly, was advised by a special letter from the Secretary and they have got all of the data. The small banks, of course, haven't paid a lot of attention to it.

- H.M.Jr: I will tell you what you do. Ask the Comptroller's men to check up in a hundred banks in the next couple of days and just see. Tell them to check in every bank in their district that they visit, not to make a special visit but just to ask and to send in a telegraphic report. Let them get out telegrams sometime tonight to them, to every bank they visit tomorrow, and what is tomorrow, Wednesday?
- Bell: Yes.
- H.M.Jr: ...To send in a telegraphic report Thursday night.
- Bell: Of course they won't visit many banks within three days. They are in a bank for several days, you know.
- H.M.Jr: Let them check every bank they are in. If they did it, it would be --

- 13 -

- Bell: It would be several, yes.
- H.M.Jr: Let them do that and visit a couple of banks in town, just use the telephone for two days.
- Bell: They can do that. They can call up a number of banks.
- H.M.Jr: Let them call up a number of banks. For instance, if they are in Albany, examining one bank, it would only take them fifteen minutes to get the other banks on the phone and you would get a pretty good report. Let's have a report Friday morning.
- Bell: I think there is some of this. I have heard it.
- H.M.Jr: And I am not sure he isn't right on the post offices, no matter what the details are.
- Schwarz: We have had several stories of it.
- Foley: It creates a bad impression here in Washington, particularly. We say that they are available at the Federal Reserve banks and at the Treasury. You go to the room that is designated on the circular and they haven't got them.
- Bell: Well, they had a mess down there.
- H.M.Jr: Now that Ed has got all the banks so they understand the foreign exchange regulations (laughter) he wants to make sure they understand the other thing.
- Bell: I am not so sure that that isn't the reason the Tax Anticipation Notes circular went

in the waste basket.

- H.M.Jr: Well, it all comes back, it is more important to get the smallest bank in the country to understand it than it is the National City or the Chase.
- Bell: They will take care of themselves.
- H.M.Jr: Will you do a little work?
- Bell: Yes.
- H.M.Jr: Your saying that, Foley, reminds me of the story this captain told today. I don't know why I think of Ed, but he said that - the captain told this story. This happened some years ago. An officer wrote in to the Secretary of the Navy, "My dear Mr. Secretary: I have just read your rules and regulations that the wives of officers can't follow them from one post to another. I ordered my wife not to follow me. She refuses to carry out my order. What should I do?" So he said the Secretary of the Navy changed the order. (Laughter)
- Foley: He was a very discerning fellow.
- White: After two weeks that is not bad. He learns awfully fast.
- H.M.Jr: I thought somebody would get it. (Laughter)
All right. Have we got by you yet?
- Foley: No, not yet.
- H.M.Jr: I am going to have to stop at 3:30.
- Foley: Starting on Thursday of this week, the Federal Reserve bank in New York is holding

- 15 -

meetings in Binghamton, Albany, Buffalo, Rochester, Syracuse, West Caldwell, New Jersey, and in Fairfield, Connecticut, to explain the new consumer credit regulations of the Federal Reserve and our freeze control regulations.

H.M.Jr: I see. Could they also explain how to buy a Tax Anticipation certificate? We better get in on that, Dan, seriously.

Foley: We had a little trouble with Knoke. Knoke wanted to kind of play up the consumer credit thing and play down our thing and we insisted that he carry them both on the same line and he kind of got mad with John Pehle and said he would have to take it up with higher authority in the bank, but just so long as we are given an equal break with the Federal Reserve Board, that is all we ask.

H.M.Jr: Get them to add tax certificates.

Foley: Do you want to send a memo on it, Dan?

Bell: Yes.

H.M.Jr: Who is doing your --

Foley: Maybe it would be a good idea to send something to them. We are going to ask them to send Kimball because they weren't going to send a first class man.

H.M.Jr: When are those meetings?

Foley: Starting Thursday, this week, in five cities in New York State, one city in Jersey, and one city in Connecticut, seven meetings. They start on Thursday and they run through

- 16 -

until the following Thursday.

H.M.Jr: Send Allen Barth around and - what is the other man - Merillat? And let them spend two days going to these different meetings and send a report in to you for me.

Kuhn: All right. Up in New York?

H.M.Jr: Wherever they are. Find out where they are. Let them each spend two days. Let them cover as many meetings as they can. In two days they will get an impression for me.

Foley: We are planning on having two fellows from here, one man from Pehle's office, Towson, and one fellow from Bernie's office, Joe Murphy.

H.M.Jr: Oh, you are doing that?

Foley: They are going to be on hand to answer questions and see that the thing is properly carried out.

H.M.Jr: Let's have some neutrals.

Schwarz: Observers.

Kuhn: When are the meetings, Ed?

Foley: They start Thursday this week. There is a notice of them in the Tribune this morning.

H.M.Jr: Let them spend Friday and Saturday - supposing they get - what?

Foley: Well, Thursday in Binghamton, Friday in Albany, Monday in Buffalo --

Kuhn: Monday will be better because --

- Foley: Tuesday in Rochester, Wednesday in Syracuse. Maybe Monday, Tuesday and Wednesday next week, Buffalo, Rochester and Syracuse.
- H.M.Jr: I don't want the same man to go to more than one meeting.
- Kuhn: One to each meeting, that is right.
- H.M.Jr: I mean, if, for instance, there is a meeting at Syracuse, Rochester and Buffalo, let one man cover those.
- Bell: They are different days in the week. They go around in a circle and come back to New York on Friday.
- Foley: They start on Thursday in Binghamton, Friday in Albany, the following Monday in Buffalo, Tuesday in Rochester, Wednesday in Syracuse, Thursday in West Caldwell, New Jersey, and Friday in New York City.
- H.M.Jr: You fix it up, Kuhn, to do it the best way. You may want to have one man cover the whole group.
- Foley: Yes, go to all meetings.
- H.M.Jr: I will leave it to you. A good fellow.
- Kuhn: They have their reports to do at the end of the week but at the beginning of the week they can do this.
- H.M.Jr: I will leave it to you. So somebody is there to sit there and tell Papa. You (Bell) get in on that with those tax things, will you?
- Bell: I will. I will have somebody there.

H.M.Jr: All right. You are looking better, incidentally, Dan.

Bell: I am feeling pretty good.

H.M.Jr: Is tonight the night?

Bell: No.

H.M.Jr: Tomorrow night?

Bell: Thursday night.

H.M.Jr: I don't mean yours, I mean the drinking party. When do you play golf?

Bell: Tomorrow afternoon.

H.M.Jr: Are you going to go to that, Harold?

Graves: No.

Bell: Tomorrow afternoon and tomorrow night. I won't look so good Thursday morning, I guess.

H.M.Jr: Is Mac going?

Bell: No.

Graves: Yes, Mac is going. Mac called me up and invited me to go today. At Congressional tomorrow?

Bell: No, at Manor. It is a small group out there.

H.M.Jr: Aren't you finished yet?

Foley: Almost.

H.M.Jr: Look at all these people with their tongues hanging out.

Foley: At the request of the State Department we are sending Joe Dubois with John Hooker down to South America to help the missions down there in connection with the blacklist and the problems that are coming up.

H.M.Jr: Do I sign something?

Foley: No.

H.M.Jr: Already gone?

Foley: Already gone. (Laughter)

There is a letter to Cochran about the letter he wrote to you and the Boston speech that he put in the record. Glass got permission to put your speech in the record but Cochran did the same day and since they don't put the thing in twice --

H.M.Jr: Is this Cochran --

Foley: They put it in under Cochran of Missouri and not Glass. He did it on his own. We didn't speak to him.

H.M.Jr: You know, he is a great fellow for high prices in agriculture.

Bell: No, that is Cannon.

Foley: That is Cannon. He is Appropriations.

H.M.Jr: Cochran?

Foley: No, Cochran is the stabilization fellow.

H.M.Jr: Is Cochran the defense fellow?

Foley: Yes.

Bell: Cochran is for economy, even though it is in agriculture.

H.M.Jr: Good. We need a few friends. Were you through?

Foley: We will have a proposal tomorrow in connection with writing to all the banks, the fifteen thousand banks, asking them for any suggestions or criticisms they may have in so far as freezing control regulations and reporting and all of that are concerned.

H.M.Jr: For me?

Foley: Yes.

H.M.Jr: Going to let me sign it?

Foley: Yes.

H.M.Jr: Good, I will sign it.

Foley: I think it would be a good idea.

H.M.Jr: I do too.

Foley: To have it on your stationery with your signature.

H.M.Jr: I think so too.

Foley: ...Asking each one to give suggestions and criticisms.

H.M.Jr: You can't put on a P.S., how are the Tax Anticipation Notes going?

Bell: You know, there are replies you got on that

letter, they all tried to let you know that they were cooperating fully and how many Savings Bonds they sold and they seemed very pleased that you had taken the trouble to write them, so I think it would be very good.

Foley:

I am through.

Schwarz:

Congressman Weiss of Pennsylvania called in a little while ago. He had accepted an invitation to participate next Tuesday in Pittsburgh in what he says is a Kiwanis Club meeting, but looms up on the line-up as a panel discussion with important Pennsylvania people. One of their subjects, he says, is going to be financing the defense program, and he asked if the Treasury would send somebody. It might be a good time to send some Defense Savings speaker.

H.M.Jr:

A "Harold Whoozis speaker". He has got lots of speakers. Give it to Harold. He has got a speakers bureau.

Schwarz:

They could talk about Tax Notes, also.

H.M.Jr:

Merle?

Cochran: We sold thirty-two and a half million dollars worth of gold since Saturday, twenty to Switzerland, five to Argentina, and seven and a half to Java. It is the best we have done.

H.M.Jr: What does Switzerland do with that gold?

Cochran: Just hold it on earmark in New York. They can't do otherwise.

H.M.Jr: After we turned them down on the two?

Cochran: Yes, sir.

H.M.Jr: That is surprising.

Cochran: And on silver, the Guaranty will go in the market tomorrow to buy three million ounces for the East Indies, Curacao and Surinam.

Bewley came by just before I came in to leave some British notes on their views with respect to our talks with Fox on China. I am having those copied to circulate.

H.M. Jr:

Send a copy to Mr. Graves and to Cliff Mack, Miss Chauncey, of that nice telegram I got from Beaverbrook thanking me for what we have done on speeding up the purchases. He sent me a very nice cable. He is awfully smart. He has somebody there and immediately comes a very gracious cable right away and makes you feel good.

Incidentally, ask Cliff Mack whether he has or whether he could get - they tell me there are nineteen steps up the ladder you have got to go up and then down again through the same steps when they buy through the Army. Does he know about it? Can you get it out of Phil Young's office? I would like to see it. They tell me it is wicked what you do for Lend-Lease. Ask Cliff Mack if he can get it from Phillip Young. No, let's do it through the English. Let's do it both ways. Ask Cliff Mack if he can get it from Phillip Young, what happens when the English want to buy from the Army and the Navy, and if he can't get it, then Harry White will try to get it from the English.

White:

Wait until he cannot get it?

H.M. Jr:

Yes, let's see him first.

Are you all right, Ferdie?

Kuhn:

Yes, sir. I will have some suggestions for you tomorrow about the speech in Chicago. The Boston speech is being distributed now.

The OPACS is full of good will, but there is not much organization, not many facilities

over there such as we have, and we are getting in ahead of them with our own bond holders' distribution.

H.M.Jr: They are not ready yet?

Kuhn: They have all the pamphlets but they are just not equipped to do that kind of job. It is bigger than anything they have ever tackled. Miss Elliott will go on the air in support of your wpeech on the 26th in Pennsylvania. She wants to get some more radio time.

H.M.Jr: Yes. What is the program for tomorrow night? I mean, the radio program.

Kuhn: Going to have --

H.M.Jr: I see you have Charlie McCarthy.

Kuhn: A Scendanavian number, Charlie McCarthy, Kate Smith and they doing a Stephen Vincent Benet poem.

H.M.Jr: Is Charlie McCarthy in Hollywood?

Kuhn: I think he is in New York.

H.M.Jr: Will you let me know tomorrow morning whether anything is going on from Hollywood tomorrow, or whether this is all from New York. Please.

Kuhn: Sure.

H.M.Jr: George?

Evans: Here is this report.

H.M.Jr: That goes up to the House tonight. Can I look at this other report without crying?

Haas: It is about the same.

Groves: Are we still losing ground on the E bond?

Haas: It is still thirteen per cent down. That was what it was last time.

H.M.Jr: Isn't that an improvement?

Haas: That is what it has been in the last few days.

Bell: You haven't lost any more?

Haas: No.

H.M.Jr: All right, what else?

Haas: That is all I have.

H.M.Jr: Harry?

White: There is a good deal of material came from Coe. Here are some very brief letters that I think you might want to read. I am having the rest of the stuff digested. He is sending a lot of newspaper clippings that are of considerable interest, I think, to many persons. I am wondering whether you would want to consider having Barthdo the same thing with those clippings and get up a semi-fortnightly paper or something of that nature for circulation to the President and the Cabinet and so on?

H.M.Jr: On England?

White: Yes, and then they can continue to send us a steady stream of merely excerpts. I don't mean the whole paper.

H.M.Jr: I wonder if Donovan is doing anything of that character.

Schwarz: He is certainly planning to begin it because that is one of the things he has outlined.

H.M.Jr: Well, aren't you (Schwarz) and Ferdie - is that with LaGuardia or who is contacting Donovan?

Schwarz: I was supposed to be available whenever any of LaGuardia's people come to us for information, but they are not ready. I have called them and asked what we could do to help.

H.M.Jr: Well, turn it in to Ferdie - I mean, let's get it out and I can say to Donovan, "Are you doing anything like this, or not?" Let's have one.

White: Let's try one sample copy.

H.M.Jr: All right.

Schwarz: That would fall more in Donovan's work than LaGuardia's.

H.M.Jr: He most likely is still thinking about it.

Kuhn: How many clippings did you get, Harry?

White: Oh, a big batch of them. It looks like about fifty.

Kuhn: Would it give you enough of a picture?

White: Certain points that we are interested in, Lend-Lease operation, food situation, women's work, production for defense, criticism. We have a man there if you

want to have them cut. We can send anything you want.

H.M.Jr:

O.K.?

White:

That is all.

H.M.Jr:

I visited your place yesterday, Harold.

Graves:

Was it too bad?

H.M.Jr:

I had a long, long talk with Mr. Hayman. Everything up there has got to be a title. I called him Mister. I will go over it with you some time.

Graves:

I intend going to New York on Friday instead of tomorrow.

H.M.Jr:

Maybe I will get a chance to talk to you. I have got it very much in mind.

Graves:

All right. Tomorrow Mr. Iseby, our State Chairman in Michigan, is here and he would like very much to see you.

H.M.Jr:

I would like very much to see him.

Graves:

I think you might be interested to give him fifteen minutes if you can spare that much.

H.M.Jr:

I can do that at 3:15. I will put you down.

Graves:

The next day, Thursday, Dr. Gaines, our State Chairman of Virginia is to be in Washington on our invitation. He is the President of Washington and Lee, and he is a very distinguished gentleman. It would be nice to give him some time.

- 28 -

H.M.Jr: Three o'clock.

Graves: Three o'clock Thursday and three fifteen tomorrow?

H.M.Jr: Yes, I am putting them down in your name.

Graves: That is all I have.

Thompson: Admiral Waesche phoned that he has a report for you on the secret instructions issued to the Coast Guard on Saturday. I was wondering; it is so confidential he is keeping it in the safe. It is a report he said you asked for.

H.M.Jr: I tell you what you tell him to do. Tell him to keep it there and deliver it to Mrs. Klotz when she gets back. Tell him to deliver it to Mrs. Klotz when she gets back.

Thompson: Do you want the Admiral and Mr. Johnson to attend the nine-thirty meeting in Mr. Gaston's absence?

H.M.Jr: Yes.

Thompson: In order to legalize the circulation of your speech, we had to construe the mailing to be a part of the Defense Savings Program. I think that is entirely proper. The law prohibits distribution of material of that type unless it relates to the sale of securities. That is one of the exceptions in the law. I thought you ought to know.

H.M.Jr: I am sorry that we couldn't put it on the back - you know --

Thompson: We are printing a defense legend on the envelopes and not on the pamphlets. We are putting it on the envelope to correct that, to tie it up.

- H.M.Jr: Yes, it would have been better. Is there any question about it?
- Hell: If we had a Defense Savings circular of some kind that could go along with it --
- H.M.Jr: It should be stuffed in.
- Kuhn: Two million of them are going to our Defense Savings people with other material, but there is a quantity which OPACS wanted to distribute from the Consumers' Division with a letter from the Consumers' Division as ammunition for them and that is what --
- H.M.Jr: What I would suggest is, if you could stop the press, I would like that just the --
- Kuhn: Minute Man?
- H.M.Jr: Yes, put on the back page.
- Kuhn: If they haven't all been printed, I will find out about it.
- H.M.Jr: Would that help any?
- Graves: I doubt that it is necessary to do that.
- Thompson: I think the speech itself is sufficient.
- Graves: The speech itself is germane.
- H.M.Jr: Any doubts?
- Foley: Well, it is indirectly related to the sale of your Defense Bonds.

Bell: It is less open to criticism if you have something there immediately on United States Savings Bonds.

Foley: If you could put it on the back cover, stamp it.

H.M.Jr: You could put it right in the center of the thing. When you leave the room, Kuhn, call up whoever is handling --

Graves: Mahan, and he is in my office now. He can probably answer your question.

H.M.Jr: As I understand, it is not being mailed out separately, it is being stuffed in, isn't it?

Kuhn: Not by OPACS. We are stuffing it in.

H.M.Jr: But their copies haven't been printed yet.

Kuhn: They have been printed, but they have not been distributed.

H.M.Jr: They have been printed?

Kuhn: Oh, yes.

Graves: Delivered over there, are they not?

Kuhn: Delivered, that is right.

H.M.Jr: Was there any question about that?

Kuhn: No --

Bell: Will they go out under a frank and the return card, OPACS?

Kuhn: They will go out under a - in an OPACS envelope

with an OPACS frank with a covering letter signed by Harriett Elliott.

White: Why couldn't there be slipped in the speech one of the regular sales tax bond application blanks?

Foley: I am not worried about OPACS. They have got their own counsel, let them handle it themselves. The only thing I am worried about is paying thirty-five thousand dollars for the printing of this pamphlet and the use of the frank to send it out from the Treasury.

Graves: Who is going to question it?

Foley: It may very well be questioned by the group of Senators on the Hill who have taken opposition to the Secretary's speech, the crowd that is going to try to override the President's veto on the freezing of commodities this afternoon.

H.M.Jr: But somebody must have passed on the thirty-five thousand dollars.

Thompson: Well, the question came to me as to paying for it. That is the first I had heard of that dispute.

H.M.Jr: Who signed the requisition?

Thompson: The requisition went through the Defense Savings group.

H.M.Jr: Well, somebody must have passed it on.

Kuhn: Yes, I probably was at fault in not seeing this legal difficulty, but you had already sent out speeches of your own on Defense Savings and --

Foley:

Well, we have got an exception in the law. You remember when O'Mahoney put the restrictions on the use of the frank in connection with the dissemination of material a couple of years ago, and Dan raised the question about advertising in so far as the Savings Bonds were concerned. We went down and saw O'Mahoney and we got permission in the law to permit us to frank out material in regard to Treasury securities, so if we can work it in as material relating to our campaign for the sale of Defense Bonds, we are O.K.

Graves:

Well, that can be fully met, I think, by stuffing another item of literature in that --

Foley:

Yes, and stamping on the envelope, "Buy Defense Bonds," and getting as much manifestation in the Savings Bonds as we can.

Kuhn:

Ours is all right. It is the OPACS thing that is a little difficult.

H.M. Jr:

Let's just get this. I want to pin this on one person. Let me pin this thing on you, Norman, and on OPACS and get proper legal counsel and see that - I can't be bothered with all this stuff. Please find out every list that it is going to, get a legal opinion, and see that the thing goes out so nobody can question it, and if there is any question, I would rather have it not go out or have it all go out through our own envelopes, call it back, but I am sure some Congressman or somebody will pick it up. It is up to you to see that there is no question or subterfuge and that the thing is done. If there is any question about OPACS - I don't agree with Ed Foley

who says let them worry about it. I am paying for the printing of the speech. The thirty-five thousand dollars I am paying, I want you entirely satisfied, and if you are not entirely satisfied so you can go and defend it on the Hill, or I can defend it - now, if there is any question, I want you to stop it.

Thompson: I think we are a hundred per cent on our own. It is just on OPACS.

H.M.Jr: It is on you, see. Will you accept it?

Thompson: Yes, sir.

H.M.Jr: And check every list, everything. If there is any question about OPACS, pull them back and we will stuff them in to our own envelopes, but I don't want to be worrying about that, please. And get plenty of legal advice. Don't you agree, Dan?

Bell: I do.

H.M.Jr: And rather than - if you don't mind, I am paying for the speeches.

Foley: Yes, that is right. I merely meant, Mr. Secretary, that the primary thing is the payment for it, the appropriation out of which the payment is made. That is primary. And then the part that we send out here --

H.M.Jr: Well, it is being paid out of Harold Graves' appropriation. Is that agreeable with you, let Norman do it?

Graves: Yes.

H.M.Jr: If there is any question, we have got plenty of stuff going out and we can stuff them in.

Kuhn: As I understand it, they are not being mailed out separately. They are being stuffed in with some other mailing.

Bell: So far as Treasury is concerned.

Kuhn: So far as we are concerned. But the OPACS is going out with nothing but a covering letter from Harriett Elliott.

H.M.Jr: If you have got any question, pull them away and just send it out with our own stuff, but please lean over - my instructions to you are to lean over backward. I would rather not have the speech go out if there is any question at all, and there is plenty of mailing here that it could go with.

Thompson: Yes.

H.M.Jr: All right.

Nat. Bank Ex. Sal. & Exp. Comp. of Currency

Night Letter September 16, 1941

Mr. Irwin D. Wright,
District Chief National Bank Examiner,
1 Montgomery St., Room 921, San Francisco, California

There seems to be a lack of understanding on the part of some banks regarding Treasury Tax Anticipation Notes. We understand some bank officials have stated in response to questions from customers that they are not informed regarding these notes and they are unable to give advice or assistance. Please contact the national banks through your examiners in those cities where banks are under examination and report to this office not later than Friday of this week as to whether the banks are generally informed regarding these notes and are rendering service to their customers as requested by the Secretary of the Treasury in his letter of July 28.

Delano
Comptroller

Telegraph Office: Please send
above wire to list attached.

September 16, 1941
3:45 p.m.

SEATTLE INVESTIGATION

Present: Mr. Ireby
Mr. Frank

This Seattle situation started some three or four months ago. It has been in the making since then. It involves the same general conditions that were involved in that Atlantic City case, that Mr. Frank investigated.

It has to do with vice conditions generally, disorderly houses, gambling houses of all sorts, bookmaking establishments, horse betting and such things as that.

Apparently it involves almost the entire police force of Seattle, county officers and state officers, in and around Seattle and Tacoma. The Mayor of Seattle, former Mayor of Seattle, who is now Governor, was the one who first brought the thing up, and it is at his suggestion that we started the inquiries in the first instance.

Just before you called me, a few hours before, I had received a letter from the man in charge out there going through the situation to some extent, and calling on me for additional help, and I was giving that thought when you called, and was then thinking about calling Bill Frank down because of his experience in this particular type of work, and having him go out there and survey the field and make recommendations to us. Then your call came in.

- 2 -

I got him down here and I find now that in winding up the Atlantic City situation, there has developed a pretty serious condition involving jury tampering in which he has already got eight confessions. It will involve about fifteen defendants. Now, he expects to go before the grand jury next week and present that. It is a highly serious and important situation. So that on that account he won't be available for a couple of weeks. But in the meantime, it occurred to me that we could let him wait until then to go out, but I could be getting some additional help in there, because I know they need it.

That is the situation at the moment.

H.M.Jr:

You don't know who you are going to send? But eventually Frank will go?

Ivey:

Yes, he will go, but I didn't have in mind him going out and taking charge of the investigation, particularly. I want him to go out and see if there is any need of him taking charge of it. In other words, I would rather have the local men handle it if it is possible to do it.

H.M.Jr:

If he is busy, why can't Frank go out? What is the next job? I imagine this thing out there will be another year or two.

Ivey:

Oh, yes, those things always last indefinitely. He has no other special job.

H.M.Jr:

We will send him out there. How do you spell Frank?

Frank:

F-r-a-n-k, William E.

H.M.Jr:

When does he have to be on the jury thing?

- 3 -

Irey: Well, next week sometime.

Frank: Next week sometime.

Irey: Whenever the grand jury is called he has to go before it and testify.

H.M.Jr: Are you prepared?

Frank: To testify? Yes, our case is almost complete.

H.M.Jr: Do you have to work on it yourself?

Frank: My testimony is needed --

H.M.Jr: What I am getting at, is, could you fly out to Seattle and come back again, just to see Boettiger?

Irey: This is Tuesday. Now, what is the situation?

Frank: Well, we are in the last week of the case, and that is always the important week, just before we go to the grand jury.

H.M.Jr: This week is?

Frank: Yes, and if it could be avoided --

H.M.Jr: How long will it be before the grand jury will be through?

Frank: We should be through either next Wednesday or Thursday.

H.M.Jr: That is all right.

Irey: He will be out there the latter part of next week, then.

H.M.Jr: I think it is good ball to send him out, in view of this call, you see.

- 4 -

Irey: Yes.

H.W.Jr: He wanted you to come out yourself.

Irey: I had planned if he went later that I might go out with him.

H.W.Jr: You don't fly, do you?

Irey: No, I am prohibited from flying.

H.W.Jr: Why can't Frank go out there? He can go out and make --

Irey: He can go and make the survey and you and I can talk later about whether you want me to go out.

H.W.Jr: Yes.

Irey: Then you (Frank) can plan to go about a week from now, as soon as you get away from Atlantic City.

Frank: I will be ready to go the day we finish grand jury.

H.W.Jr: Are you married? What will you do? This will be a long job.

Frank: Yes.

Irey: I think when he comes back to make his report to us - he had planned to take some leave of absence and go on a trip west. He just bought himself a new automobile. I think he can just put his wife and children in the new automobile and drive back out there and stay there.

H.W.Jr: Break in the automobile. Well, you talk it out. Make it easy for him. Would you like to go out?

- 5 -

Frank: I wouldn't object at all. I like that kind of work.

H.M.Jr: Does it break up your family?

Frank: No, it will be perfectly all right.

H.M.Jr: It isn't a hardship on you?

Frank: No. I would like a little vacation. I haven't had a vacation in five years, since we went down there.

H.M.Jr: How long were you on the Atlantic City case?

Frank: This is the middle of the fourth year down there.

Irey: It will be five years next month.

Frank: Five years in November, and I haven't had a vacation for months before that.

Irey: It was in November that this man came in to see you five years ago.

H.M.Jr: What could you do in the meantime? Is there anything we could do between - I guess he will just have to wait, that is all.

Irey: In the meantime, Mr. Secretary, there is a lot of detailed work that can be done out there, routine work, and I will get these new men in. They will be reporting and learning the ropes. He can make this flying trip out and outline a program for them.

H.M.Jr: And then when you go out there you will call on Mr. Boettiger.

Frank: Yes.

- 6 -

H.M.Jr: You know who he is?
Frank: Yes, sir.

September 16, 1941
3:50 p.m.

HMJr: Hello.

Operator: Mr. Boettiger.

HMJr: Hello.

John Boettiger: Hello, Henry.

HMJr: Hello, John. How are you?

B: Fine.

HMJr: John, I've got Mr. Ireys in the office here now. Hello.

B: Yeah.

HMJr: Is this John Boettiger?

B: Yes.

HMJr: And I also got W. E. Frank. Now, Frank is the agent who was in charge of the Nucky Johnson case in Atlantic City. Hello.

B: Yes.

HMJr: Are you familiar with that?

B: No, I'm not, Henry.

HMJr: Well, you.....

B: How does he spell his name?

HMJr: W. E. Frank. F-r-a-n-k.

B: All right.

HMJr: Well, do you know anything about the Nucky Johnson case?

B: No, I don't.

- 2 -

HMJr: Well, it took us just five years to make it, and the man is now in Federal Penitentiary. He was the boss of Atlantic City.

B: Yeah.

HMJr: It's one of the biggest cases we ever had.

B: Fine.

HMJr: And Frank will finish his testimony before the grand jury about next Wednesday. Then I'm going to put him in a plane and send him out there.

B: Fine. Oh, that's grand.

HMJr: In the meantime, we're going to strengthen our forces out there. But he's one of the best men we have in the service, and when he gets out there he'll call on you.

B: Well, that's simply fine, Henry. I appreciate that very much.

HMJr: But the way we figure, this is - these cases, you know, they take years to develop; and I'd rather wait one week to give you a really good man, and this.....

B: Well, I agree with that.

HMJr:and Mr. Irej is going to watch it for me personally and I'll watch it also.

B: I didn't want you to feel that I was sort of butting in on this matter.....

HMJr: You're not - no, I consider you were doing me a favor.

B:by trying to tell people in the Federal Government how to run their business.

HMJr: John, you're doing me a favor; and that's what Irej's attitude is, also. He's delighted.

B: Well, that's fine.

HMJr: So we're all delighted and we feel that you brought it to my attention and we're all delighted, and I'm glad that Frank will be free in about a week. He's been tied up for five years on this one case.

B: I would like to - I would like to have an understanding, Henry, that my connection with this - I mean my telephoning you and what not would not be disclosed.

HMJr: That's all.....

B: Will you tell Frank and Irey that?

HMJr: Yes. And would you want them to come and see you at your house?

B: No, he can come to see me at the office. Just have him - we may take him out to the house later or what not, but.....

HMJr: Yeah.

B:it's perfectly reasonable that he would come and see me.

HMJr: I see.

B: That's perfectly all right.

HMJr: But you don't want it advertised.

B: I don't want - I don't want the fact that I had anything to do with his coming out here advertised.

HMJr: Okay. Well, these are the hush-hush boys of the Government.

B: Yeah. (Laughs)

HMJr: I hope your income.....

B: (Laughs) All right. That's fine.

- 4 -

HMJr: I hope your income tax is all right.

B: Oh, my God. I don't know how I'm going to get the money to pay it.

HMJr: I see. Well, you'd better buy some of our tax notes in advance.

B: They don't pay enough interest. Hell, I can get more interest from the bank here.

HMJr: Yeah. You and this man called Roosevelt. He's kicking about the interest always, whenever I try to sell him anything.

B: (Laughs)

HMJr: It's terrible.

B: Yeah.

HMJr: All right.

B: How is the stamp drive going, Henry?

HMJr: The stamp drive is going fine. I'm not satisfied with the bonds.

B: Uh huh.

HMJr: But after all, if they buy enough stamps, they'll convert them into bonds after while.

B: That's right. And also, you're not paying any interest on the stamps.

HMJr: Oh, go to hell.

B: (Laughs) All right.

HMJr: Give Anna my love.

B: Thanks a lot, Henry.

HMJr: Give Anna my love.

- 5 -

B: Yes, sir, and I shall, Henry.

HMJr: All right.

B: Good-bye.

HMJr: Good-bye.

September 16, 1941
4:00 P.M.

RE INFLATION

Present: Mr. Hill
Mr. Ezekiel
Mr. Shields
Mr. Haas
Mr. Bell
Mr. Foley
Mr. Cairns

H.M.Jr: They tell me you are going to sell some cotton.

Hill: Yes, we are selling lots of cotton. That is, the people that have it - we have loaned money to on the cotton are taking it out of the loan at a very rapid rate. The fact is they are about to take all the cotton out.

H.M.Jr: How much is that?

Hill: Well, they have taken about four million bales out. Last reports showed two hundred eighty thousand bales still in the loan. That was a week ago.

H.M.Jr: But you have still got what, about six million bales?

Hill: Yes, something over six million bales.

H.M.Jr: That you control?

- Hill: That the Government owns.
- Bell: What is the reduction in the holdings of cotton in the last thirty days? There was over seven hundred thousand bales reduction in your holdings in the month of August.
- Ezekiel: Practically all of that was in loan stocks.
- Bell: I thought part of that was already owned by Commodity Credit.
- Ezekiel: No, as of last March there was something over - just about four million bales under lien that the farmers still had interest in plus six million odd bales owned and since then the farmers have withdrawn, as Mr. Hill says, all except two hundred thousand bales. As a matter of fact, it is down now to about a hundred and eighty thousand since the first of September that they have withdrawn and sold and a small quantity, something like fifty thousand bales, of the loan cotton has been shipped to England.
- Bell: So that you actually own how much now, about six million?
- Ezekiel: About six and one eighth.
- H.M.Jr: Did Mr. Wallace report to you what the President said at cabinet last Friday?
- Hill: No.
- H.M.Jr: Well, I will tell you.
- Hill: He mentioned the fact that you had talked to him and asked him to talk to us.
- H.M.Jr: That is right.

- 3 -

- Hill: But he didn't quote anything - I don't recall that he said anything about what the President said. He perhaps did.
- H.M.Jr: To explore this --
- Hill: I went over and had a talk with the Vice-President about it. He called me and said that you had asked him to talk to us about it so I went over to his office.
- H.M.Jr: That was at the President's request, to explore this selling of cotton or announce a policy of the Administration would be to sell it at any time that the price went above parity.
- Hill: Well, we went into that, yes. One of the things that has happened, these people are buying their cotton, the spinners are buying cotton and buying it very rapidly, as indicated by these men that have withdrawn it. That is the way they withdraw it, when they sell it. They are filling up the private warehouses and the price today is down some. What is it, today?
- Shields: Seven and ten points over.
- Hill: It has been going down for three days. It may indicate that the buyers have filled up their wants.
- H.M.Jr: Is there something special you want to say? I will listen first.
- Hill: No, you go right ahead.
- H.M.Jr: No, you are my guest.
- Hill: We just wanted to discuss this matter with

you, especially the wheat end of it.

H.M.Jr: Could I talk on cotton first?

Hill: Yes, go right ahead. I will ask Mr. Ezekiel here. He has been working on that almost continually and perhaps has it better in mind than I might have. Go ahead and explain the cotton situation.

H.M.Jr: Well, it isn't the cotton thing. If I might - you see, what you are telling me here, it is so complicated that - well, from reading the newspapers, I certainly don't understand it, but that is maybe a reflection on me, but I don't think that the woman that buys the cotton shirt understands it. What I would like to see, if I could, would be, if possible, for the President, you see, to make a statement.

Ezekiel: The difficulty, Mr. Morgenthau, is this, that the release of the cotton owned by the Government has to be under the limits Congress has set.

H.M.Jr: Which is what?

Ezekiel: We are already operating under one limit, that we can sell no more than a million and a half bales in any one calendar year or no more than three hundred thousand bales a month. That would reduce the amount we could sell even if we started in selling to rather small quantities compared to what has been coming under the loan to this date.

Shields: In addition we must get cost plus carrying charges.

H.M.Jr: Can I interrupt you a minute? I don't

understand your terms, you see. Does the three hundred thousand a month - is that charged up to what they withdraw themselves?

Ezekiel: No, simply of cotton owned.

H.M.Jr: That would be over and above.

Ezekiel: Yes, and as Mr. Shields says, even then only under condition it meets certain prices. That is, it can be sold at certain prices to recover what the Government previously put in to it but there is the further point, as you know, the Congress a couple of months ago passed this bill prohibiting completely the sale of that cotton for the duration of the emergency.

H.M.Jr: I know.

Ezekiel: That has not yet been voted on and I think the question as to whether it would be desirable to make a statement of the sort you suggest turns on the question of whether making that statement would be likely to have the result of getting us tied up so we couldn't sell any cotton at all.

H.M.Jr: Well, I think Sam Rayburn answered that to my satisfaction. I don't think the thing is going to be raised. I don't want to get down on this level. I mean, you can satisfy yourself. You can ask Sam. Let me just put it on a level which I am thinking of. We, and I say we advisedly, have gone along here for eight years moving heaven and earth to try to get prices up and everybody is trained along those lines just the way the Farm Board was trained one way, to buy. It never was trained to sell. When I went in there, they had nobody that had ever made a sale. We were fortunate enough to clean up

- 6 -

in that spring rise of '33 the merchandise that they had accumulated over years. Well, what I am trying to get over here, right or wrong, and it is a complete change of philosophy, and I want you to know I went over this thing twice with the President before I made my speech - I mean, once on the whole wheat question, and then he read every word of my speech carefully before I gave it. The point is that we have got to this point here, that we have gotten entirely new conditions which we have never had before since Mr. Roosevelt has been President, and I believe, again, right or wrong, that the Administration has got to change its whole philosophy about trying to put prices up.

Now, I am willing to meet you fellows half-way, because I have to, not because I believe in it, that on this eighty-five per cent parity, based on this statement that the President made - I want to be perfectly frank with you. I don't believe in it, but the President made it, and I will stand on what he wrote, as his hired man, but I am going to fight like hell that when these things reach parity - and the President went all over this wheat thing twice, not once but twice, and I drew his particular attention to the statement he signed on May 31 on the seven hundred fifty thousand bushels. So he understood it.

Ezekiel:

But Mr. Morgenthau --

H.M.Jr:

Just a minute. As I say, we can't. And Agriculture - I mean, until the President tells me - calls me off, just so that you understand me - as soon as he simply says, "Well, Henry, you are wrong and I am not going along with you," all right, but this

- 7 -

thing - this whole attitude of the Government of driving the prices up, and the statement those seven Senators made about two dollar wheat and thirty cent cotton, and the President said at Cabinet - he told Talmadge of Georgia two or three years ago as long as he is President he will never permit cotton to go up like that. We are talking about a method of thinking, you see, Mr. Hill, and not - I don't give a damn - I am interested in the whole price inflation business, what it is going to do to a hundred and thirty million people, and what it is going to do to me with my responsibility to raise the money. That is what I am interested in. That is my responsibility, to sell bonds. If we have got inflation I can't sell bonds. So the immediate thing, whether this will be just a short run - Sam Rayburn can give you and me the answer in one minute. I understand from Sam there isn't a chance for that bill so it doesn't bother me.

Hill:

I am not bothered about that particularly, either.

H.M.Jr:

But I want you to know where I stand and I want you to know that I went over this thing with the President twice. He read the thing very, very carefully. He knows about the wheat, he knows about the thing that he signed. I pointed out to him very carefully the whole thing, and he told me to go ahead, you see.

Hill:

Now, on the --

H.M.Jr:

So --

Hill:

Go ahead, excuse me.

H.M.Jr:

No, I want to listen, but I wanted you to know where I stood.

- 8 -

Hill: Of course, as you said there, we have been trying to reach parity ever since the Administration has been in. We are right around those figures now. It fluctuates up and down.

Reekie: Only for cotton, not for wheat.

Hill: I am talking about cotton only. It is fluctuating up and down. Perhaps it was stimulated to that point by speculation, which may or may not be caused by the attitude of the Senators over here who were talking about the twenty-five and thirty cent cotton. Now, to go to selling, to try to put down the market, there is another big crop coming on - not a big crop, but there is a crop being gathered at this time, ten million bales, and about a million bales have been gathered up until now. If we went to selling it, it would just simply mean that more of that cotton would go in to the loan instead of being sold.

That eighty-five per cent loan gives them a protection there that naturally a man is not going to follow down very far. Now, the price of cloth is not affected instantly by the fluctuations of cotton, of course. For instance, this shirt that I am wearing here only has about eight cents' worth of cotton in it.

H.V.Sr: I have heard all that argument.

Hill: It costs me twice as much to launder it once as the farmer got out of it. I am just saying that to show that a small fluctuation doesn't affect the producer - I mean the consumer of the cotton goods.

- H.M.Jr: But you see, Mr. Hill, it is this thing --
- Hill: We go along with you on not wanting these prices to go up.
- H.M.Jr: The thing that I am trying to get the President to say publicly, you see - he has made his statement on eighty-five per cent - that anything above that he is going to direct you fellows to sell, you see.
- Hill: Above eighty-five per cent of parity?
- H.M.Jr: That is his statement.
- Shields: He hasn't made that statement.
- Haas: Parity.
- Hill: Above parity, wasn't it?
- Haas: Parity he had in mind for selling, but the loan is eighty-five.
- H.M.Jr: What is that short statement he said that I keep referring to?
- Haas: He said not above parity.
- H.M.Jr: Not above parity. Whatever that statement is. Have you got that statement?
- Shields: The statement said, "We shall not take any action which shall endanger our parity objective." I think that is almost the words.
- H.M.Jr: Most likely it was written in your shop, so you know. You may have written it.
- Shields: That is about what it says.
- Ezekiel: Mr. Secretary, may I make one suggestion. I think in your discussion you have not taken

much recognition of the fact that the Department is now engaged and has been for the last six months, in launching a very large program for the expansion of production of all the things that more is needed of. We are carrying on expansion five, ten, fifteen per cent of anything that is short today.

H.M.Jr: Next season's crops.

Ezekiel: Already this year we have gotten expansions of around eight or ten per cent of the important products, milk and eggs and beef, and so on.

H.M.Jr: Which I think is swell.

Ezekiel: Under guarantee to farmers if they made that expansion their prices would be protected.

H.M.Jr: I think that that is swell.

Ezekiel: That is the major job we are carrying on.

Hill: That is one of the things that we don't want to tear down the confidence in the people. We are having to tell them that we are going to protect these prices up to a certain point in order to get them to make this expansion, which in turn keeps the price from going out of reach. Now, with our lease-lend buying, we would soon run the people out of milk and eggs and cheese - not run them out entirely, but we would take so much off the market the people would have to pay a tremendous price.

H.M.Jr: But Mr. Hill, how can this Administration defend the fact that here we are, we are following exactly the same pattern of the last war, and if this thing continues, we are going to have - I mean, all the same mistakes we made last time, but all of them.

- 11 -

- Hill: Well, we hope not.
- H.M.Jr: Well, but I mean--
- Hill: Of course we have got to produce this food. The people are eating a lot more than they have heretofore. They have the money to buy it with.
- H.M.Jr: Absolutely.
- Hill: And we don't want it to get so they can't buy it.
- H.M.Jr: Well--
- Hill: But if we don't give them enough insurance here on price, they will not produce and we have the demand.
- H.M.Jr: Now you see, one thing that I believe in heartily in Mr. Wallace's policy that I laid down was this ever normal granary. Now, if you keep your dammsix million bales and don't sell and at least make a gesture on the thing, you see, and make - and again, I go back to saying something about when the thing goes above parity or seventy-eight point five percent, whatever he said in this statement, you see - I mean, as long as I stick by what he says, you fellows can't have very much fight with me.
- Hill: We are not wanting to fight with you at all.
- H.M.Jr: But the point is, unless he or Mr. Wickard says something on this thing, which he hasn't - now, Claude Wickard told me, so we understand, he was delighted when I made the statement and came out publicly. I was the first one in the Administration to say that I - I didn't mean to make a bad pun - that it was wicked to try to freeze that cotton, and he thanked me and

called me up and said, "That is swell, Henry." Then he came along and followed the thing up. And he was delighted because he said "I could do it better than he could. I haven't got any agricultural legislation pending.

Now, this thing here, what does it say, Mr. Shields?

Shields: That is the one in connection - that has to do with the eighty-five percent loan in which he says that he wants farmers to get parity but not more than parity. Of course, the pertinent statement is the one in connection with H.R. 5300 which deals directly with the question of release.

H.M.Jr: The point is, can't we get together so that we are all working for the same man and - why can't we get together to make this statement here effective?

Shields: We would be delighted. We would like to cooperate more before things are done.

H.M.Jr: Well, that is all right, I will take that. (Laughter) I will take that, but also for my own record, the President said to me, "How does Claude Wickard feel about this?" I said, "I don't know, Mr. President," and he said, "Well, I think he would be all right." And I said, "Well, I haven't talked to him. Do you want me to show this speech to anybody?" And he says, "No, it is not necessary."

So on that basis, I went ahead, but if I - if Wickard had been at Cabinet, which he wasn't, I had intended to talk to him.

Ezekiel: He was out in the field on this production program.

- 13 -

- H.M.Jr: I looked for him at Cabinet and he wasn't, and I only showed the President my - my time table was that morning. I saw the President that morning. I expected to see Wickard at Cabinet, and I would have talked to him. I don't mind - you are right, but I had hoped to see him.
- Shields: You see, the timing was right at the time we were holding these meetings asking farmers to come along and produce these needed foods for lease-lend.
- H.M.Jr: Well, I thought I cleared it, and I had expected to see him in Cabinet. If I have caused you any embarrassment--
- Hill: Oh, no, that part--
- H.M.Jr: I am sorry.
- Hill: That is all right, don't think about that.
- H.M.Jr: I did, after all, I did expect--
- Hill: Those things you can't always--
- H.M.Jr: I want you to know, I don't think you knew that I went over this thing very, very carefully, but that is water over the dam, and I will be more careful next time.
- Hill: But we were just trying to explain our position and not--
- H.M.Jr: That is all right. I am human.
- Hill: We were just trying to show you the position we are in.

- 14 -

Now, we have got these regional meetings, the Secretary is out himself making speeches. He speaks in Chicago tomorrow, I believe, and Salt Lake City yesterday, and New York in a few days. We are asking these people to increase this in order that we not be short, which would sure bring the price up. We go along with you on your theory of not having these prices running away with themselves, but cotton is the only thing that has reached parity, and it is dropping back up and down. Some days it is--

H.M.Jr: Well, will you do this? Can we get together on this? Can't we take this statement, which I don't suppose there is one person in ten thousand off the farm that knows about it, you see, and get the President to take this statement, or Wickard, and say something - now here is cotton that is wobbling just over and above the line, and explain in detail what we are going to do, you see.

Shields: Well, I would like to say a little about that.

H.M.Jr: So that the consumer can understand what this is about.

Shields: I would like to say a little bit about the legal situation here.

H.M.Jr: Are you a lawyer?

Shields: Yes, sir.

H.M.Jr: I have got two lawyers here, I am all right.

Shields: Yes, I know you have.

H.M.Jr: Want to send for another lawyer?

Shields: Our laws are all to obtain parity objective,

- 15 -

and, as I understand it, the price control situation recognizes parity as a fair figure and possibly a little higher occasionally for agricultural prices.

Now, our prices are not at parity except some of those products that we vitally need for lease-lend. Those products in which we have surpluses, notably cotton and wheat - but cotton had never been to parity until about the day you made your speech. It was the first time in ten years.

Now, our situation was to rush in and knock down the price below parity the first time it reached there in ten years - hardly seemed in line with our parity objective.

Now, there is this financial consideration. That agreement which you have in front of you which reports the legislative agreement in connection with that law provides that the loan rate plus the ACP payment, conservation payment, plus the parity payment, shall not equal a hundred percent parity.

Now, if the price of our commodities ranges about nine percent above eighty-five percent of parity, we have to use the parity funds which were appropriated, two hundred twelve million dollars. If the price averages about parity, the parity money of two hundred twelve million dollars is reverted - reverts to the Treasury--

H.M.Jr: Well--

Shields: is one financial consideration.

H.M.Jr: Yes, but again the two hundred twelve is so insignificant compared to this whole question of inflation and what the Government in its

whole buying program has to pay, increase due to inflation, that I would cheerfully chip in the two twelve if I could get together with you fellows and with Leon Henderson, who, I understand, has been talking about the cotton thing and has gotten no where with Agriculture. If Henderson's group and Nelson and the fellow that is doing the purchasing, MacKeachie and ourselves, if we could all get together so we could see the thing and present something to the President that we all had our names to, because I think the home front is inflation and it is very easy to get licked and we are getting licked right now on it.

Shields:

Of course the price has only been above parity in the case of cotton three or four days out of ten years, and it is only about eighty-five percent of parity in the case of wheat, and we do have a certain timing problem.

We were concerned about whether we could sustain this veto, and we are interested in this price bill and in seeing that it is supported. Our whole question is not one of difference of opinion but one of difference of timing. We have had some experience with the cotton bloc, and we think this is no time when farmers are marketing their crops. It might be a little better to wait until the processors and speculators get the crop before we rush in and take any rash action.

If parity is objected to, these crops haven't been at parity except for two or three days in the case of cotton, and I can't see that two or three days should have us terribly startled.

H.M.Jr:

Well, Mr. Shields, you and I just don't see eye to eye in this, because I think it isn't

- 17 -

a matter of date, it is a matter of hours. This thing is just growing and growing and growing, and here you people have got the President to sign this thing on the Canadian wheat quota only allowing seven hundred fifty thousand bushels, and I got--

Ezekiel: Mr. Morgenthau--

H.M.Jr: May I finish?

Hill: Wait a minute.

H.M.Jr: I have got to be convinced, which I am not, and I will wait until Wickard gets back, that you people after eight years have changed your philosophy over there, that you are not still trying to get prices up.

Hill: Well, of course we haven't changed philosophy about getting it up to parity because that is what the law set for us.

H.M.Jr: How about beyond that, Mr. Hill?

Hill: We have never implicated that prices should go running away. Now, on wheat, if I might speak on that for a moment, I am glad you mentioned - I won't explain there the reason we are here. We didn't want you to feel like we were just sulking in our tent over there, and Claude will be back in a day or two. I am not right sure when he gets back. I think he speaks in Chicago tomorrow, and then he is driving back from there sometime the latter part of the week. He will be here.

H.M.Jr: I would love to see him just as soon as he gets back.

Hill: I did want to call on you, though, and let you know that we weren't just sulking.

- 18 -

On this wheat business, now of course wheat is not up to parity. It is fluctuating around eighty-five percent of parity. One day it is up and the next day it is down. We still have quite a bit of wheat we haven't been able to get in the elevators on account of not having the space. We have two years' supply of wheat on hand today. We have the greatest carryover or will have at the end of this year, two hundred fifty million more than we had at the beginning of this year. Carryover is what we refer to as the amount that is left after we have used up that year's supply.

Now, to turn in wheat from Canada, more than we have, would simply complicate our housing proposition or our storage proposition on the wheat and would put that much more American wheat in the loan. It wouldn't affect the price because it is right around the loan value, and you would just simply put that much more wheat in the loan.

H.M.Jr:

But if they--

Hill:

Which, of course, wouldn't be a serious matter if we had plenty of room, and they are building room. We have built more storage this year than we ever built before. We still have some wheat on the ground in the West where they have never had a chance to get it in an elevator. The terminal elevators can't take it. Canada has some wheat stored in this country which we have been trying to get them to take out and send to England so we can have that space, and I just wanted to explain those problems that we are up against on it.

The most acute is this program that we have

on now trying to get some more food produced, and we are dealing with the same people that we are going to have to say, "Now, you don't get to parity." Of course, we can't say that to them on account of our law. We can say that - and they all agree. We have preached to them continually that the worst possible thing for agriculture was to have inflation of prices, of agricultural products, and I think we have made good headway with them because we have also - I have a letter on my desk right now where a man says, "We realize that the worse thing that could possibly happen to us would be too high prices for agricultural products." They feel that way about it. I don't think we will have much difficulty in holding these prices down around parity. I don't think we will have much opposition.

Now, on the price of eggs and milk and cheese and those things, we have no surplus of them. Europe is crying for it, the babies don't have it, and we are trying to ship it for them, and we are using every effort so we can have it to send and for our people themselves to use. I have a little statement - do you have that statement?

W. W. J.:

I appreciate the spirit and if you just - Claude and I never had any trouble.

Hill:

Well, he is very fond of you, and I didn't come over to try to convince you of anything but--

W. W. J.:

That is all right. I am glad you came.

Hill:

I just came for a visit--

W. W. J.:

I am glad you came.

- 20 -

- Hill: Now, here is a statement there, just a confidential statement for discussion purposes.
- H.M.Jr: Well, now, could I take this home and read it?
- Hill: Oh, yes. It is just something I thought wouldn't be published at this time or anything.
- H.M.Jr: Oh, no. I would like to read this if I could.
- Hill: Just for the purposes of discussion.
- The growers have just voted a very drastic curtailment of their wheat acreage on account of over supply and are hollering about having done that, and we have collected a lot of penalties.
- Now to turn in some more on top of them when we find them over producing will be another thing that wouldn't make life very pleasant for us.
- H.M.Jr: Well, we don't expect that.
- Well, let me read this thing. I appreciate the spirit in which you have come over. Tell Claude Wickard that just as soon as he comes back I would like very much to sit down and spend an evening with him.
- Hill: I am sure he will be glad to.
- H.M.Jr: And see if we can get together.
- Hill: I haven't been able to talk to Mr. Wickard. He has been out in the mountains.

September 16, 1941

Confidential Memorandum for Discussion

This memorandum summarizes the existing wheat and cotton situations, and the policy this Department has been following in dealing with the production and prices of farm products. These facts will make clear why we find ourselves unable to concur in the recommendation to the President that he initiate steps to raise the Canadian quota, and, in the language of Secretary Morgenthau's speech, "permit the entry of Canadian wheat in larger volume."

Attached are copies of Secretary Wickard's press releases on April 8 and September 8. These releases cover the Department's present policy toward farm prices and production, which is one of increasing the production and supplies as rapidly as possible of all the products needed to meet the expanding domestic market and the lease-lend requirements abroad. We have already secured expansions in production for 1941 ranging from 5 to 12% above the 1936-40 average for milk, eggs, hogs, and chickens. Our goals for 1942 call for further expansions in these products and beef ranging from 7 to 12% above the 1941 levels. This represents expansion in output at as rapid a rate as the technological limits on crop and livestock production make possible.

We believe that we can get much further by expanded production, even if that involves paying farmers reasonable prices to increase production, rather than by attempting to use all the existing supplies to hold down prices, if that involves discouraging producers from making the expansions in production which the demands require.

In wheat and cotton the situation is greatly different. The facts for these crops are summarized in Exhibit A. Our wheat carryover rose 100 million bushels last season, and will rise nearly 800 more this season, to an all-time record high of nearly 700 million bushels. All grain storage space is filled to overflowing, and some wheat is being stored piled on the ground. Our farmers are making strenuous efforts to reduce their wheat output to the present limited markets. They voted a marketing quota on themselves last spring, under which they are paying a penalty of 49 cents a bushel for over-quota marketing, and the tentative wheat goals for next year call for a further reduction of 8 to 15 million acres below the present reduced acreage.

Wheat prices have been running at about 3/4 of parity, but recently have advanced to almost the 85% of parity level decreed by Congress in fixing the new loan rate last May. With great excess supplies on hand, there is little likelihood that wheat prices will advance further now that they have reached this minimum floor established by congressional direction. Even at this price, the wheat farmer receives only 1-1/4 cents from a pound loaf of bread retailing at 8 to 10 cents.

Last March the C.C.G. controlled through loan or ownership nearly 10-1/2 million bales of cotton. This has now been reduced to 6-1/4 million bales, owing to farmers withdrawing 4 million bales for sale, plus some shipments of government-owned cotton to England. Meanwhile cotton prices have advanced from the very depressed levels of recent years to just about the parity level, standing at 96% of parity on September 10.

The 1941 crop, now estimated at about 10.7 million bales, is slightly larger than our estimated domestic consumption for 1941-42. Almost all of this year's crop will be available for immediate use, as only very small quantities are coming under the 1941 loan--only six thousand bales up to September 6, 1941, out of half a million bales ginned.

Farmers have now withdrawn and sold almost all of their old loan cotton, and less than 200,000 bales are still being left under the loan. Any further addition to the supply will have to come out of the 6-1/8 million bales of government-owned stocks. Sales of these stocks, however, are limited by law to not more than 300,000 bales in any one month, or 1-1/2 million bales each calendar year.

Exhibit A,
Summary of Wheat and Cotton Situation

165

Wheat

(a) Stocks. Our carryover of old wheat at the end of the season (July 1) averaged about 125 million bushels prior to the 1929 depression. Recent and prospective carryovers are as follows:

July 1, 1940	282 million bushels
July 1, 1941	386 million bushels
July 1, 1942	642 million bushels

The prospective large increase in carryover reflects the heavy yield of this year and the virtually complete elimination of export markets.

Of the June 30 carryover, the United States Government was carrying a considerable portion, as follows:

Commodity Credit Corporation Holdings (million bushels)			
June 30, 1940	June 30, 1941	Net Change	
Wheat owned	1.6	169.2	+167.6
Wheat under loan to farmers	<u>10.2</u>	<u>89.4</u>	<u>+79.2</u>
Total wheat interest	11.9	207.6	+195.7

Since June 30, 1940, government wheat holdings have changed as follows:

(million bushels)			
	June 30, 1941	Aug. 31, 1941	Net Change
Wheat owned	169.2	174	+4.8
Wheat under loan	<u>89.4</u>	<u>150</u>	<u>+60.6</u>
Total wheat interest	207.6	204	-3.6

With the market below loan rates during much of this period, farmers have continued to put large quantities of the current crop under the loan.

(b) Prices. Wheat prices during recent months have ranged as follows:

	Farm price	Parity price	Farm price in percent of parity
June	85.1	114.9	72
July	85.6	117.6	73
August	86.5	119.5	74

The market price for September 10 corresponded to a farm price of 88 percent of parity. Prices at the present time are at about the same level.

In May Congress passed legislation setting 85 percent of parity as the mandatory level. Loans on 1941 wheat accordingly are being made at that figure, an average loan rate of 98 cents at the farm.

Recent wheat prices have been running at just about market levels corresponding to the loan rate.

Up to August 31, 116.7 million bushels of 1941 wheat had been placed under loan. During the first two weeks of September, an additional 15 million bushels were placed under loan.

(c) Storage situation. The huge stocks of wheat and other grain have placed exceptional pressure on farm and commercial storage facilities. For months we have been organizing the movement of grain so as to clear storage space and make it possible to move the crop. Despite these efforts the current crop year is marked by probably the greatest pressure on grain storage capacity ever experienced in this country. About every practicable commercial facility is in full use. Much temporary capacity has been made available on farms and at commercial storage points. And still it has been necessary to pile grain on the ground in some areas of heaviest production, and to move some grain stocks out of normal market position. 1941 has been marked by excessive pressure on storage facilities, some congestion of markets, and extra handling and inadequate protection of a substantial part of the grain supply.

(d) Acreage and production. Despite reduced acreages, wheat production has been far outrunning existing demands. Consequently, wheat farmers by recent referendum voted a marketing quota on themselves. In addition to loss of benefit payments, over-quota production is now penalized by a tax of 49 cents a bushel on marketings by farmers in excess of their quota. The goals for 1942, now being discussed with farmers at regional meetings in the field, call for a reduction in 1942 to 50 or 55 million acres, in contrast to 58-1/2 million this year, and the average of 72 million over 1934 to 1940.

The wheat situation is characterized by glutted terminals, tremendous supplies on hand, prices supported at the minimum levels fixed by the loan, a full extra year's reserve supply on hand, and farmers attempting to get their production down to the present restricted outlets.

Cotton

(a) Stocks. The greatly increased domestic consumption and the markedly reduced acreage are making it possible to reduce our storage holdings of cotton, despite the almost virtual disappearance of the export market except for lease-land shipments. Carryovers at the start of the season have run as follows:

Total United States Cotton Stocks
(millions of bales)

Aug. 1, 1940	10.6
Aug. 1, 1941	12.2
Aug. 1, 1942 ^{1/}	11.75

^{1/} Estimated

Stocks in government hands are being reduced as rapidly as conditions permit. Farmers are withdrawing their old cotton from the loan and selling it very rapidly, as shown by the following data:

Commodity Credit Holdings
(thousand bales)

April 1, 1941 June 30, 1941 Aug. 31, 1941

Loan cotton	4,250	1,162	285
Owned cotton	<u>6,171</u>	<u>6,116</u>	<u>6,126</u>
All cotton	10,401	7,278	6,409

In addition, another 195,000 bales was withdrawn from loan between Aug. 31 and Sept. 8, making nearly a million bales released from government lien since June 30, and 4 million bales released or withdrawn since April 1, 1941. Meanwhile, movement of new-crop cotton into the new loan has been unusually small, loans being reported on only 5,500 bales of 1941 cotton through Sept. 8, 1941.

(b) Prices. The huge reserve stock has kept cotton prices depressed far below previous average levels for many years. Following the action of Congress in setting 85 percent of parity as the loan level, prices advanced sharply, as shown by the following figures.

	Farm Price	Parity Price	Farm price in percent of parity
July 1939	8.77	15.62	56
July 1940	9.54	15.78	61
1941			
January	9.45	15.87	60
April	10.45	16.00	65
May	11.68	16.12	73
June	12.81	16.27	78
July	14.32	16.49	87
August	15.33	16.74	92
Sept. 10 1/2	16.82	17.48	96

1/2 Farm price estimated from market price.

Market prices for spot cotton and the October future during last week corresponded to farm prices ranging from parity to at most one-half a cent over parity.

TREASURY DEPARTMENT

169

INTER OFFICE COMMUNICATION

DATE SEP 16 1941

TO Secretary Morgenthau
FROM Mr. Foley

Robert H. Shields, Chief of the Agricultural Adjustment Division of the Department of Agriculture, advised us at 5:00 p.m. on September 15, 1941, that the Government owned 6,126,000 bales of cotton. On April 1, 1941, it had under loan 4,230,000 bales, which has been reduced to 283,000 bales excluding the 1941 crop. For the current crop the latest figures show 5,580 bales under loan up to and including September 6, 1941.

Generally speaking, the cotton is stored relatively close to where it was produced. Some, however, is stored in the New England states, none in the Middle West and some in the Far West.

8.14.76

170

attachment
to meeting in
Byrns office

9/16 when
Hill, Ezekiel
& Shields
from Ag
were present

DEPARTMENT OF AGRICULTURE
WASHINGTON

September 16, 1941

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We believe that we can get much further by expanded production, even if that involves paying farmers reasonable prices to increase production, rather than by attempting to use all the existing supplies to hold down prices, if that involves discouraging producers from making the expansions in production which the demands require.

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(million bushels)

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Wheat owned	1.6	169.2	+167.6
Wheat under loan to farmers	<u>10.3</u>	<u>38.4</u>	<u>+ 28.1</u>
Total wheat interest	11.9	207.6	+195.7

Since June 30, 1940, government wheat holdings have changed as follows:

(million bushels)

	June 30, 1941	Aug. 31, 1941	Net Change
Wheat owned	169.2	174	+ 4.8
Wheat under loan	<u>38.4</u>	<u>130</u>	<u>+91.6</u>
Total wheat interest	207.6	304	+96.4

2-The Secretary of the Treasury

With the market below loan rates during much of this period, farmers have continued to put large quantities of the current crop under the loan.

(b) Prices. Wheat prices during recent months have ranged as follows:

	Farm price	Parity price	Farm price in percent of parity
June	83.1	114.9	72
July	85.6	117.8	73
August	88.5	119.3	74

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April	10.45	16.00	65
May	11.68	16.12	73
June	12.81	16.37	78
July	14.32	16.49	87
August	15.33	16.74	92
Sept. 10 <u>1/</u>	16.82	17.48	96

1/ Farm price estimated from market price.

Market prices for spot cotton and the October future during last week corresponded to farm prices ranging from parity to at most one-half a cent over parity.

INFORMATION FOR THE PRESS

United States Department of Agriculture

177

For September 8, 1941.
P. M. Papers

Washington, D. C.

WICKARD ANNOUNCES PROGRAM TO MEET INCREASED FOOD NEED

A farm production campaign for 1942 providing for a complete mobilization of American agriculture to adjust production to domestic needs for national defense and to the needs of the nations resisting aggression, was announced today by Secretary of Agriculture Claude R. Wickard.

The campaign will be under the supervision of State and county USDA defense Boards which are made up of representatives of all Department of Agriculture agencies in the field.

Production goals for 1942 and the part which agriculture will be called upon to play in the defense effort will be discussed with farmers and farm leaders in four regional agricultural defense conferences scheduled for Salt Lake City September 15 and 16, Chicago September 18 and 19, New York City September 24 and 25, and Memphis September 29 and 30.

"For the first time in the history of agriculture in this country," said Secretary Wickard, "production goals for all essential farm commodities have been established. They have been established on the basis of a thorough canvass of the needs for improved nutrition in this country and the needs of the nations that still stand between this country and Hitler.

"Every farmer in the United States will be contacted by local farmer committeemen under the supervision of USDA Defense Boards and will assist with individual farm plans to determine the extent to which each farm can contribute to agriculture's task in national defense.

"The adjustment machinery of the National Farm Program will be applied to the whole range of agricultural commodities to assure plenty of the commodities for which there is increased need while continuing to hold in check the production of commodities of which we already have large reserves.

524-42

"We are not going to repeat the mistakes of the first world war which brought a long series of difficulties for farm people. Through the machinery of the National Farm Program farmers can produce what we need and avoid the bad after effects of an over-expanded farm plant. The fact that we are asking for greater production of some commodities does not mean that the lid is off on production of all commodities. It is just as important to the national defense and our future national welfare that we hold production of some commodities in check as that we increase supplies of others.

"The goals for 1942 call for the largest production in the history of American agriculture but we are not going to have to plow up the hills and the plains to get it. We have adequate reserves of feed grains for increased production of livestock products and it will not be necessary materially to increase total crop acreage next year.

"More production in general is in good balance but greatly increased supplies of some commodities will be needed. In this emergency I have found it necessary to encourage the expansion of the production of hogs, eggs, evaporated milk, dry whey, milk, cheese and chickens, and accordingly I have today made a formal public announcement (RAM) the Department of Agriculture will support prices for these commodities until December 31, 1942 at not less than 85 percent of parity. Increases in the production of other crops in 1942 are also desirable as indicated by the goals. Other proclamations may be issued from time to time if it is found that special encouragement is needed to obtain adequate or desired supplies, or supplies which are considerably in excess of what farmers might otherwise be expected to produce.

"This public announcement is issued under the recent Congressional authorization contained in the Steagall amendment to the act of July 1, 1941 extending the life of the Commodity Credit Corporation. Under the terms of that act, whenever the Secretary of Agriculture finds it necessary during the existing emergency to encourage the expansion of production of any non-basic agricultural commodity, the Department is required, within the limit of the funds available, to support a price for the producers at not less than 85 percent of parity.

"Of all the farm commodities of which increases are needed, the most urgent need is for more milk. We need to consume more dairy products in this country for improved health and strength and the British will need tremendous quantities of cheese, evaporated milk, and dried skim milk. To reach the production goals for 1942 the greatest effort will be required in dairying."

In general the production goals reflect suggested or expected production substantially larger than in recent years for livestock products with adequate supplies of feed grains to supply increased livestock numbers, expanded production of oil-producing crops and a continuation of about the current level of production or less of cotton, wheat, and tobacco.

Goals for 1942 provide for a total farm production 15 percent higher than the 1924-29 average. Using 100 as the index of farm production for the 1924-29 period, the average for the 1936-40 period was 105. For 1941 it is

estimated to be 113, and for 1942, it is expected to be 115. If 1942 production goals are reached it will be the third successive year of record production. While total production next year would be only about 2 percent greater than this year, much larger increases occur in the vitamin and mineral-rich livestock products for which demand is increasing in this country and which are among the foods most needed by the British.

The British Government expects to need from this country about a fourth of its supply of animal protein foods or the equivalent of enough to feed 10 million people. Total British needs for United States farm products are expected to amount to about 6 to 8 percent of total United States farm production. Total exports, including Lease-Lend shipments, may amount to as much as 8 to 10 percent of total production.

For the fiscal year 1942-43 it is expected that exports may require the product of 25 to 27.5 million acres of cropland, which is about the same as the average for the period 1936-37 through 1940-41. For the fiscal year 1940-41 exports required only about half as much acreage as is expected for the fiscal year 1942-43.

The following table compares 1942 goals with estimated production in 1941 and with average production for the 1936-40 period:

Commodity	Unit	1936 - 40 Average	Est. 1941	1942 goal or expected production
<u>Milk and Eggs</u>				
Milk	Lbs.	106,640,000,000	116,809,000,000	125,000,000,000
Eggs	Doz.	3,400,000,000	3,676,000,000	4,000,000,000
<u>Meat Animals</u>				
Hogs	Number Slaughtered	63,196,000	71,000,000	79,300,000
Beef & Veal	"	24,850,000	25,100,000	28,000,000
Chickens	"	644,000,000	680,000,000	750,000,000
Lamb & Mutton	"	21,902,000	22,400,000	22,900,000
<u>Feed Grains and Hay</u>				
Corn	Acres	93,980,000	87,363,000	87 1/2 to 90 mil.
Oats	"	36,992,000	38,197,000	Abt. 40,000,000
Barley	"	12,881,000	14,813,000	14 1/4 to 14 1/2 mil.
Grain sorghum	"	9,303,000	9,285,000	9 1/2 to 9 1/2 mil.
All hay	"	69,025,000	73,933,000	74 to 75 mil.
<u>Cotton, Wheat and Tobacco</u>				
Cotton	Acres	27,859,000	23,519,000	22 to 24 mil.
Wheat	"	72,049,000	63,503,000	50 to 55 mil.
Tobacco:				
Flue-cured	"	955,600	747,700	Abt. 762,000
Burley	"	386,000	363,900	" 358,000
Other domestic	"	297,200	254,900	" 247,000
<u>Oil Crops</u>				
Peanuts threshed	Acres	1,736,000	1,908,000	1,600,000 for nuts 1,900,000 for oil 2/
Soybeans for beans	"	3,433,000	5,550,000	7,000,000
Flaxseed	"	1,695,000	3,228,000	Same as 1941

2/ In addition to peanut acreage allotments.

Commodity	Unit	1936 - 40 Average	Est. 1941	1942 goal or expected production
<u>Sugar, Rice and Beans</u>				
Sugar	Acres		Cane 285,000 Beet 800,000	No acreage limit excepted
Rye	"	3,533,000 (harvested)	3,436,000 (harvested)	Same as 1941
Rice	"	1,047,000	1,186,000	1,200,000
Dry beans	"	1,880,000	2,220,000	Same as 1941
<u>Potatoes and Sweet Potatoes</u>				
Potatoes	Acres	3,132,000	2,988,000	Abt. 3,060,000
Sweet Potatoes	"	836,000	843,000	" 850,000
<u>Vegetables</u>				
<u>Commercial Vegetables</u>				
Fresh use	Acres	1,824,000	1,843,000	1,935,000
Processed	"	1,319,000	1,487,000	1,500,000
Para gardens	No.		4,431,000	Abt. 5,760,000
<u>Fruits</u>				
Citrus fruit	Tons	4,600,000	5,200,000	(Since fruit production cannot be quickly increased emphasis will be on better distribution and prevention of waste.)
Deciduous:				
Fresh use	Tons	9,000,000 1/	9,600,000 1/	
Canned	Cases	28,300,000	33,000,000	
Dried	Tons	550,000	600,000	
<u>Forest Products</u>				
Lumber	Bd. ft.	24,800,000,000	31,800,000,000	32,000,000,000
Pulp wood	Cords	9,300,000	15,000,000	15,800,000
All other wood	Cu. ft.	5,300,000,000	5,860,000,000	6,100,000,000
Naval stores:				
Turpentine	Bbls.	452,000	285,000	400,000

1/ Total fresh production for all uses, except that non-commercial apples are not included.

Release - Immediate

Washington, D.C., April 3, 1941.

U.S.D.A. ANNOUNCES PROGRAM TO
INCREASE SUPPLIES OF SOME FOODS

The Department of Agriculture announced today an expansion of the Ever-Normal Granary Program into a food program designed to assure ample supplies for the United States, Great Britain and other nations resisting aggression.

Under the expanded program, the production of pork, dairy products, eggs and poultry will be stimulated through the support of prices over the period ending June 30, 1943, at levels remunerative to producers. Other phases of the program include:

1. Continuation of the existing corn loan program for 1941 and 1942.
2. Continuation of the policy of making loan corn available to producers at the loan rate plus certain carrying charges.
3. Allowing producers in the commercial corn producing area to increase corn acreage up to their usual acreage. These producers would not receive corn payments.
4. No corn marketing quotas for the 1941 crop.

Assuming continuation of existing price relationships and taking seasonal price variations into account, the Department will make purchases in the open market to support long term prices (Chicago basis) at levels approximately as follows:

Commodity	Price
Hogs cwt.	\$9.00
Dairy products (basis of butter lb.)	.31
Chickens lb.	.15
Eggs doz.	.22

It was pointed out that these prices would be subject to the customary commercial differentials for market grades and qualities.

The Government's purchases in the open market will be used to accumulate reserve supplies of food. These supplies can be used for transfer to the British and other countries under the provisions of the Lend-Lease Act; for release upon the market in case of unwarranted speculative price increases; to meet requests from the Red Cross for shipment to war refugee areas and for direct distribution through school lunch programs or through state welfare departments to public aid families. Arrangements are also being made for a full and complete coordination of these purchases with those being made for our armed forces.

Under the program, farmers will be urged to: (a) increase pork production by feeding hogs to heavier weights and by increasing farrowing of pigs; (b) increase dairy production by feeding cows more grain and by milking more cows; (c) encourage additional production of poultry by increasing the size of flocks.

Although producers in the commercial corn areas will not receive corn payments or be eligible for corn loans if they plant up to their usual acreage, there will be no reduction in other payments if the usual acreage of corn is not exceeded.

The Agricultural Adjustment Act of 1938 provides that the Secretary of Agriculture may remove operation of marketing quotas in the case of national emergency, or because of a material increase in export demand.

"Obviously," Secretary of Agriculture Claude R. Wickard said, "the comparatively few producers in commercial corn areas who wish to plant up to their usual acreage of corn in order to have feed for increased dairy, poultry and livestock production will wish, and should have at this time, assurances that there will be no corn marketing quotas on the 1941 crop. Because of the ample feed supplies on hand in the country, however, most producers should plant within their corn allotments.

"It is time," Secretary Wickard said, "to begin converting our ever-normal granary supplies into ever-normal food supplies.

"We have conducted intensive studies of the needs of the United States, England, and other democracies. We believe we have a sufficient supply of most agricultural commodities. Larger supplies of some pork, dairy and poultry products will be needed, however, in the United States, in the British Isles and in Europe for several years, irrespective of the duration of the war. In Europe foundation herds and flocks are being rapidly depleted. Even in normal times, many Americans need more of these protective food products. Because of the Ever-Normal Granary, feed supplies are abundant and farmers will only be too glad to increase their production of pork, dairy products, poultry and eggs if prices make it profitable to grow more of these foods. Consumers should realize that fair returns to farmers for the food products mentioned are the best assurance, not only of ample supplies, but, in the long run, of fair prices to consumers.

"This ever-normal food supply program will, we feel, stimulate sufficient increases in production to insure that food supplies will be adequate for all needs here and abroad. Consequently, there should be no danger of run-away markets for any of these food products. Should unwarranted speculation drive prices up to unduly high levels at any time, the supplies in the hands of the Government will be released to stabilize prices and maintain them at reasonable levels. Under this ever-normal food program, consumers will be protected and farmers will benefit by selling more products at fairer prices than those that have prevailed during the past few years."

The Secretary said the plan to increase the production of food emphasized that national farm programs are adjustment programs in every sense of the word.

"Since these programs began, we have pointed out that they could be used to increase production," Secretary Wickard said, "and that farmers would like nothing better than an opportunity to prove that fact."

"Furthermore, the soil conservation that has taken place during the past eight years has put farmers in a position to produce more and to produce it without the soil destruction that took place during the first World War."

"I do not want this food plan to be misunderstood. This action does not mean that we should scrap our farm programs and rush out to produce more of every farm commodity without regard for our soil, or what this country and the other democracies will need. To do this would be to repeat the mistakes of the first war and would injure everyone concerned."

"This is not the time to waste soil fertility, and farmers' efforts by producing without regard to actual requirements. It is only common sense to produce more of the commodities we need and to hold down on production of the commodities we don't need and aren't likely to need."

"For example, we are proceeding with plans for a marketing quota referendum on wheat May 31. The world carryover of wheat on July 1, 1941 is expected to be around the record carryover on July 1, 1940 of one billion, four hundred million bushels. The carryover in the United States is expected to be 380 million bushels, over 150 million bushels more than the average for the 10-year period 1930-1939, which in turn was higher than the previous 10-year average. For various reasons, England isn't taking much of our wheat and continental Europe is almost completely cut off as a market. For the protection of growers, we need to take steps that will reduce the production of wheat just as we need to increase the production of pork, dairy products, and some other foods."

1992-41-4

"Wheat can almost immediately be converted into bread and other foods but substantial increases in meat supplies must be planned in advance. Generally speaking, the supply situation of wheat is the situation of cotton, tobacco and some minor commodities and the Department plans to do what it can to prevent additions to burdensome surpluses of these crops."

"Agriculture is perhaps better prepared than any other industry to contribute fully to national defense. Through national programs for agriculture, farmers have the machinery to produce abundantly and efficiently. Given reasonable returns on their products, farmers will continue to produce abundantly and efficiently."

1992-41-5

STATEMENT OF COMMISSIONERS HENDERSON AND ELLIOTT

Supplementing Secretary Wickard's statement today N.D.A.C. Commissioners Leon Henderson and Harriet Elliott said that the new food program had been worked out after consultation with their offices and that it had their approval as a price and supply stabilization measure.

"This program," they said, "contemplates moderate price increases for certain commodities over the two-year period which will cover the costs of additional production required during the coming year. At the same time it should forestall more extreme price advances later on by insuring consumers of adequate supplies.

"The prices set forth in Secretary Wickard's statement are an assurance to consumers as well as producers. Our offices have arranged to keep in close touch with the Department of Agriculture at all stages in this program and to advise with it on purchase and sale operations as these affect prices. In the event of unwarranted or speculative advances we will not hesitate to ask the liquidation of supplies to maintain price stability. At the same time we intend to watch processors' and distributors' margins to make certain that there are no increases in these spreads as a consequence of the program.

"It is particularly important that consumers and the government be given the benefit of current prices on stocks now held by processors and distributors and which were acquired at prices below those which will be maintained henceforth."

9/16/41 -

These names were suggested by
Dr. White as possible people whom
HM, Jr could use as assistants.

183

Treasury Department
Division of Monetary Research

Date September 16, 1941 19

To:

From:

T. E. MURRAY	(Former receiver of the I.R.T.)
DAVID PRINCE	(General Electric Company)
MORRIS COOKE	(Formerly with the E.R.A.)
JAMES W. HOOK	(Formerly head of Geometric Tool Company)
GEORGE WILSON	(Head of General Electric Company)
W. H. SCHUBART	(Bank of Manhattan)

184

FRANK ALTSCHUL
120 BROADWAY
NEW YORK CITY

September 16, 1941

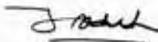
My dear Henry:

This morning I received the welcome news that the visa of Bloch-Jaine was about to be issued.

I presume that this is the result of your friendly intervention, and I am indebted to you for it.

With many thanks, I am

Yours sincerely,



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

SEP 16 1941

Dear Mr. Chen:

Thank you for your letter of July 31, 1941, conveying your assurance that the Chinese Currency Stabilization Board will cooperate with us in attaining the objectives contemplated by our freezing order. Please be informed that, on our part, we will continue to do all possible to assist the Board in effecting its policies.

I enjoyed the Burma Road film very much. It must have taken a considerable effort to prepare.

With best wishes for your good health.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

The Secretary of the Treasury.

The Honorable Kwang Pa Chen,
Chairman, Chinese Currency Stabilization Board,
Chungking, China.

ISF:ms
9/10/41

*File to Miss Channing
cc - Mr. White's office*

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The Secretary of the Treasury.

The Honorable Kwang Pa Chen,
Chairman, Chinese Currency Stabilization Board,
Chungking, China.

File in Secy's office

ISF:mv
9/10/41

MFW

FILE COPY

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September 16, 1941

187

Memorandum for Mr. Loohead -
From: Mrs. H. S. Klotz

Would you please transmit
this letter to Mr. Chen. Thank you
very much.

KWANG PU CHEN

*File in Secy -
K. H. H. 5/28/41*
138

Chinese Currency Stabilization Board
Chungking, China
July 31, 1941

The Honorable Henry Morgenthau, Jr.
Secretary of Treasury
Washington, D. C., U. S. A.

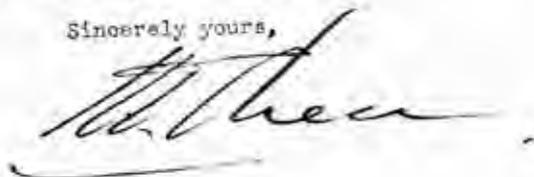
Dear Mr. Morgenthau:

Today's U. S. mail brought the good news that you had been kind enough to make time to see the Burma Road film and that you liked it. I had the picture made with the special purpose of giving my American friends an idea of the famous road. Although nearly ten months have passed since the picture was made and the traffic on the road has considerably increased, the film still gives a rather accurate picture of what the road and the region it passes through are like. The news that you have enjoyed it gives me much satisfaction and makes me feel that the film had not been made in vain.

Since our return from inspection trips in Shanghai and the interior about a week ago, Messrs. Fox, Taylor, and Freese and I have been living in the same neighborhood. Their house is only about twenty feet from mine. The Chinese Currency Stabilization Board have met often since our return and I am glad to tell you of the happy coincidence that, on the same day, July 25th., you froze Chinese and Japanese assets in the United States, our Board passed the enclosed resolution recommending to the Chinese Government to request the U. S. Government to take exactly the action that you were then taking. This demonstrates a similarity of approach which makes cooperation easy and pleasant. In addition to expressing my personal satisfaction over your government's action, I wish to tell you that the Chinese Currency Stabilization Board will cooperate with you, within the limits of our authority, to attain the objectives contemplated by the freezing order.

With the kindest personal regards,

Sincerely yours,

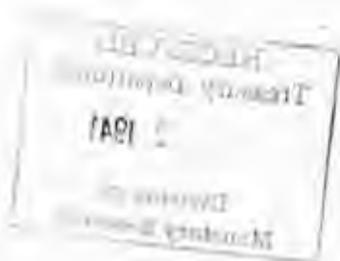


RESOLUTION ADOPTED BY CHINESE CURRENCY STABILIZATION BOARD
ON JULY 25, 1941, CHUNGKING, CHINA

"It is recommended that the Chinese Government request the Governments of the United States and the United Kingdom, at an early date and by simultaneous action, to freeze the foreign exchange assets of the Chinese Government and of Chinese nationals in their respective countries.

"The Board makes this recommendation in order the more effectively to manage and control the funds for the purpose of stabilizing the exchange value of the Chinese yuan with respect of the United States dollar and/or the United Kingdom pound sterling.

"The Board further recommends that generous treatment by the control authorities be applied in regard to the requirements of legitimate business interests."



UNITED STATES DEFENSE SAVINGS BONDS - SERIES B

190

 Sales for the Months of May, June, July, and August, 1941, by States
 On Basis of Issue Price

(In thousands of dollars)

CONFIDENTIAL

State	May	June	July	August	Total
Alabama	\$ 565	\$ 815	\$ 1,041	\$ 690	\$ 3,112
Arizona	302	408	565	272	1,548
Arkansas	427	513	645	533	2,118
California	4,845	5,075	11,279	8,022	29,220
Colorado	870	923	835	806	3,435
Connecticut	1,832	2,111	2,649	2,354	8,945
Delaware	200	269	257	232	958
District of Columbia	1,347	1,245	1,354	1,175	5,121
Florida	1,205	1,282	1,628	907	5,022
Georgia	813	829	1,423	1,607	4,672
Idaho	215	269	248	201	934
Illinois	7,195	7,542	11,435	10,655	36,826
Indiana	1,757	1,888	2,507	2,052	8,203
Iowa	1,313	1,430	1,868	1,605	6,216
Kansas	874	1,005	1,256	1,086	4,221
Kentucky	793	1,042	1,167	1,001	4,003
Louisiana	933	892	1,622	1,058	4,505
Maine	552	530	623	563	2,269
Maryland	1,293	1,452	1,691	1,556	5,992
Massachusetts	4,499	4,610	6,357	4,870	20,337
Michigan	3,128	4,981	5,149	4,377	17,634
Minnesota	1,770	1,854	2,345	2,357	8,326
Mississippi	440	461	930	621	2,452
Missouri	3,413	4,069	4,791	4,139	16,413
Montana	375	396	555	480	1,806
Nebraska	669	716	850	740	2,974
Nevada	58	91	154	100	403
New Hampshire	318	277	444	376	1,414
New Jersey	4,951	4,953	5,879	5,206	20,990
New Mexico	110	133	168	209	620
New York	25,339	19,244	30,724	20,936	96,243
North Carolina	737	755	1,360	1,112	3,964
North Dakota	235	240	307	269	1,052
Ohio	5,169	5,716	7,218	6,551	24,655
Oklahoma	942	1,359	1,249	927	4,478
Oregon	1,380	1,774	1,530	1,379	6,063
Pennsylvania	6,955	7,488	8,636	11,891	34,970
Rhode Island	784	695	819	748	3,046
South Carolina	436	438	712	568	2,154
South Dakota	209	241	322	282	1,054

(Continued)

UNITED STATES DEFENSE SAVINGS BONDS - SERIES E

Sales for the Months of May, June, July, and August, 1941, by States
On Basis of Issue Price
(Continued)

(In thousands of dollars)

State	May	June	July	August	Total
Tennessee	\$ 816	\$ 891	\$ 1,482	\$ 1,031	\$ 4,221
Texas	4,340	4,377	8,947	5,682	23,346
Utah	200	274	375	274	1,124
Vermont	270	216	370	279	1,135
Virginia	1,119	1,201	1,775	1,859	5,953
Washington	1,738	2,040	2,296	1,659	7,733
West Virginia	572	614	859	631	2,677
Wisconsin	2,035	2,572	2,769	2,258	9,634
Wyoming	154	184	228	187	754
Alaska	1	4	98	26	129
Guam	-	-	2	-	2
Hawaii	90	130	251	221	692
Puerto Rico	-	-	58	13	71
Virgin Islands	-	-	*	*	1
Total	\$100,581	\$102,517	\$144,105	\$118,636	\$465,839
Adjustment to deposits	-	-	+ 1,169	- 1,032	+ 137
Deposits with Treasurer of the United States	\$100,581	\$102,517	\$145,274	\$117,603	\$465,976

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

September 16, 1941

Source: May and June post office sales by states were estimated by the Post Office Department on the basis of actual sales by 111 larger post offices. May and June bank sales by states were reported weekly by the Federal Reserve Banks. All of the above-mentioned reports have been prorated in this table to result in estimated sales equal to deposits with the Treasurer of the United States. July and August sales were reported on a monthly basis by postmasters and by the Federal Reserve Banks. August figures are preliminary.

* Less than \$500.

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

UNITED STATES DEFENSE SAVINGS BONDS - SERIES E

Sales in August, 1941, by States and by Type of Sales Agent
On Basis of Issue Price

(In thousands of dollars)

State	Total - All Sales Agents	Banks	Post Offices	All Other
Alabama	\$ 690	\$ 299	\$ 388	\$ 3
Arizona	272	146	122	5
Arkansas	533	236	295	3
California	8,022	5,098	2,830	94
Colorado	806	385	403	18
Connecticut	2,354	1,495	816	42
Delaware	232	162	70	-
District of Columbia	1,175	815	317	44
Florida	907	491	394	21
Georgia	1,607	1,100	503	4
Idaho	201	119	79	3
Illinois	10,655	6,648	3,861	146
Indiana	2,052	933	1,067	52
Iowa	1,605	607	990	8
Kansas	1,086	465	614	7
Kentucky	1,001	521	465	14
Louisiana	1,058	604	441	13
Maine	563	295	267	1
Maryland	1,556	1,007	523	26
Massachusetts	4,870	3,304	1,499	67
Michigan	4,377	2,146	2,195	36
Minnesota	2,357	1,328	1,004	25
Mississippi	621	273	347	1
Missouri	4,139	2,790	1,330	19
Montana	480	189	285	5
Nebraska	740	212	525	4
Nevada	100	39	61	-
New Hampshire	376	197	173	7
New Jersey	5,206	3,119	2,080	8
New Mexico	209	113	94	2
New York	20,936	16,198	4,515	223
North Carolina	1,112	637	470	5
North Dakota	269	91	178	*
Ohio	6,551	4,183	2,155	213
Oklahoma	927	471	445	11
Oregon	1,379	939	431	9
Pennsylvania	11,891	8,979	2,872	40
Rhode Island	748	457	260	31
South Carolina	568	297	263	9
South Dakota	282	102	180	*

(Continued)

PRELIMINARY

UNITED STATES DEFENSE SAVINGS BONDS - SERIES E

Sales in August, 1941, by States and by Type of Sales Agent
On Basis of Issue Price
(Continued)
(In thousands of dollars)

State	Total - All Sales Agents	Banks	Post Offices	All Other
Tennessee	\$1,031	\$ 584	\$ 441	\$ 6
Texas	5,682	4,543	1,068	71
Utah	274	106	166	2
Vermont	279	138	139	2
Virginia	1,859	1,398	448	14
Washington	1,659	1,063	546	51
West Virginia	631	316	314	1
Wisconsin	2,258	986	1,261	10
Wyoming	187	69	117	1
Alaska	26	15	11	-
Guam	-	-	-	-
Hawaii	221	69	6	147
Puerto Rico	13	-	13	-
Virgin Islands	*	-	*	-
Total	\$118,636	\$76,779	\$40,338	\$1,518
Adjustment to deposits	-1,032			
Total deposits with Treasurer of the United States	<u>\$117,603</u>			

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

September 16, 1941

Source: Sales were reported on a monthly basis by postmasters and by the Federal Reserve Banks.

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

* Less than \$500.

OFFICE FOR EMERGENCY MANAGEMENT
DIVISION OF DEFENSE AID REPORTS
WASHINGTON, D. C.

September 16, 1941

My dear Mr. Secretary:

Transmitted herewith are two copies of a compilation showing that portion of the proposed additional Defense Aid appropriation proposed to be earmarked for procurement by the Treasury Department.

It is anticipated that the proposed additional Defense Aid appropriation will be submitted to the Congress within the next few days, and I should appreciate it if representatives of the Treasury Department would confer with me on or before Wednesday, September 17, 1941, with reference to the defense of the Treasury Department portion of this appropriation before the Appropriation Committees.

A copy of this letter, together with two copies of the compilation referred to above, is being forwarded to Mr. Clifton E. Mack.

Sincerely yours,

Philip Young
Philip Young,
Acting Executive Officer.

The Honorable,

The Secretary of the Treasury

Copy Number:

Issued to:

PROPOSED ADDITIONAL DEFENSE AID APPROPRIATION

Explanatory Notes

1. Provision is made for commitments which must be entered into before February 28, 1942, to meet Defense Aid requirements not covered by the original Defense Aid appropriation and not available by diversion from existing or prospective orders placed under other appropriations.

2. Delivery time factors considered in arriving at this proposal were as follows:

- a. Through May 31, 1942, on simple military and industrial articles and on services available on a "pay-as-you-go" basis.
- b. Through December 31, 1942, on agricultural items to cover deliveries from the 1942 harvests, for which implied commitments will have to be entered into prior to December 31, 1941.
- c. Through December 31, 1942, on military and naval items requiring considerable productive effort and forward planning.
- d. Through June 30, 1943, on complex military and naval items requiring long-term development of designs or facilities, or both.

A BILL

Making further supplemental appropriations for the national defense to provide aid to the government of any country whose defense the President deems vital to the defense of the United States, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That to enable the President through such departments or agencies of the Government as he may designate, further to carry out the provisions of An Act to Promote the Defense of the United States, approved March 11, 1941, and for each and every purpose incident to or necessary therefor, there are hereby appropriated, out of any money in the Treasury not otherwise appropriated, in addition to the sums appropriated by the "Defense Aid Supplemental Appropriation Act, 1941", the following sums for the following respective purposes, namely:

(a) For the procurement, by manufacture or otherwise, of defense articles, information and services, for the government of any country whose defense the President deems vital to the defense of the United States, and the disposition thereof, including all necessary expenses in connection therewith, as follows:

(1) Ordnance and ordnance stores, supplies, spare parts, and materials, including armor and ammunition and components thereof, \$1,190,000,000.

(2) Aircraft and aeronautical material, including engines, spare parts, and accessories, \$685,000,000.

(3) Tanks, armored cars, automobiles, trucks, and other automotive vehicles, spare parts, and accessories, \$385,000,000.

(4) Vessels, ships, boats, and other watercraft, including the hire or other temporary use thereof, and equipage, supplies, materials, spare parts, and accessories, \$850,000,000.

(5) Miscellaneous military and naval equipment, supplies, and materials, \$155,000,000.

(6) Facilities and equipment for the manufacture, production or operation of defense articles and for otherwise carrying out the purposes of the Act of March 11, 1941, including the acquisition of land, and the maintenance and operation of such facilities and equipment, \$375,000,000.

(7) Agricultural, industrial, and other commodities and articles, \$1,875,000,000.

(b) For testing, inspecting, proving, repairing, outfitting, reconditioning, or otherwise placing in good working order any defense articles for the government of any country whose defense the President deems vital to the defense of the United States, including services and expenses in connection therewith, \$175,000,000.

(c) For necessary services and expenses for carrying out the purposes of the Act of March 11, 1941, not specified or included in the foregoing, \$285,000,000.

(d) For administrative expenses, \$10,000,000.

(e) In all, \$5,985,000,000, to remain available until June 30, 1943.

(f) Each of the foregoing appropriations shall be additional to, and consolidated with the appropriation for the same purpose contained in

Sections 1(a), 1(b), 1(d), and 1(e), respectively of the "Defense Aid Supplemental Appropriation Act, 1961": Provided, that, with the exception of the appropriation for administrative expenses, not to exceed 20 per centum of any such consolidated appropriations may be transferred by the President to any other of such consolidated appropriations, but no such consolidated appropriation shall be increased more than 30 per centum thereby.

SEC. 2. The President may, from time to time, when he deems it in the interest of national defense, authorize the head of any department or agency of the Government, to enter into contracts for the procurement of defense articles, information or services for the government of any country whose defense the President deems vital to the defense of the United States, to the extent that such government agrees to pay the United States for such defense articles, information or services prior to the receipt thereof and to make such payments from time to time as the President may require to protect the interests of the United States; and, upon payment of the full cost, the President may dispose of such articles, information or services to such government.

SEC. 3. Any defense article procured pursuant to this Act shall be retained by or transferred to and for the use of such department or agency of the United States as the President may determine, in lieu of being disposed of to a foreign government, whenever in the judgment of the President the defense of the United States will be best served thereby.

SEC. 4. No part of any appropriation contained in this Act shall be used to pay the salary or wages of any person who advocates, or who is a member of an organization that advocates, the overthrow of the Government of the United States by force or violence: Provided, That for the purposes hereof an affidavit shall be considered prima facie evidence that the person making the affidavit does not advocate, and is not a member of an organization that advocates, the overthrow of the Government of the United States by force or violence: Provided further, That any person who advocates, or who is a member of an organization that advocates, the overthrow of the Government of the United States by force or violence and accepts employment the salary or wages for which are paid from any appropriation in this Act shall be guilty of a felony and, upon conviction, shall be fined not more than \$1,000 or imprisoned for not more than one year, or both: Provided further, That the above penalty clause shall be in addition to, and not in substitution for, any other provisions of existing law.

SEC. 5. This Act may be cited as "Title II of the Defense Aid Supplemental Appropriation Act, 1941."

Summary of that Portion of the Proposed Additional Defense Aid Appropriation
Proposed to be Earmarked for the Treasury Department

Country	Ordnance and Ordnance Stores	Aircraft and Aeronautical Material	Tanks and Other Vehicles	Vessels, Ships, etc.	Miscellaneous Military Equipment	Facilities and Equipment	Agricultural, Industrial, and Other Commodities	Testing, In- specting, Proving, Re- pairing, etc.	Necessary Services and Expenses	Administrative Expenses	Total
United Kingdom	\$..	\$..	\$..	\$..	\$..	\$..	\$512,070,000	\$..	\$..	\$..	\$512,070,000
China	50,000,000	50,000,000
Total	\$..	\$..	\$..	\$..	\$..	\$..	\$562,070,000	\$..	\$..	\$..	\$562,070,000

Detailed Breakdown of Additional Defense Aid Appropriation
Proposed for Procurement by the Treasury Department
for the United Kingdom

Appropriation Category and Items	Unit	Proposed Appropriation	
		Quantity	Amount
<u>1. Agricultural, Industrial, and other Commodities:</u>			
<u>Iron and Steel--United Kingdom</u>			
1. Carbon Steel	Tons	1,422,000	\$ 64,000,000
2. Alloy Steel	"	200,000	30,000,000
Total		..	\$ 94,000,000
<u>3. Iron and Steel--Dominions and Colonies</u>			
<u>Non-Ferrous Metals</u>			
4. Copper	"	50,000	13,750,000
5. Copper Refining	"	36,000	1,260,000
6. Bismuth Metal	"	320	640,000
7. Inconel & Monel Metals	"	1,200	1,400,000
Total		..	\$ 17,050,000
<u>Fishes</u>			
8. Softwoods	Stds.	7,500	1,000,000
9. Hardwoods	Loads	35,000	1,400,000
10. Plywood & Veneers			2,000,000
Total		..	\$ 4,400,000
<u>Textiles</u>			
11. Silk, Raw & Waste	Lbs.	2,000,000	4,000,000
12. Silk Moils	"	1,000,000	650,000
13. Manila Hemp	Tons	15,000	1,400,000
Total		..	\$ 6,050,000

**Detailed Breakdown of Additional Defense Aid Appropriation
Proposed for Procurement by the Treasury Department
for the United Kingdom**

Appropriation Category and Items	Unit	Proposed Appropriation	
		Quantity	Amount
I. Agricultural, Industrial, and other Commodities (cont.)			
<u>Chemicals</u>			
14. Borax	Tons	3,000	\$ 150,000
15. Boric Acid	"	2,000	210,000
16. Boronite	"	6,000	220,000
17. Carbonate of Potash	"	1,000	145,000
18. Caustic Potash	"	400	64,000
19. Butyl Phenol	"	60	35,000
20. Drugs			1,000,000
Total		..	\$ 1,824,000
<u>Paper Materials</u>			
21. Woodpulp for paper	Tons	100,000	7,500,000
22. Kraft Liner Board	"	7,200	440,000
23. Building Boards	"	12,000	1,300,000
24. Other Paper & Board	"	4,000	900,000
25. Bagasse	"	4,000	128,000
Total		..	\$ 10,268,000
<u>Miscellaneous Materials</u>			
26. Molybdenum	Tons	1,400	2,000,000
27. Tungsten Carbide	"	15	250,000
28. Tungsten Wire	"	5	500,000
29. Carbon Electrodes	"	2,250	750,000
30. Abrasives	"	6,000	1,440,000
31. Bentonite	"	7,000	200,000
32. Diatomaceous Earth	"	2,000	100,000
33. Carbon Black	"	12,000	1,200,000
34. French Chalk	"	500	32,000
35. Raw Hair	"	1,000	225,000
36. Asphalt	"	1,000	50,000
37. Ground Nica	"	200	20,000
Total		..	\$ 6,767,000

Detailed Breakdown of Additional Defense Aid Appropriation
Proposed for Procurement by the Treasury Department
for the United Kingdom

Appropriation Category and Items	Unit	Proposed Appropriation	
		Quantity	Amount
7. Agricultural, Industrial, and other Commodities (cont.)			
<u>Agricultural Machinery</u>			
38. Agricultural Implements			\$ 10,000,000
Total			\$ 10,000,000
<u>A.R.P. & Repair Materials</u>			
39. Fire Hose	Ft.	2,000,000	700,000
40. Horn and Hoof Meal	Tons	150	11,000
Total			\$ 711,000
41. Ball Bearings			4,000,000
42. Road Construction Machinery			25,000,000
43. Electrical & General Equipment			30,000,000
44. Railway Equipment			25,000,000
45. Spot Purchase Fund			187,000,000
Grand Total - Treasury Department - U.K.			\$ 512,070,000

Table V-a
Sheet 1 of 1Detailed Breakdown of Additional Defense Aid Appropriation
Proposed for Procurement by the Treasury Department
for China

Appropriation Category and Items	Unit	Proposed Appropriation	
		Quantity	Amount
7. Agricultural, Industrial, and other Commodities:			
1. Iron and Steel	Ton	13,420	\$ 606,500
2. Copper	"	3,551	870,000
3. Pig Lead	"	581	68,000
4. Zinc	"	1,667	275,000
5. Brass Products	"	--	300,000
6. Aluminum Products	"	--	24,000
7. Chemicals	"	--	10,000
8. Tires and Tubes	"	--	266,667
9. Gas, Oil and Lubricants for Military Aviation	--	--	6,391,123
10. Gas, Oil and Lubricants for Transport Aviation and Vehicles	--	--	37,113,710
11. Cloth, Cotton	Yds.	28,953,000	2,540,000
12. Blankets, Woolen and Cotton	En.	350,000	660,000
13. Medical Supplies, Army Health Administration	--	--	280,000
14. Rubber Footwear	--	500,000	333,000
15. Spot Purchase Fund	--	--	262,000
Grand Total - Treasury Department - China		--	\$ 50,000,000

SECRET

**SUMMARY AND BREAKDOWN OF THAT PORTION OF THE PROPOSED
ADDITIONAL DEFENSE AID APPROPRIATION PROPOSED
TO BE EARMARKED FOR PROCUREMENT BY THE
TREASURY DEPARTMENT**

This document contains information affecting the national defense of the United States within the meaning of the Espionage Act, 50 U.S.C., 31 and 32. Its transmission or the revelation of its contents in any manner to an unauthorized person is prohibited by law.

Copy Number:

2-T

Division of Defense Aid Reports

Issued to: *Secretary of Army*

September 15, 1941

PROPOSED ADDITIONAL DEFENSE AID APPROPRIATION

Explanatory Notes

1. Provision is made for commitments which must be entered into before February 28, 1942, to meet Defense Aid requirements not covered by the original Defense Aid appropriation and not available by diversion from existing or prospective orders placed under other appropriations.

2. Delivery time factors considered in arriving at this proposal were as follows:

- a. Through May 31, 1942, on simple military and industrial articles and on services available on a "pay-as-you-go" basis.
- b. Through December 31, 1942, on agricultural items to cover deliveries from the 1942 harvests, for which implied commitments will have to be entered into prior to December 31, 1941.
- c. Through December 31, 1942, on military and naval items requiring considerable productive effort and forward planning.
- d. Through June 30, 1943, on complex military and naval items requiring long-term development of designs or facilities, or both.

A BILL

Making further supplemental appropriations for the national defense to provide aid to the government of any country whose defense the President deems vital to the defense of the United States, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That to enable the President through such departments or agencies of the Government as he may designate, further to carry out the provisions of An Act to Promote the Defense of the United States, approved March 11, 1941, and for each and every purpose incident to or necessary therefor, there are hereby appropriated, out of any money in the Treasury not otherwise appropriated, in addition to the sums appropriated by the "Defense Aid Supplemental Appropriation Act, 1941", the following sums for the following respective purposes, namely:

(a) For the procurement, by manufacture or otherwise, of defense articles, information and services, for the government of any country whose defense the President deems vital to the defense of the United States, and the disposition thereof, including all necessary expenses in connection therewith, as follows:

- (1) Ordnance and ordnance stores, supplies, spare parts, and materials, including armor and ammunition and components thereof, \$1,190,000,000.
- (2) Aircraft and aeronautical material, including engines, spare parts, and accessories, \$685,000,000.
- (3) Tanks, armored cars, automobiles, trucks, and other automotive vehicles, spare parts, and accessories, \$385,000,000.

(4) Vessels, ships, boats, and other watercraft, including the hire or other temporary use thereof, and equipage, supplies, materials, spare parts, and accessories, \$850,000,000.

(5) Miscellaneous military and naval equipment, supplies, and materials, \$155,000,000.

(6) Facilities and equipment for the manufacture, production or operation of defense articles and for otherwise carrying out the purposes of the Act of March 11, 1941, including the acquisition of land, and the maintenance and operation of such facilities and equipment, \$375,000,000.

(7) Agricultural, industrial, and other commodities and articles, \$1,875,000,000.

(b) For testing, inspecting, proving, repairing, outfitting, reconditioning, or otherwise placing in good working order any defense articles for the government of any country whose defense the President deems vital to the defense of the United States, including services and expenses in connection therewith, \$175,000,000.

(c) For necessary services and expenses for carrying out the purpose of the Act of March 11, 1941, not specified or included in the foregoing, \$285,000,000.

(d) For administrative expenses, \$10,000,000.

(e) In all, \$5,985,000,000, to remain available until June 30, 1943.

(f) Each of the foregoing appropriations shall be additional to, and consolidated with the appropriation for the same purpose contained in

Sections 1(a), 1(b), 1(d), and 1(e), respectively of the "Defense Aid Supplemental Appropriation Act, 1941": Provided, That, with the exception of the appropriation for administrative expenses, not to exceed 20 per centum of any such consolidated appropriations may be transferred by the President to any other of such consolidated appropriations, but no such consolidated appropriation shall be increased more than 30 per centum thereby.

SEC. 2. The President may, from time to time, when he deems it in the interest of national defense, authorize the head of any department or agency of the Government, to enter into contracts for the procurement of defense articles, information or services for the government of any country whose defense the President deems vital to the defense of the United States, to the extent that such government agrees to pay the United States for such defense articles, information or services prior to the receipt thereof and to make such payments from time to time as the President may require to protect the interests of the United States; and, upon payment of the full cost, the President may dispose of such articles, information or services to such government.

SEC. 3. Any defense article procured pursuant to this Act shall be retained by or transferred to and for the use of such department or agency of the United States as the President may determine, in lieu of being disposed of to a foreign government, whenever in the judgment of the President the defense of the United States will be best served thereby.

SEC. 4. No part of any appropriation contained in this Act shall be used to pay the salary or wages of any person who advocates, or who is a member of an organization that advocates, the overthrow of the Government of the United States by force or violence: Provided, That for the purposes hereof an affidavit shall be considered prima facie evidence that the person making the affidavit does not advocate, and is not a member of an organization that advocates, the overthrow of the Government of the United States by force or violence: Provided further, That any person who advocates, or who is a member of an organization that advocates, the overthrow of the Government of the United States by force or violence and accepts employment the salary or wages for which are paid from any appropriation in this Act shall be guilty of a felony and, upon conviction, shall be fined not more than \$1,000 or imprisoned for not more than one year, or both: Provided further, That the above penalty clause shall be in addition to, and not in substitution for, any other provisions of existing law.

SEC. 5. This Act may be cited as "Title II of the Defense Aid Supplemental Appropriation Act, 1941."

Table V-a
Sheet 1 of 1Summary of that Portion of the Proposed Additional Defense Aid Appropriation
Proposed to be Earmarked for the Treasury Department

Country	Ordnance and Stores	Aircraft and Aeronautical Material	Tanks and Other Vehicles	Vessels, Ships, etc.	Miscellaneous Military Equipment	Facilities and Equipment	Agricultural, Industrial, and Other Commodities	Testing, In- specting, Proving, Re- pairing, etc.	Necessary Services and Expenses	Administrative Expenses	Total
United Kingdom	\$..	\$..	\$..	\$..	\$..	\$..	\$512,070,000	\$..	\$..	\$..	\$512,070,000
China	50,000,000	50,000,000
Total	\$..	\$..	\$..	\$..	\$..	\$..	\$562,070,000	\$..	\$..	\$..	\$562,070,000

Detailed Breakdown of Additional Defense Aid Appropriation
Proposed for Procurement by the Treasury Department
for the United Kingdom

Appropriation Category and Items	Unit	Proposed Appropriation	
		Quantity	Amount
<u>7. Agricultural, Industrial, and other Commodities:</u>			
<u>Iron and Steel--United Kingdom</u>			
1. Carbon Steel	Tons	1,422,000	\$ 64,000,000
2. Alloy Steel	"	200,000	30,000,000
Total		..	\$ 94,000,000
<u>Iron and Steel--Dominions and Colonies</u>			
3. Iron and Steel--Dominions and Colonies	Tons	..	90,000,000
<u>Non-Ferrous Metals</u>			
4. Copper	"	50,000	13,750,000
5. Copper Refining	"	36,000	1,260,000
6. Bismuth Metal	"	320	640,000
7. Inconel & Monel Metals	"	1,200	1,400,000
Total		..	\$ 17,050,000
<u>Timber</u>			
8. Softwoods	Stds.	7,500	1,000,000
9. Hardwoods	Loads	35,000	1,400,000
10. Plywood & Veneers			2,000,000
Total		..	\$ 4,400,000
<u>Textiles</u>			
11. Silk, Raw & Waste	Lbs.	2,000,000	4,000,000
12. Silk Bolls	"	1,000,000	650,000
13. Manila Hemp	Tons	15,000	1,400,000
Total		..	\$ 6,050,000

Detailed Breakdown of Additional Defense Aid Appropriation
Proposed for Procurement by the Treasury Department
for the United Kingdom

Appropriation Category and Items	Unit	Proposed Appropriation	
		Quantity	Amount
<u>Agricultural, Industrial, and other Commodities (cont.)</u>			
<u>Chemicals</u>			
14. Borax	Tons	3,000	\$ 150,000
15. Boric Acid	"	2,000	210,000
16. Boronite	"	6,000	220,000
17. Carbonate of Potash	"	1,000	145,000
18. Caustic Potash	"	400	64,000
19. Butyl Phenol	"	60	35,000
20. Drugs			1,000,000
Total		..	\$ 1,824,000
<u>Paper Materials</u>			
21. Woodpulp for paper	Tons	100,000	7,500,000
22. Kraft Liner Board	"	7,200	440,000
23. Building Boards	"	12,000	1,300,000
24. Other Paper & Board	"	4,000	900,000
25. Bagasse	"	4,000	125,000
Total		..	\$ 10,268,000
<u>Miscellaneous Materials</u>			
26. Molybdenum	Tons	1,400	2,000,000
27. Tungsten Carbide	"	15	250,000
28. Tungsten Wire	"	5	500,000
29. Carbon Electrodes	"	2,250	750,000
30. Abrasives	"	6,000	1,440,000
31. Bentonite	"	7,000	200,000
32. Diatomaceous Earth	"	2,000	100,000
33. Carbon Black	"	12,000	1,200,000
34. French Chalk	"	500	32,000
35. Saw Hair	"	1,000	225,000
36. Asphalt	"	1,000	50,000
37. Ground Nicks	"	200	20,000
Total		..	\$ 6,757,000

Detailed Breakdown of Additional Defense Aid Appropriation
Proposed for Procurement by the Treasury Department
for the United Kingdom

Appropriation Category and Items	Unit	Proposed Appropriation	
		Quantity	Amount
<u>7. Agricultural, Industrial, and other Commodities (cont.)</u>			
<u>Agricultural Machinery</u>			
38. Agricultural Implements			\$ 10,000,000
Total			\$ 10,000,000
<u>A.R.P. & Repair Materials</u>			
39. Fire Hose	Ft.	2,000,000	700,000
40. Horn and Hoof Meal	Tons	150	11,000
Total			\$ 711,000
41. Ball Bearings			4,000,000
42. Road Construction Machinery			25,000,000
43. Electrical & General Equipment			30,000,000
44. Railway Equipment			25,000,000
45. Spot Purchase Fund			187,000,000
Grand Total - Treasury Department - U.K.			\$ 512,070,000

Table W-1
Sheet 1 of 1Detailed Breakdown of Additional Defense Aid Appropriation
Proposed for Procurement by the Treasury Department
for China

Appropriation Category and Items	Unit	Proposed Appropriation	
		Quantity	Amount
<u>T. Agricultural, Industrial, and other Commodities:</u>			
1. Iron and Steel	Ton	13,420	\$ 606,500
2. Copper	"	3,551	870,000
3. Pig Lead	"	581	68,000
4. Zinc	"	1,667	275,000
5. Brass Products	"	--	300,000
6. Aluminum Products	"	--	24,000
7. Chemicals	"	--	10,000
8. Tires and Tubes	"	--	266,667
9. Gas, Oil and Lubricants for Military Aviation	--	--	6,391,123
10. Gas, Oil and Lubricants for Transport Aviation and Vehicles	--	--	37,113,710
11. Cloth, Cotton	Yds.	28,953,000	2,540,000
12. Blankets, Woolen and Cotton	Ea.	350,000	660,000
13. Medical Supplies, Army Health Administration	--	--	280,000
14. Rubber Footwear	--	500,000	333,000
15. Spot Purchase Fund	--	--	262,000
Grand Total - Treasury Department - China		--	\$ 50,000,000

OFFICE FOR EMERGENCY MANAGEMENT
DIVISION OF DEFENSE AID REPORTS
WASHINGTON, D. C.

197

September 16, 1941

My dear Mr. Secretary:

It gives me great pleasure to enclose herewith a copy of the Second Report under the Act of March 11, 1941.

If you have any questions with respect to the material or figures covered therein, I shall be delighted to confer with you or your representatives at any time.

Sincerely yours,



Philip Young
Acting Executive Officer

The Honorable,

The Secretary of the Treasury.

SECRET

THE ACT OF MARCH 11, 1941

LETTER OF TRANSMITTAL

The PRESIDENT OF THE SENATE.
The SPEAKER OF THE HOUSE OF REPRESENTATIVES.

I am submitting this report pursuant to Section 5 (b) of the Lend-Lease Act of March 11, 1941, which provides that the President report to the Congress every 90 days on the operations under that act.

The Lend-Lease Act was passed by the Congress just 183 days ago. One hundred and sixty-seven days ago, the Congress appropriated 7 billion dollars to carry out our national policy of giving every possible material assistance to the countries resisting aggression.

The effective expenditure of this large sum in furtherance of our announced policy has presented tasks of large proportions. We have surveyed the needs of the countries we are aiding. We have correlated this program of aid with the procurement programs of our own Army and Navy. We have arranged with our industries for the production of the great quantities of material involved.

The War Department, the Navy Department, the Treasury Department, the Agriculture Department, and the Maritime Commission are the agencies principally charged with the actual procurement of the supplies. They are now far along with their task.

Over 6% of the 7 billion dollars appropriated have now been allocated, upon the recommendation of these agencies, for specific materials and services. Their procurement machinery has been constantly at work, locating producers and placing contracts. Over 3½ billion dollars of legal commitments have already been made. Contracts will soon be placed for the entire 7 billion dollar appropriation.

Contracts have been placed and work has started on nearly a billion dollars of bombardment aircraft. New ways have been started and work is in progress for about one-half a billion dollars of new merchant shipping. New facilities to speed the production of gums, ammunition, and other defense articles have been started under contracts totaling about \$262,000,000. Over \$430,000,000 has been allocated, and over \$250,000,000 has been obligated, for the purchase of milk, eggs, and other agricultural products.

Daily the aid being rendered is growing. Through the month of August the total dollar value of defense articles transferred and defense services rendered, plus expenditures for other lend-lease purposes, amounted to \$486,721,838.

Food and steel and machinery and guns and planes have been supplied in increasing quantities. Agricultural commodities worth \$110,606,550 have been transferred to the countries we are aiding. We have transferred to the United Kingdom more than 44 million pounds of cheese, more than 54 million pounds of eggs, more than 80 million pounds of cured pork, more than 110 million pounds of dried beans, and more than 114 million pounds of lard. We have transferred to them more than 3 million barrels of gasoline and oil. We have sent them many tanks. Merchant and naval ships and other transportation equipment are being transferred in growing amounts.

A substantial number of cargo ships and tankers have been chartered to the use of those countries whose defense is vital to our own. Our yards are repairing allied merchant ships. We are equipping allied ships to protect them from mines; and we are arming them, as much as possible, against aircraft, submarines, and raiders.

We have also, by repairing and outfitting their warships, helped the British and allied navies keep clear the vital sea lanes upon which depends continued resistance to Axis piracy. The repair of the battleship *Malaya* and the aircraft carrier *Illustrious* are outstanding examples of this naval assistance.

Over the whole range of technical and material assistance required by modern warfare, we are, under the lend-lease program, rendering effective help. Important defense information is being supplied to Britain and the other nations fighting the Axis powers. Our technicians are instructing the Allies in the assembly, operation, and maintenance of the tools coming from our factories. Across the United States and across Africa, our plane ferry service is linking the arsenals of America with democracy's outposts in the Middle East. On our airfields, thousands of British pilots are being, and will continue to be, trained, and already we are preparing a similar program to help the Chinese.

We have supplied equipment for the Yunnan-Burma Railroad and for the Burma Road in order to speed the flow of arms and materials to the heroic Chinese people. In addition to materials of war, we are furnishing China with medicine and technical assistance to fight the ravages of malaria. A military mission has also been dispatched to China in connection with the supplying of lend-lease aid.

The 7 billion dollars appropriated for purchasing defense articles has been available less than 6 months, and actual transfers from these funds have necessarily been limited to articles which could be purchased in a finished state or produced in that time. The speed with which future lend-lease transfers will be made depends largely on the speed with which our industries deliver the goods. The rate of our production must be accelerated, and every step to achieve that end must and will be taken.

These lend-lease deliveries are not, of course, the only materials which have been moving from our shores to the countries resisting aggression. Prior to the Lend-Lease Act, large contracts were placed here by Great Britain and by other countries from their own resources. Deliveries under these contracts are moving across the sea along with lend-lease articles. The true measure of the volume of war supplies moving from our shores is reflected in our total exports. Thus, since the beginning of the war, about \$4,400,000,000 worth of goods have been exported to the British Empire.

Figures alone cannot show the significance of our help. Americans may be justly proud of the way in which the tools they have forged are standing up when tested under fire. An American-made flying-boat spotted the *Bismarck* and American-made bombers blasted the *Scharnhorst* and the *Gneisenau*, and they have helped make possible the great raids of the R. A. F. in the Battle of Germany. In the wars of the Western Desert, fighter planes from our factories are in the vanguard of the attack and hundreds of our tanks stand ready to help rout the Nazi scourge from the African continent.

The British Empire has received the bulk of our aid. But we have also extended assistance to the many other countries engaged in the same struggle. China and the Dutch East Indies are receiving ever increasing quantities of supplies. The exiled governments of the countries under the Nazi yoke are sharing in the program. We are already outfitting Polish troops who are training in Canada for action overseas. We are also providing, directly or indirectly, aid for the Dutch, the Norwegians, the Greeks, the Belgians, and the Yugoslavs. We know that every group which yields to or collaborates with the Nazis makes our own defense that much more difficult. Likewise every group that resists Nazi aggression helps to keep the war from our own hemisphere.

The defense of the Western Hemisphere has been a prime consideration in our lend-lease program. Not only are we helping the European countries which stand athwart the Nazi path toward the Western Hemisphere, but we are also giving direct lend-lease aid to the countries of this hemisphere. We are strengthening Iceland, where our troops and ships now stand guard over the approaches of the North Atlantic, and we have already embarked upon a comprehensive program of material aid to the countries of Central and South America to strengthen the common defense of our good neighborhood.

The gallant resistance of the Russian people has been of enormous help to all peoples resisting the Nazi war machine. It has completely upset the Nazi time schedule and has destroyed the myth of Nazi invincibility. We are using the energies of our Government to make available supplies which are urgently needed by Russia. By speeding deliveries and by arranging the quickest transportation of American

IV

materials, we are moving to strengthen the important Russian front. The Soviet Government's purchases here are being made with its own funds through its regular purchasing agency.

The people of the United States know that we cannot live in a world dominated by Hitlerism. They realize that there can be no real peace, no secure freedom until we have destroyed the evil forces which seek to work us woe. Through their chosen representatives, they have declared a firm and unalterable policy to build up an impregnable defense for this hemisphere, and to furnish unstinted material aid to the countries fighting against Nazi aggression and tyranny.

We are not furnishing this aid as an act of charity or sympathy, but as a means of defending America. We offer it because we know that piecemeal resistance to aggression is doomed to failure; because the ruthless war machine which now bestrides the continent of Europe can be combatted only by the combined efforts of all free peoples and at all strategic points where the aggressor may strike.

The lend-lease program is no mere side issue to our program of arming for defense. It is an integral part, a keystone, in our great national effort to preserve our national security for generations to come, by crushing the disturbers of our peace.

To those peoples who are gallantly shedding their blood in the front lines of this struggle, we must offer not only a shield but a sword, not merely the means to permit the stalemate of protracted defense, but the tools of a final and total victory.

This country has evolved the greatest and most efficient industrial system in history. It is our task to turn the workshops of our industry into mighty forges of war—to outbuild the aggressors in every category of modern arms. Only in this way can we build the arsenal of democracy.

On this task we are now engaged with ever increasing vigor. Planes, tanks, guns, and ships have begun to flow from our factories and yards, and the flow will accelerate from day to day, until the stream becomes a river, and the river a torrent, engulfing this totalitarian tyranny which seeks to dominate the world.

FRANKLIN D. ROOSEVELT.

THE WHITE HOUSE,
September 11, 1941.

SECOND REPORT

UNDER

THE ACT OF MARCH 11, 1941

(LEND-LEASE ACT)

(v)

CONTENTS

	Page
CHAPTER I. The Measure of Aid.....	1
CHAPTER II. General Summary of Lend-Lease Operations.....	3
CHAPTER III. Lend-Lease Operations.....	7
1. Procurement Procedures.....	7
2. Allocations, Obligations, and Expenditures.....	9
3. Transfers.....	15
4. Exports.....	17
CHAPTER IV. Distribution of Lend-Lease Materials Abroad.....	18
CHAPTER V. Scope of Lend-Lease Aid Rendered.....	21
1. British Food Program.....	21
2. Shipping Activities.....	22
3. Variety of Aid Made Available.....	23
4. China.....	23
5. Governments in Exile.....	24
6. Belgium.....	25
7. The Netherlands.....	25
8. The American Republics.....	25
9. Foreign Representation.....	26
APPENDIX I. Memorandum on Distribution of Lend-Lease Materials Abroad.....	29
APPENDIX II. Methods Evolved to Expedite Defense Aid.....	31

CHAPTER I

THE MEASURE OF AID

This is the second 90-day report to the Congress on operations under the Lend-Lease Act. It describes the position of lend-lease with respect to exports of defense aid rendered; it gives a general summary of lend-lease operations as well as an account of defense aid received by various countries for our defense; further, it describes the scope of lend-lease aid rendered.

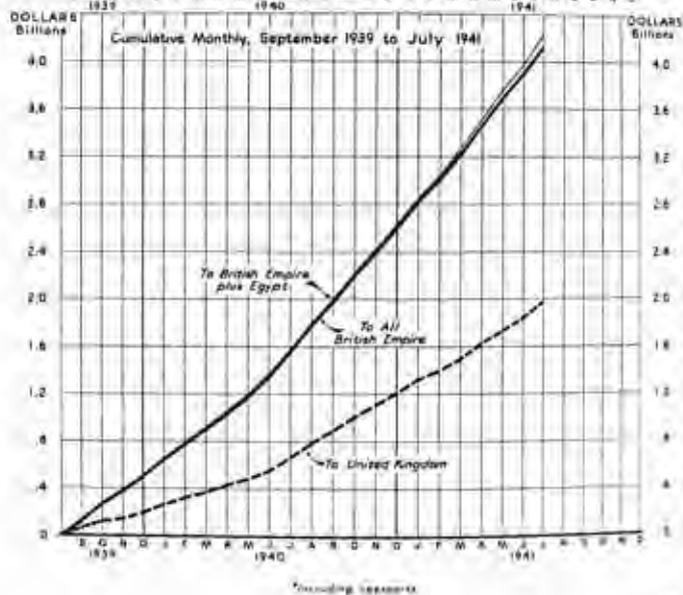
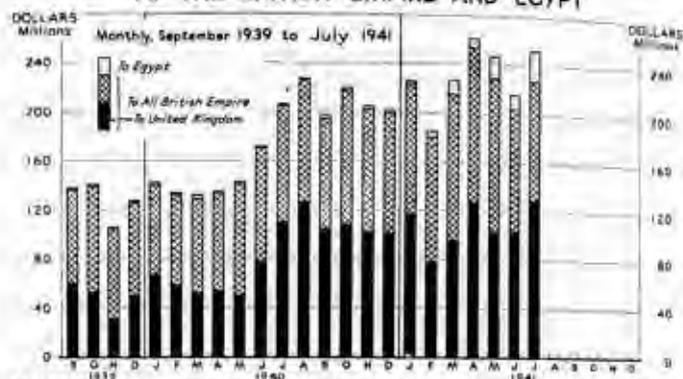
Prior to the passage of the Lend-Lease Act, the British and other foreign governments had placed contracts with American suppliers for the production of planes, tanks, guns, machine tools, and other defense articles. Large sums of money were expended for the expansion of existing facilities and for the creation of new plants. By January 1941 over 3 billion dollars of British contracts alone had been placed in the United States. These foreign orders strengthened our own defense by increasing our productive armament capacity.

The process of elimination of European countries on a "one by one" basis created a danger which the United States could not afford to ignore. As the threat of aggression pressed ever closer to our security, experience demonstrated that only through the united efforts and united resources of the remaining free nations of the world could our own freedom be preserved. By the passage of the Lend-Lease Act on March 11, 1941, this country proclaimed its intention to supply defense articles to any nation which, in using them, could contribute effectively to the defense of the United States.

Present operations under the Lend-Lease Act cannot alone give a true picture of the part being played by the United States in strengthening resistance to aggression wherever it is found. Today, the true measure of the aid rendered by American shops and farms to the countries resisting aggression is represented by the combination of aid under the Lend-Lease Act and of materials delivered pursuant to contracts placed by the governments of the countries from their own resources. The following charts are illustrative of this aid:

(1)

UNITED STATES EXPORTS* TO THE BRITISH EMPIRE AND EGYPT



CHAPTER II

GENERAL SUMMARY OF LEND-LEASE OPERATIONS

Much progress has been made in implementing the objectives of the Lend-Lease Act since March 11, 1941. As of August 31, 5,373 requisitions for defense articles and services had been received by the Division of Defense Aid Reports from 12 different countries.

Tables showing requisitions received, by countries, and distribution of requisitions received, by cognizant United States agencies, follow:

Requisitions received through Aug. 31, 1941

Country	Requisitions received		
	Lend-Lease	Cash reimbursement	Total
Belgium.....	18		18
Brazil.....	46	10	56
China.....	22		22
China.....	220		220
Colombia.....	1		1
Cuba.....	49		49
Dominican Republic.....	41	27	68
Greece.....	16		16
Netherlands.....	7	29	36
Norway.....	7	1	8
Poland.....	32		32
United Kingdom.....	4,726	11	4,747
Total.....	5,295	78	5,373

Distribution of requisitions by cognizant United States agencies

Country	War	Treasury	Maritime Commission	Navy	Joint Aircraft Committee	Agriculture	Other	Total
Belgium.....	18							18
Brazil.....	55			1				56
China.....	22							22
China.....	149	134	17		5		2	305
Colombia.....	1							1
Cuba.....	33			1	5			49
Dominican Republic.....	39			29				68
Greece.....	7		2				7	16
Netherlands.....	29			0			1	36
Norway.....	4			3	1			8
Poland.....	32							32
United Kingdom.....	2,684	891	448	574	215	158	29	4,747
Total.....	3,032	1,035	467	425	227	158	39	5,373

*Includes requisitions cancelled and held.

All requests for lend-lease aid are carefully scrutinized and checked by the Division of Defense Aid Reports, by the Bureau of the Budget, and by the staff of the procuring agency concerned, i. e., either the Army, Navy, Maritime Commission, Department of Agriculture, or Treasury Procurement Division. All items not essential to the successful prosecution of the war effort are eliminated. The governments receiving lend-lease aid have been scrupulous to limit their requests to vital needs. No requests for such items as living or administrative expenses of any foreign purchasing commission or agency have been made.

Total allocations under the Lend-Lease Act which amounted to \$4,277,412,879 as of May 31, had increased to \$6,281,237,421 by August 31, or from 61 percent to 90 percent of the available appropriation. Thus, 90 percent of the appropriation has been allocated on the basis of specific requisitions and has passed from the stage of planning into active procurement operations. Within 6 weeks no funds should remain to meet requests which already total much in excess of unallocated balances.

Obligations as of August 31 totaled \$3,555,587,895, or three and one-half times the May 31 figure of \$995,015,322. Furthermore, whereas on May 31 obligations were only 23 percent of allocations, on August 31, 57 percent of allocations had been obligated.

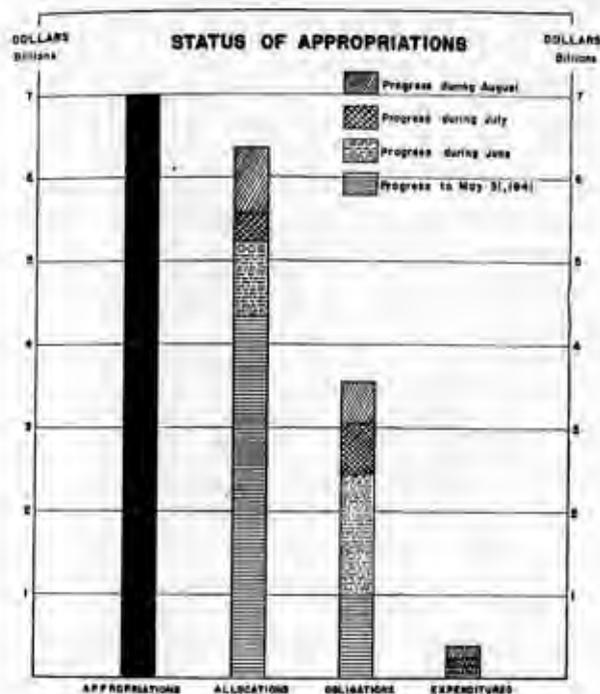
Exports of defense articles provided under lend-lease during the 3 months ended August 31, 1941, totaled eight times such exports in the period between March 11 and May 31, 1941, indicating the steadily accelerating pace of defense aid.

Total defense articles exported under the act during the period from March 11 through August 31, 1941, were valued at \$190,447,670, of which 89 percent were exported in the 90 days ended August 31. During the period from March 11 to June 1, 1941, exports amounted to only 20 percent of transfers made. During the period of June 1 through August 31, 1941, however, exports were 98 percent of transfers made. This demonstrates the fact that lend-lease goods are now being transported and absorbed by shipping very nearly as rapidly as they are being made available.

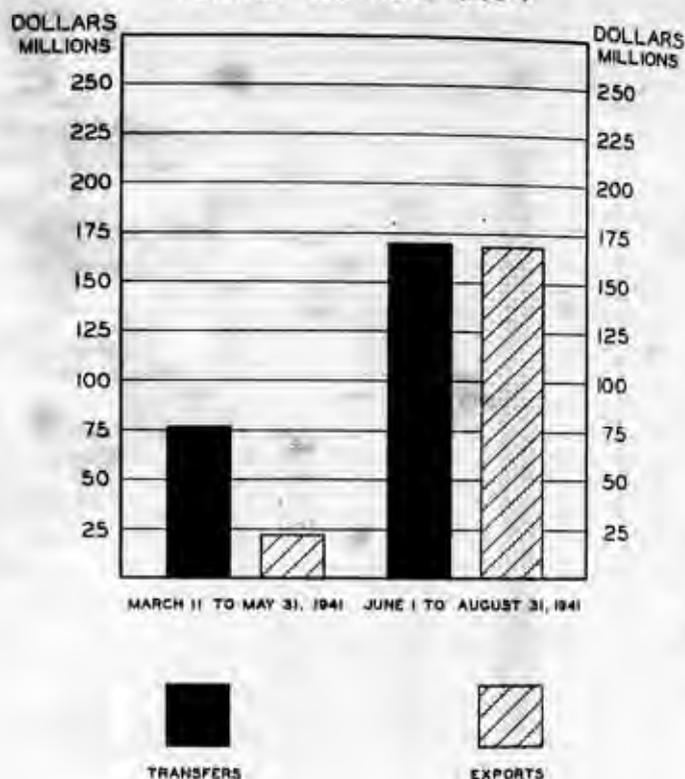
A graphic presentation of progress under the Lend-Lease Act and of the relationship of exports to transfers is given in the pages following.

CHART OF PROGRESS

UNDER AN ACT TO PROMOTE THE DEFENSE OF THE UNITED STATES



TRANSFERS AND EXPORTS UNDER LEND-LEASE ACT



CHAPTER III

LEND-LEASE OPERATIONS

1. PROCUREMENT PROCEDURES

The administration of the Lend-Lease Act and its related activities is the duty of the Division of Defense Aid Reports in the Office for Emergency Management of the Executive Office of the President. Through this office flow the actual requisitions for defense articles, the recommendations of the various operating departments, as well as the control records of all allocations, transfers, contracts, and shipments.

If a requisition is approved and an allocation of funds is made by the President, procurement is undertaken by the department concerned in accordance with its normal procurement procedure. The necessary priorities to insure prompt delivery are arranged through the procuring agency. Additions to facilities, if necessary, are worked out with the appropriate authorities, and the transportation of the finished goods is planned with the assistance of transportation specialists in various fields. Official action on such requisitions can only be taken if, on the one hand, a formal request has been made by the properly accredited representative of the foreign government, and, on the other, a formal recommendation with respect to this request has been submitted by the United States Government agency best qualified to deal with the particular item.

In addition to the foregoing, a foreign country in the lend-lease area may file a requisition with the Division of Defense Aid Reports for the purchase of a specific item on a "cash reimbursement" basis. This system of purchasing provides for the procurement of an item in precisely the same way as that used for other lend-lease operations, with the exception that the foreign government deposits cash with the United States Treasury against the value of the goods to be purchased.

The use of the lend-lease mechanism for the making of such purchases is beneficial to the United States defense program because, under such a system, foreign orders, even though paid for in advance, become United States Government contracts under the supervision and control of United States Government agencies. This obviates the need for separate foreign priority ratings as well as limiting the chances for conflicting production, exorbitant prices, and the misuse of raw materials, labor, and plant facilities.

During the 3 months ended August 31, 1941, there occurred the first so-called "cash reimbursement" transactions under the Lend-Lease Act. A total of \$4,206,440 was deposited with the United States Treasury during the period by four countries to cover purchases of defense articles procured for them by United States Government agencies. These deposits were distributed by countries and by procuring United States Government departments as follows:

Country	Cognizant department		Total
	War	Navy	
Brazil.....	\$1,170,000.00		\$1,170,000.00
Canada.....		\$307,000.00	307,000.00
Dominican Republic.....		120,706.22	120,706.22
The Netherlands.....	1,000,000.00	607,084.00	1,607,084.00
Total.....	2,170,000.00	1,034,790.22	3,204,790.22

Besides these two procurement operations under the provisions of the Lend-Lease Act, the Division of Defense Aid Reports has assisted foreign governments in the lend-lease area in making direct cash contracts with American suppliers for the purchase of defense articles. Certain countries, such as the Netherlands East Indies and China, have continued to place cash orders in the United States.

In order that such direct cash operations may be made more effective, foreign governments file a Purchase Negotiation Report for the purpose of securing an allocation of production capacity, adequate priority ratings, and information as to sources of supply. The Division of Defense Aid Reports clears all Purchase Negotiation Reports with the Office of Production Management which, in turn, coordinates the views of the War and Navy Departments with its own, so that a composite recommendation may be made to the foreign government requesting such help.

During the period since March 11th close to 1,200 Purchase Negotiation Reports were received by the Division of Defense Aid Reports. Of these, around two-thirds were filed on behalf of The Netherlands, around 10 percent on behalf of China, and the remainder by other countries.

In connection with the foregoing, it should be pointed out that in some instances Purchase Negotiation Reports are filed by such countries as the United Kingdom and China where the particular items involved may not be "lend-leasable" or where as an administrative matter a direct cash transaction is desirable.

2. ALLOCATIONS, OBLIGATIONS, AND EXPENDITURES

Allocations of defense-aid funds are made on the basis of recommendations from the cognizant United States Government agencies. The agencies are then empowered to obligate the money so provided for the procurement contemplated by the related requisitions. The Defense Aid Supplemental Appropriation Act, 1941, made \$7,000,000,000 available for lend-lease purposes.¹ Of this amount, \$6,281,237,421, or approximately 90 percent, had been allocated and \$3,555,587,895 obligated by August 31, 1941. On May 31 expenditures totaled \$68,078,942 and increased to \$388,912,155 on August 31.²

Total allocations, obligations, and expenditures at August 31 by individual agencies and by appropriation categories are shown in the tables below:

Allocations, obligations, and expenditures under the Defense Aid Supplemental Appropriation Act, 1941, by departments, as of Aug. 31, 1941

Department or agency	Allocations	Obligations	Expenditures
War Department.....	\$3,741,418,274	\$2,247,902,241.87	\$45,210,500.45
Navy Department.....	1,105,743,081	218,006,005.12	34,642,071.31
Maritime Commission.....	631,608,023	617,149,075.48	163,071,080.65
Treasury Department.....	348,490,418	120,452,403.55	14,509,904.21
Department of Agriculture.....	433,411,025	251,442,610.43	115,000,000.00
Federal Security Agency.....	140,000		
Department of State.....	15,000		
Executive Office of the President.....	25,000	5,460.89	5,270.89
Office for Emergency Management.....	100,000	73,537.30	43,108.30
Bureau of the Budget.....	25,000	2,622.75	2,622.75
Total.....	6,281,237,421	3,655,267,895.40	388,912,155.05

Allocations, obligations, and expenditures under the Defense Aid Supplemental Appropriation Act, 1941, by appropriation categories, as of Aug. 31, 1941

Appropriation category	Allocations	Obligations	Expenditures
Ordinance and ordnance stores.....	\$1,422,145,490	\$584,476,115.86	\$15,063,503.79
Aircraft and aeronautical material.....	2,627,306,280	1,347,140,830.64	10,297,791.08
Tanks and other vehicles.....	304,632,258	222,247,262.50	6,252,525.81
Vessels and other watercraft.....	600,490,400	288,277,440.71	109,617,971.87
Miscellaneous military equipment.....	112,741,205	55,802,993.09	5,280,855.73
Facilities and equipment.....	501,075,520	262,100,380.01	41,302,605.68
Agricultural, industrial, and other commodities.....	975,006,178	428,471,283.00	122,476,446.07
Training, reconditioning, etc., of defense articles.....	130,692,371	61,162,251.89	32,672,182.43
Services and supplies.....	18,355,500	1,463,128.44	1,201,678.37
Administrative expenses.....	5,098,674	235,652.16	290,424.74
Total.....	6,281,237,421	3,655,267,895.40	388,912,155.05

¹ Of this amount, \$13,000,000 was used to reimburse the Treasury Department for Coast Guard vessels transferred to the United Kingdom, leaving \$6,987,000,000 available for allocation.

² Expenditures represent that part of obligated funds to which a claim has been established by a supplier on the basis of articles or services either completed or in process.

The significance of these allocations and obligations can best be illustrated by an analysis of the variety and types of defense articles to which they relate. For example, a billion and a quarter dollars has been allocated for bombers; over a half billion for ammunition; over a half billion for merchant shipping; over \$350,000,000 for food; and over \$200,000,000 for tanks and combat vehicles. About \$440,000,000 has been allocated for the development of facilities for the production and distribution of defense articles, which will be a permanent addition to our defense plant.

Almost a billion has already been obligated for the production of bombers; almost a half billion for merchant shipping; over a quarter billion for ammunition; and over \$125,000,000 for tanks.

The following table shows how lend-lease funds have been allocated and obligated for various types of equipment, commodities, and services.

Allocations, obligations, and expenditures under the Defense Aid Supplemental Appropriation Act, 1941, by appropriation categories and purpose classifications, as of Aug. 31, 1941

Appropriation category and purpose classification	Allocations	Obligations	Expenditures
Ordnance and stores:			
Ammunition:			
Small-arms ammunition.....	\$113,249,479.00	369,542,589.48	402.59
Artillery ammunition.....	430,331,051.00	181,794,965.43	5,407,988.28
Aircraft bombs and pyrotechnics.....	20,161,560.00	4,673,942.77	636,732.40
Torpedoes.....	7,000,000.00		
Explosives, propellant powders, and miscellaneous ammunition.....	19,944,430.00	4,022,136.66	516,244.44
Subtotal.....	590,787,417.00	559,941,634.34	7,054,367.71
Ordnance material:			
Small arms and infantry weapons.....	121,888,772.00	35,019,774.92	1,305,522.83
Artillery material.....	50,028,428.00	52,306,398.03	90,789.07
Aircraft material.....	357,480,500.00	112,842,212.21	4,278,014.90
Aircraft armament.....	132,825,250.00	67,149,657.95	1,126,033.40
Miscellaneous fire weapons.....	32,092,554.00	2,200,241.73	
Naval guns.....	15,208,850.00	30,000,000.00	
Torpedo equipment.....	2,932,000.00	256,300.00	
Missile equipment.....	4,306,000.00	3,695,628.25	718,491.41
Miscellaneous ordnance and ordnance stores.....	1,170,706.00		
Subtotal.....	758,998,118.00	324,781,221.07	8,178,842.14
Armor (naval).....	15,000,000.00		
Stock fund and shop expense—Army (net).....		51,201.00	11,549.29
General procurement expense.....	6,831,000.00		
Working fund for emergency purchases.....	400,000.00		
Undistributed.....	41,728,925.00		3,424,343.99
Total.....	1,422,145,400.00	884,470,116.46	16,662,550.79

Allocations, obligations, and expenditures under the Defense Aid Supplemental Appropriation Act, 1941, by appropriation categories and purpose classifications, as of Aug. 31, 1941—Continued

Appropriation category and purpose classification	Allocations	Obligations	Expenditures
Aircraft and aeronautical material:			
Aircraft:			
Bombardment.....	\$1,286,175,700.00	\$915,878,018.12	\$1,955,034.94
Pursuit, interceptor and fighter.....	241,672,000.00	174,708,980.06	6,948.12
Observation.....	10,820,000.00	26,314,548.00	
Transport, utility, and other.....	50,147,000.00	48,896,797.46	2,548,334.36
Training.....	112,147,070.00	71,044,350.28	300,103.12
Subtotal.....	1,799,961,770.00	1,236,843,303.92	5,799,420.54
Aircraft—Engines, spare parts and accessories:			
Spare engines and engine parts.....	98,838,346.00	55,090,411.00	302,634.70
Spare propellers and spare propeller parts.....	47,000,000.00	30,074,172.59	1,210,758.96
Accessories and other parts.....	11,170,191.00	5,561,062.36	1,352,755.63
Subtotal.....	156,998,537.00	90,725,645.95	2,866,149.29
General aeronautical supplies and equipment:			
Construction for storage of materials, etc.....	24,177,000.00	15,447,235.56	446,271.61
Moderation and reconditioning of completed aircraft.....	14,583,500.00	3,090,710.43	272.90
General procurement expense.....	35,000,000.00	9,007,841.32	95,406.43
Undistributed.....	96,474,462.00		9,128,672.80
Total.....	2,027,598,209.00	1,347,140,839.34	19,297,751.96
Tanks and other vehicles:			
Ordnance vehicles:			
Tanks.....	182,173,000.00	128,783,277.00	
Other ordnance combat vehicles (except tanks).....	18,215,000.00	13,885,000.00	
Ordnance tractors and special vehicles.....	6,405,400.00	1,422.31	
Miscellaneous ordnance automotive supplies, spare parts, components, accessories, etc. (for ordnance combat and noncombat vehicles).....	50,371,054.00	18,549,604.22	2,344,253.40
Subtotal.....	257,164,454.00	161,219,303.53	2,344,253.40
Other than ordnance vehicles:			
Trucks.....	61,063,020.00	50,471,694.52	4,624,918.38
Automobiles.....	852,496.00	554,918.27	
Other automotive vehicles.....	7,583,130.00	4,475,662.44	191,639.80
Miscellaneous automotive supplies, spare parts, components, accessories, etc. (for other than ordnance vehicles).....	18,469,013.00	4,525,183.74	309,650.73
Stores—Handling and packing of defense articles.....	182,602.00		
Subtotal.....	100,794,779.00	61,027,358.97	5,116,269.31
General procurement expense.....	2,277,000.00		
Undistributed.....	28,825,595.00		1,421,740.50
Total.....	394,032,238.00	222,247,262.50	9,222,325.61

Allocations, obligations, and expenditures under the Defense Aid Supplemental Appropriation Act, 1941, by appropriation categories and purpose classifications, as of Aug. 31, 1941—Continued

Appropriation category and purpose classification	Allocations	Obligations	Expenditures
Vessels and equipment for vessels:			
Watercraft:			
Combatant.....	\$14,554,000.00	4337.01	4337.01
Naval auxiliary and small craft.....	92,042,000.00	31,440,344.94	893,027.63
Merchant.....	308,423,800.00	493,915,344.54	59,211,833.54
Subtotal.....	515,019,800.00	525,354,146.49	75,075,438.17
Equipment:	47,407,000.00	25,134,594.27	4,753,253.70
Rental charter of vessels.....	33,711,000.00	34,788,700.00	34,788,700.00
Working fund for emergency purchases.....	400,000.00		
Undistributed.....	8,900.00		
Total.....	509,496,400.00	588,277,440.71	109,817,971.87
Miscellaneous military equipment, supplies and materials, quartermaster equipment, supplies, and materials:			
Clothing.....	1,509,193.00	630,889.88	3,014.49
Equipment.....	4,701,079.00	3,789,253.57	1,157,023.00
Kitchen, mess, and field baking equipment.....	557,333.00	431,907.00	4,110.50
Tractor trams.....	1,158,027.00		
Fuel.....	5,012,700.00	23,034.43	23,034.43
Provisions.....	570,000.00	1,610.08	1,610.08
Storage—Handling and packing of defense articles.....	459,800.00	2,730.79	2,730.79
Miscellaneous quartermaster supplies.....	10,544,070.00	3,390,585.06	34,990.52
Subtotal.....	24,513,923.00	6,271,619.91	1,229,021.91
Medical equipment, supplies and material.....	830,538.00		
Signal equipment, supplies and material.....	62,894,159.00	30,090,083.14	1,912,921.01
Chemical warfare equipment, supplies and materials.....	8,260,536.00	4,223,891.10	874,480.34
Engineer equipment, supplies and material.....	8,631,301.00	3,371,267.58	300,361.35
Air Corps equipment, supplies and material.....	3,567,064.00		
Undistributed.....	6,097,184.00		1,974,909.78
Total.....	112,741,205.00	55,802,862.00	5,391,653.73
Facilities and equipment for production:			
Acquisition of land and appurtenances.....	55,640,183.00	49,194,055.79	39,531,083.79
Rental of appurtenances and facilities.....	23,000.00		
Buildings:			
On Government-owned property.....	126,645,729.00	114,426,932.22	
On other than Government-owned property.....	504,138.00	504,138.00	
Subtotal.....	127,149,867.00	114,931,070.22	
Machinery and equipment including that for transfer:	65,378,737.00	28,005,518.00	300,911.21
Investment in facilities not owned by agency:			
Investment in facilities owned by Defense Plant Corporation.....	53,204,140.00	53,204,140.00	
General procurement expense.....	190,427,564.00	6,642,882.01	1,304,703.73
Undistributed.....			
Total.....	591,913,230.00	202,162,580.01	41,302,615.65

Allocations, obligations, and expenditures under the Defense Aid Supplemental Appropriation Act, 1941, by appropriation categories and purpose classifications, as of Aug. 31, 1941—Continued

Appropriation category and purpose classification	Allocations	Obligations	Expenditures
Agricultural, industrial, and other commodities and articles:			
Agricultural products—Foodstuffs:			
Dairy products and eggs.....	\$98,373,500.00	\$62,706,066.23	\$39,921,408.81
Meat, fish, fowl.....	121,048,200.00	95,100,300.00	29,367,807.80
Fruits, vegetables, and nuts.....	83,286,030.00	36,011,812.24	12,107,641.19
Grain and cereal products.....	10,438,500.00	7,728,712.80	4,774,233.12
Sugar, chocolate, and saccharine products.....	293,800.00	345,000.00	180,313.44
Lard, tallow, and oils.....	29,150,000.00	14,169,045.47	11,784,428.32
Other foodstuffs not classified above.....	12,795,000.00	4,313,043.56	69,775.18
Subtotal.....	355,375,700.00	184,634,880.29	90,117,587.86
Agricultural products—Other than foodstuffs:			
Cotton.....	37,738,000.00	29,490,400.00	6,897,000.00
Tobacco.....	37,427,920.00	37,427,920.00	15,591,522.40
Other.....	614,595.00	100,000.00	
Subtotal.....	75,780,515.00	67,018,320.00	22,488,522.40
Machinery, equipment, materials, and supplies:			
Machine tools.....	80,000.00	6,376.80	
Agricultural implements.....	7,263,714.00	4,235,267.07	226,086.47
Food building equipment, materials, and supplies.....	6,788,004.00	5,002,443.40	620,648.58
Electrical equipment, materials, and supplies.....	5,580,123.00	764,075.26	27,744.59
Fire-fighting equipment, materials, and supplies.....	1,492,920.00	629,001.70	315,631.37
Railroad equipment, materials, and supplies.....	16,300,000.00	268,612.43	84,726.40
Other.....	13,983,301.10	5,161,017.57	18,446.80
Undistributed.....	1,678,750.00	4,058.01	4,393.00
Subtotal.....	52,316,462.10	16,441,642.82	1,586,707.23
Minerals:			
Iron and steel.....	139,783,948.40	53,469,343.40	5,206,162.82
Copper and brass.....	17,074,705.00	1,781,001.18	574,885.08
Aluminum.....	1,178,162.00	147,326.10	4,823.96
Zinc.....	20,807,500.00	3,759,758.07	1,848,947.46
Lead.....	936,000.00	699,013.18	170,011.14
Other metals and alloys.....	13,713,806.00	8,947,241.46	579,294.02
Nonmetallic minerals.....	8,430,000.00		
Subtotal.....	191,924,772.40	66,784,626.37	8,394,000.08
Chemicals:			
Nitrates.....	300,000.00		
Phosphorus.....	12,800,000.00	3,446,947.72	630,057.37
Other.....	13,912,041.00	6,920,383.10	907,415.58
Subtotal.....	27,012,041.00	11,385,050.91	1,537,472.92
Ferrous and coal products:			
Other products.....	65,057,199.00	28,942,720.02	6,465,673.82
Other.....	13,937,480.00	2,900,720.56	
Equipment, materials, and other charges for naval and military bases:	88,730,000.00	21,567,299.90	11,724,008.00
Civilian medical supplies:	3,064,483.00	1,221,160.60	141,126.00

Allocations, obligations, and expenditures under the Defense Aid Supplemental Appropriation Act, 1941, by appropriation categories and purpose classifications, as of Aug. 31, 1941—Continued

Appropriation category and purpose classification	Allocations	Obligations	Expenditures
All other commodities and articles not otherwise classified.....	\$40,507,706.50	\$12,429,641.79	\$20,048.20
Training of personnel.....	764,820.00		
Outfitting vessels.....	10,378,120.00	11,803,027.12	11,802,827.12
Working fund for emergency purchases.....	10,000,000.00	718,932.41	130,101.00
General procurement expense.....	10,000.00		
Undistributed.....	32,949,337.00		
Total.....	975,008,378.00	428,471,282.00	129,470,466.00
Service of defense articles:			
Vessels.....	99,052,903.00	63,344,243.85	32,084,212.24
Other defense articles.....	20,978,468.00	90,000.00	43,546.16
Defense-aid stores.....	10,000,000.00	1,728,988.04	544,216.30
Undistributed.....	63,200.00		
Total.....	130,092,571.00	65,163,231.89	32,672,184.30
Miscellaneous services and expenses:			
Transportation and freight.....	3,304,700.00	1,208,470.30	1,029,228.07
Miscellaneous and contingent expenses.....	5,370,850.00	233,104.66	192,049.18
Survey of port facilities.....	25,000.00	1,048.20	30.00
Undistributed.....	4,360,000.00		10,442.82
Total.....	13,060,550.00	1,442,623.16	1,231,749.07
Administrative expenses.....	5,658,574.00	826,332.10	255,431.71
Grand total.....	6,281,237,421.00	3,555,587,805.40	788,912,118.55

As noted in the table above, during the period from March 11 through August 31, 1941, \$501,913,530 was allocated for facilities and equipment, of which \$61,431,593 was allocated for the procurement of machine tools needed by Britain and China.

Funds for additional facilities were distributed among the War Department, Navy Department, Treasury Department, and the Maritime Commission, and covered a total of 86 projects in this country plus tools for export. The distribution of these funds and projects among the several departments was as follows:

Department	Amount allocated	Number of projects
FACILITIES IN THE UNITED STATES		
Maritime.....	\$50,000,000	15
Navy.....	97,980,000	25
War.....	292,913,530	39
MACHINE TOOLS FOR EXPORT		
Treasury.....	278,591	
War.....	61,153,939	
Total.....	501,913,530	86

An analysis of allocations for facilities, by agencies and subclassifications follows:

ALLOCATIONS FOR FACILITIES

War Department:		
Ordnance Department.....	\$152,330,000	
Air Corps.....	102,141,737	
Chemical Warfare.....	16,577,200	
Corps of Engineers.....	6,000,000	
Quartermaster Corps.....	15,000,000	
Machine tools.....	61,153,002	
Transportation items.....	353,000	
		\$353,654,939
Navy Department:		
Bureau of Ordnance.....	57,720,000	
Bureau of Ships.....	2,685,000	
Bureau of Yards and Docks.....	575,000	
Bureau of Aeronautics.....	37,000,000	
		97,980,000
Maritime Commission:		
Additional shipways.....	49,200,000	
Plant for turbines.....	800,000	
		50,000,000
Treasury Department:		
Machine tools.....	278,591	
		278,591
Total.....		501,913,530

With the help of lend-lease funds, the productive capacity of this country has thus been increased tremendously. Facilities for bombs, for planes, and for ships are now being built. Shipways in nine States are now under construction and are scheduled for completion by the end of this year.

3. TRANSFERS

Defense articles transferred to foreign governments totaled \$246,394,372 at August 31, 1941, in contrast to only \$75,202,426 at May 31, 1941. These figures include defense articles procured under the Defense Aid Supplemental Appropriation Act, 1941, and defense articles procured with appropriations made prior to March 11, 1941. Summary of such transfers by departments and categories is as follows:

Defense articles transferred under the Lend-Lease Act, by departments, as of Aug. 31, 1941

Department or agency	From appropriations made prior to Mar. 11, 1941	From Defense Aid Supplemental Appropriation Act	Total
War Department.....	\$60,377,551.53	\$14,024,216.97	\$74,401,768.50
Navy Department.....	13,683,983.83	7,528,046.18	21,212,030.01
Maritime Commission.....	10,492,938.01	2,037,124.83	12,530,062.84
Treasury Department.....	13,250,000.00	14,538,111.41	27,788,111.41
Department of Agriculture.....		110,808,550.20	110,808,550.20
Total.....	97,806,722.93	148,584,048.75	246,390,771.67

Defense articles transferred under the Lend-Lease Act, by appropriation categories, as of Aug. 31, 1941

Appropriation category	From appropriations made prior to Mar. 11, 1941	From Defense Aid Supplemental Appropriation Act	Total
Ordnance and ordnance stores.....	\$41,791,780.90	\$3,314,651.24	\$45,106,432.14
Aircraft and aeronautical material.....	3,924,025.14	4,952,704.41	8,876,729.55
Tanks and other vehicles.....	16,570,807.18	7,830,785.31	24,401,592.49
Vessels and other watercraft.....	31,036,556.71	1,889,004.46	32,925,561.17
Miscellaneous military equipment.....	3,331,837.81	1,157,934.51	4,489,772.32
Facilities and equipment.....		318,371.56	318,371.56
Agricultural, industrial, and other commodities.....		128,465,808.41	128,465,808.41
Testing, reconditioning, etc., of defense articles.....	54,626.18	691,140.83	745,767.01
Services and expenses.....		13,591.00	13,591.00
Total.....	97,806,722.93	148,584,048.75	246,390,771.67

To maintain an accurate record of defense articles transferred to other nations, the Division of Defense Aid Reports has established a standard procedure for all cooperating departments and agencies with respect to receipts required from foreign governments in connection with such transfers.

In addition to transfers of defense articles amounting to \$246,394,371, the aid already rendered has included completed defense services and partial transfers on defense projects totaling \$78,169,377. This aid is made up of the following items:

Item	Amount
(1) Testing and reconditioning of vessels and other defense articles.....	\$18,211,683.69
(2) Outfitting vessels with agricultural, industrial, and other commodities.....	11,962,637.12
(3) Equipment, supplies, and material for vessels.....	4,871,808.78
(4) Rental and charter hire of vessels.....	24,788,799.90
(5) Military and naval bases.....	11,734,968.08
Total.....	70,169,897.57

The nature of these items is such that their true importance cannot be gained from a mere examination of their titles and value. Accordingly, a fuller description is given in Chapter V of such of these items as may be appropriately discussed, consideration being had for the necessity of withholding information of military value.

4. EXPORTS

Defense articles have been exported to the theaters of war, and to the industrial centers of the nations resisting aggression throughout the world. While 70 percent of total exports have gone to the United Kingdom, substantial assistance has also been given to the allied fighting forces in the Middle East. In summary, the value of defense articles exported to the various areas was as follows:

Exports of lend-lease cargoes, Aug. 31, 1941

Category	United Kingdom, Middle East, and Africa	Western Hemisphere	Others	Total
Ordnance and ordnance stores.....	\$55,408,809	\$3,000	\$273,712	\$55,775,521
Aircraft and aeronautical material.....	6,916,140			6,916,140
Tanks and other vehicles.....	26,299,511		1,603,098	28,162,609
Vessels and other watercraft.....	2,313,720			2,313,720
Miscellaneous military equipment.....	104,017			104,017
Agricultural, industrial, and other commodities.....	118,760,348	250,088	2,028,402	119,038,838
Total.....	185,663,675	253,088	4,234,912	190,151,675

During the month of August 1941, 574,671 tons of lend-lease cargoes cleared United States ports for the United Kingdom and the Middle East.

CHAPTER IV

DISTRIBUTION OF LEND-LEASE MATERIALS ABROAD

The policy of the Division of Defense Aid Reports in regard to the use and distribution of lend-lease materials which have been delivered to a foreign country has been carefully explored.

The practical application of this policy has been the subject of friendly negotiation for several weeks with His Majesty's Government in the United Kingdom. On September 10, 1941, a formal memorandum covering the agreement reached between our two governments was handed to our Ambassador by Mr. Anthony Eden.¹

This memorandum contains two basic assurances by the British. The first assurance is that lend-lease materials which might be available for reexport have been and will be used within the Empire, and then only for needs essential to the war effort. This assurance was required and freely given because it was the will of Congress and the American people that goods lend-leased to a country should be used by that country in the war effort. It has, therefore, been the policy, and His Majesty's Government have assured us that lend-lease articles themselves have not, and will not be, reexported.

The second basic assurance contained in this memorandum is that the British will not permit exports of materials similar to those lend-leased to them, in any manner which will enable their exporters to enter new markets or to extend their trade at the expense of United States exporters. The entire British export trade is restricted to the irreducible minimum necessary to supply or obtain materials essential to the war effort. Additional restrictions are imposed upon the export of materials similar to those obtained by the British under the Lend-Lease Act where there is a shortage of such materials in the United States.

We have recognized that the United States cannot supply the British Empire through lend-lease with everything that Britain needs for its war effort. There are essential articles that the British must obtain here which do not come within the scope of the act and there are also many things which they must obtain in other countries. Payment for these necessities can only be made through the medium of British exports. Lend-lease policy, as expressed in the September

¹The full text of the memorandum agreement is set forth in the appendix.

10 memorandum, recognizes this necessity, while at the same time affording the maximum protection to the interests of the United States.

Despite this policy, charges have been made, particularly in the three or four months after the passage of the act on March 11, 1941, that the British have been using lend-lease materials to compete with United States exporters in foreign markets, particularly in South America. These charges are without foundation, as a few facts will help to demonstrate.

The Defense Aid Supplemental Appropriation Act, 1941, was enacted on March 27, 1941. Requests for raw materials and articles available for re-export were not filed for some considerable time thereafter and shipments of such articles, e. g., semifinished steel, tinplate, etc., did not begin until mid-July or later. Thus it is almost impossible that lend-lease materials could have been fabricated and re-exported when these charges were made. The competition complained of was clearly competition from Britain's own products, and occurred at a time when Britain was rapidly depleting her own capital resources in America in order to pay for her war supplies.

This competition is steadily decreasing. British exports have declined precipitately in volume since 1937. For example, United Kingdom exports of iron and steel manufactures to points outside the Empire dropped 70 percent from 1937 to 1940. Exports of machinery and cotton piece goods each dropped 60 percent in the same period. The first 6 months of 1941 showed an even more drastic decline. For this period exports of iron and steel manufactures dropped a further 51 percent from the already low level of 1940, exports of machinery dropped a further 46 percent, and exports of cotton piece goods dropped a further 55 percent. Thus in the first 6 months of 1941 the exports of these three major categories of articles were only 14.7, 21.6, and 18.2 percent, respectively, of their 1937 level.

The memorandum of September 10, 1941, also deals with another aspect of the distribution of lend-lease materials abroad as to which the Division of Defense Aid Reports has felt a responsibility.

It has been the policy of the Division that lend-lease goods are not to be used to further any private or local interests in the countries to which they are transferred. In the great majority of cases this possibility of private gain is not present, since most types of defense articles are used or distributed directly by the government to which they are transferred. In a number of cases, however, e. g., spare parts for tractors, trucks, and machinery, etc., ordinary commercial

channels of distribution are used. It would be unwise and impracticable to superimpose a new system of government distribution upon existing commercial distribution systems, merely to take care of a relatively small portion of items being supplied under lend-lease.

In cases of commercial distribution, the Division requires, not only that existing commercial channels of distribution provide the most efficient and economical method of transmitting the defense materials to the persons by whom they are to be used, but also that no profiteering will be permitted and that there will be no discrimination against United States firms. Moreover, in the special case of food, free distribution is to be made through Government agencies wherever this is practicable. This policy, which has been consistently followed, was officially recognized in the September 10 memorandum of agreement.

CHAPTER V

SCOPE OF LEND-LEASE AID RENDERED

A mere recital of figures indicative of the over-all progress of the Defense Aid Program obscures the variety of assistance which has been rendered to nations whose war effort is contributing directly to the security of the United States. Only by translating these figures into food, and ships, and vital raw materials, and an infinite variety of necessary services, as well as into airplanes, and guns, and tanks, and shells, can there come a full realization of the impact of this program on the present world struggle against oppression.

1. BRITISH FOOD PROGRAM

In the case of the United Kingdom, for instance, hundreds of thousands of tons of food have gone safely across the North Atlantic to maintain the health and stamina of British workmen and British soldiers. The army of today, more than ever before, depends upon the workmen behind the lines who produce the instruments of modern war. The American farmers have contributed much to the maintenance and expansion of Britain's war effort and through this to the defense of the United States.

The food program reflects interesting changes in the United Kingdom's sources of supply of agricultural products since the war began. In the pre-war period, the United States supplied to the United Kingdom primarily such items as tobacco, cotton, and fresh fruits. Now, however, with the Northern European sources of food cut off, the United States is being called upon for more of the essential food-stuffs such as fats and protein foods. Because of the shipping situation, including the shortage of refrigerated space, emphasis is on concentrates, and thus dried or canned fruits are shipped rather than the fresh products.

Some of the more important items delivered through August 31, were:

	<i>Amount delivered</i>
Cheese.....	44,538,120 pounds.
Dried eggs.....	2,877,317 pounds.
Frozen eggs.....	23,124,750 pounds.
Dry skim milk.....	12,890,817 pounds.
Evaporated milk.....	2,057,796 cases.
Canned meat.....	21,541,281 pounds.
Cured pork.....	80,741,480 pounds.
Dried beans.....	110,948,900 pounds.

One of the chief problems in this field has been the difficulty in supplying to the United Kingdom large quantities of commodities not

ordinarily produced in excess of our own domestic requirements. In a number of cases the United States has in the past depended upon substantial imports of such commodities for its own use. The Department of Agriculture has proceeded on the assumption that this problem must be solved through increased production and has, therefore, embarked on an energetic campaign to this end.

2. SHIPPING ACTIVITIES

Food and other products, however, cannot reach the United Kingdom or her fighting forces in other parts of the world unless transportation is provided. Ships are being made available to Great Britain and China from the American merchant marine, operated in some cases by American companies and American seamen where the Neutrality Act allows. Vessels of Great Britain, Greece, Norway, Belgium, and Yugoslavia, have been repaired, fueled, provisioned, and fitted out with mine protection and defense equipment to enable them to transport defense articles.

On April 14, the President, under the Lend-Lease Act, authorized the Maritime Commission to expend \$500,000,000 for the construction of new ships and \$50,000,000 for shipbuilding facilities. The Commission promptly thereafter entered into contracts to build 212 vessels, including 112 of the Liberty type, 72 tankers, and 28 fast cargo vessels of different sizes and speeds, adapted to the needs of American foreign commerce and designed by the Maritime Commission under its long-range construction program. Since the original allocation, the 72 tankers contracted for under lend-lease have been increased to 87. In addition to the larger cargo vessels and tankers, the Commission is also currently negotiating lend-lease contracts for 36 small coastwise vessels, 16 small tankers, and 26 harbor tugs.

It is estimated that the entire lend-lease ship construction program will be completed by the end of December 1943, with the heaviest deliveries occurring in the second, third, and fourth quarters of 1942, and the first quarter of 1943, during which time lend-lease vessel deliveries will average one a day. The lend-lease program, of course, is separate from the Maritime Commission's other emergency programs under which there are being constructed 1,090 cargo vessels and tankers.¹

Through charter and freighting arrangements, there had also been made available out of the American merchant marine a large number of cargo vessels and tankers for the transportation of defense articles under lend-lease up to September 1, 1941.

¹ The First Supplemental Appropriation Act for the fiscal year 1943 empowers the Maritime Commission to acquire and construct merchant vessels through appropriations and contract authorizations in a total amount of \$1,098,850,000. This appropriation act also empowers the President, when he deems it in the interest of the defense of the United States, to lease under the provisions of the Lend-Lease Act any of the ships acquired or constructed under such authorization or appropriation.

3. VARIETY OF AID MADE AVAILABLE

These vessels have carried many cargoes, since the achievement of a maximum war effort requires far more in the way of supplies than merely arms and ammunition. The supplying of essential machine tools or critical raw materials to British users may well result in 10 or 100 times their value in terms of arms and ammunition eventually finding its way to Britain's battle fronts. To this end, critical examination has been and is being made of the war effort of the entire British Empire, so that the most efficient use possible may be made of United States resources in promoting its defense through maintaining the productive capacity of others.

In the strictly military field, the United States has benefited through the military secrets which have been freely disclosed to this Nation. From such information have been evolved jointly designed weapons, combining the best thought of the armed forces of this country and of Great Britain, and incorporating the result of actual combat experience which otherwise it would be impossible to secure.

Through the Lend-Lease Act we have also helped to break down the barriers of time and space which obstruct the prompt delivery of the products of our factories to the battle front. The Air Corps Ferrying Command, financed with lend-lease funds, has undertaken the task of flying the bombers and pursuit planes which our factories are producing under British and lend-lease contracts to points in the east where the bombers are taken over by the British for flight to England, and the smaller craft are broken down for shipment.

The work of lend-lease funds in delivering the implements of war is not confined to this continent. Planes are soon to be ferried to the Middle East and an air transport service is to be established to return the ferry personnel and carry the spare parts and materials necessary for the effective delivery of these aircraft.

As more and more airplanes are made available to the Royal Air Force by increased production here and in the British Empire, the need for pilots mounts steadily. Arrangements have been made to train thousands of young British pilots here in the United States, so that when they return to England they can take their places in the front lines and be fully equipped to fly modern American planes. This training has already begun. It will be carried on in Army, Navy, and private air schools, and the aircraft, fuel, and equipment are being provided through lend-lease.

4. CHINA

In the case of China, as with Britain, a major task has been to improve, extend, and make secure the long communication lines over which defense articles must be delivered. Cargo vessels have been supplied by the United States Maritime Commission to carry needed

goods over the long voyage to Rangoon, Burma, the principal remaining port of entry into Free China.

Overland transport into Free China requires the use of highways, railroads, waterways, and airlines. Fundamental steps have been taken to strengthen these vital routes. Paving materials have been delivered and applied to the resurfacing of China's life-line, the Burma Road, and a growing fleet of lend-lease trucks is in operation on Chinese arteries of military and essential civilian supply. Regular shipments of gasoline, motor oils, spare parts, and tires are being provided to service these trucks and other vehicles.

China's virtually limitless manpower, which built the Burma Road unaided, is now harnessed to lend-lease equipment and materials, in the tremendous job of rushing a railroad through malarial Yunnan Province. Under the direction of the United States Public Health Service, a mission is being sent to protect the lives and health of workers on this vital project.

The protection of China's highways and railroads, her airfields and cities from wanton aerial attack requires fleets of modern fighter planes. Lend-lease contracts have been concluded during the past quarter to reinforce the Chinese Air Force by early shipments of this class of equipment.

To advise and consult with Chinese authorities concerning the use of the defense articles already provided them under lend-lease procedure, as well as those scheduled for future delivery, there has been organized a military mission, which is even now proceeding to Free China. It is expected that the observations of this mission, and conferences with the leaders of the armed forces of China, will determine the types of defense equipment best adapted to the actual conditions of warfare in that country, and will insure the effective use of the equipment provided.

5. GOVERNMENTS IN EXILE

In providing for our defense, full consideration has also been given to the requirements of those European countries now occupied by the aggressor. These nations are represented politically by governments in exile; physically, by civilian workers, soldiers, and sailors operating throughout the world for a common cause.

Poland stands out as the first country overrun by the invader. Poles from the United States and Canada are joining together in a Canadian training camp, preparing to take their part in their country's fight. And from this country, guns, ammunition, and clothing are being supplied to the Polish Government for this venture under the terms of the act. Also, the Polish merchant marine has received the equipment necessary to carry on under the dangerous conditions imposed by modern warfare at sea.

Greek troops, after the brave defense of their country, managed to escape in some numbers to British territory in the Middle East. Here they are re-forming their units, re-equipping themselves with the United States material now reaching that area in increasing quantity and preparing to meet the enemy anew.

Yugoslavia is also represented by a Middle East Legion, toughened by experience and ready to use the military and naval equipment as made available to it under the Lend-Lease Act.

Norway is represented principally by her merchant sailors. American degaussing cable today protects Norwegian ships against mines, United States-supplied guns have been installed on decks against aircraft and submarine attack, and in shipyards from the Caribbean to Maine, Norwegian ships are today being repaired after suffering bomb and shell damage in the vital job of transporting the goods.

6. BELGIUM

Only in the case of Belgium and the Netherlands, among the occupied nations, does there still exist free national soil which these governments can defend. The Belgian Congo has obtained from this country scout cars, machine guns, aircraft, and hospital equipment, among other items, for the use, not only of its troops regularly stationed there, but of free Belgians who are re-forming their lines in that free territory.

7. THE NETHERLANDS

The Netherlands is showing that in her colonies in the East and West Indies, and in Surinam, there is being maintained the spirit of stolid resistance which the world has come to expect of this people. The Netherlands East Indies are a strong force for peace in the Pacific. Furthermore, the world looks to this Empire for a large part of its supplies of rubber; of bauxite, from which comes the aluminum for our airplanes; of tin; and of quinine. To enable these territories to protect themselves, we have made available to The Netherlands Government the use of our strained productive facilities. For such products as The Netherlands have obtained they have paid in cash. There have been shipped to the Indies from the United States arms and ammunition of all kinds; bomber, fighter, and trainer aircraft; naval boats and tanks; as well as a wide assortment of commercial goods urgently needed for the minimum existence level of this island territory cut off from its home source of supplies.

8. THE AMERICAN REPUBLICS

In furtherance of the strategic requirements for adequate defense of this Nation through complete defense of the Western Hemisphere, steps are being taken to provide the other American Republics with the equipment and materials vitally needed as insurance against

aggression. This decision follows an extensive analysis of the various essential requirements of each individual country, as well as of its relative position in the total defense of the Western Hemisphere.

Naturally, the bulk of current production must go to those nations which are now actively resisting aggression and to the building up of the defenses of the United States. Yet, it has been found necessary to develop a broad program of aid to the American Republics which will assure to them the material required for the development of a dynamic defense.

Through the cooperation of the Departments of State, War, and Navy, these programs are rapidly being reduced to lend-lease requisitions, and these requisitions will be implemented by the necessary allocations of funds and placement of orders as rapidly as possible.

In this connection it should be noted that two of the American Republics, Brazil and the Dominican Republic, have already utilized lend-lease facilities and paid over a million and a quarter dollars to secure military supplies on a cash reimbursement basis.

9. FOREIGN REPRESENTATION

The Division of Defense Aid Reports maintains constant relations with the representatives of those countries whose defense the President has found to be essential to that of the United States. Programs of those nations for the continuous expansion of their war effort are constantly before us for integration with the United States program as a whole, and the lend-lease program in particular.

To carry out a program as large and as broad in scope as the lend-lease program would be impossible without the benefit of "on the spot" reports from competent United States representatives. In the administration of the lend-lease program, liberal use has been made of the diplomatic, military, and naval missions abroad. In addition, there have been established in the United States Embassy at London, and at the United States Legation at Cairo, Egypt, full-time representatives serving the lend-lease program. These sources of information will shortly be augmented by the military mission which is now en route to China.

APPENDICES

(27)

APPENDIX I

MEMORANDUM ON DISTRIBUTION OF LEND-LEASE
MATERIALS ABROAD

FOREIGN OFFICE, S. W. 1,
10th September, 1941.

MY DEAR AMBASSADOR: With reference to the conversations about lend-lease material which have recently taken place in London and in which you have participated, I enclose a memorandum on the policy of His Majesty's Government in the United Kingdom with regard to exports from this country and with regard to the distribution here of lend-lease material. I shall be glad if you will transmit it to your Government.

Yours sincerely,

ANTHONY EDEN.

His Excellency The Honourable John G. Winant.

LONDON, September 10, 1941.

DEAR MR. EDEN: Thank you for your letter of September 10th, enclosing a memorandum on United Kingdom export policy and on the distribution of lend-lease material. I have caused the memorandum to be transmitted immediately to Washington for the information of my Government.

Sincerely yours,

JOHN G. WINANT.

The Right Honourable Anthony Eden, M. C. M. P., etc., etc., etc., Foreign Office, S. W. 1.

MEMORANDUM

1. All materials which we obtain under the Lend-Lease Act are required for the prosecution of the war effort. This principle governs all questions of the distribution and use of such goods and His Majesty's Government have taken and will continue to take action to secure that these goods are not in any case diverted to the furtherance of private interests.

Export Policy

2. Lend-lease materials sent to this country have not been used for export and every effort will be made in the future to ensure that they are not used for export, subject to the principle that where complete physical segregation of lend-lease materials is impracticable domestic consumption of the material in question shall be at least equal to the amounts received under lend-lease.

3. His Majesty's Government have not applied and will not apply any materials similar to those supplied under lend-lease in such a way as to enable their exporters to enter new markets or to extend their export trade at the expense of United States exporters. Owing to the need to devote all available capacity and man-power to war production, the United Kingdom export trade is restricted to the irreducible minimum necessary to supply or obtain materials essential to the war effort.

4. For some time past, exports from the United Kingdom have been more and more confined to those essential (I) for the supply of vital requirements of overseas countries, particularly in the sterling empire; (II) for the acquisition of foreign exchange, particularly in the Western Hemisphere. His Majesty's Government have adopted the policy summarized below:

(I) No materials of a type the use of which is being restricted in the United States on the grounds of short supply and of which we obtain supplies from the United States either by payment or on Lend-Lease terms will be used in exports with the exception of the following special cases:

(a) Material which is needed overseas in connection with supplies essential to the war effort for ourselves and our Allies, and which cannot be obtained from the United States.

(b) Small quantities of such materials needed as minor though essential components of exports which otherwise are composed of materials not in short supply in the United States.

(c) Repair parts for British machinery and plant now in use, and machinery and plant needed, to complete installations now under construction, so long as they have already been contracted for.

Steps have been taken to prevent the export (except to Empire and Allied territories) of such goods which do not come within the exceptions referred to in (a), (b), and (c) above.

(II) Materials similar to those being provided under lend-lease which are not in short supply in the United States will not be used for export in quantities greater than those which we ourselves produce or buy from any source.

Distribution in the United Kingdom of Lend-Lease Goods

5. The general principle followed in this matter is that the remuneration received by the distributors, whatever the method of distribution, is controlled and will be no more than a fair return for the services rendered in the work of distribution. The arrangements rigorously exclude any opportunity for a speculative profit by private interests from dealing in lend-leased goods. In most cases, lend-leased supplies will be distributed through organizations acting as agents of His Majesty's Government in the strict sense of the term and not as principals. Where for strong practical reasons this cannot be done a full explanation will be supplied to the United States administration and their concurrence sought beforehand in any alternative arrangements proposed. The justification for retaining existing channels of distribution operating under strict Government control, is that the creation of elaborate new organizations in their place would inevitably result in loss of efficiency and the wasteful use of manpower, and retard the war effort. In the distribution of lend-lease goods there will be no discrimination against United States firms.

6. Food is a special case. Only some 5 or 6 percent in tonnage of the total British food supply is coming from the United States and without great practical complications it would be impossible to have a separate system for the distribution of lend-leased food. Food distribution is carried out in the United Kingdom by wholesalers, to whom the Government sells food as principals. In fact, the Ministry of Food has established a close control over all distributive margins so that neither the wholesalers nor the retailers receive any greater remuneration than is adequate to cover the cost of the services performed. No food obtained on lend-lease terms is or will be sold at uncontrolled prices. Thus the general arrangements as regards the issue of lend-leased food fit into His Majesty's Government's policy of stabilizing the whole price level of foodstuffs, a policy to which the Government contributes £100 millions a year.

7. In some cases direct free distribution is practicable and will be adopted. For example, some milk products (including lend-leased supplies from the United States) are distributed direct and free of charge to children and others in need through schools, clinics and hospitals. The distribution is undertaken by State agencies and the cost of the distribution is borne by the Government.

September 10, 1941.

APPENDIX II

METHODS EVOLVED TO EXPEDITE DEFENSE AID

Included in the first report to the Congress by the Division of Defense Aid Reports was a comprehensive description of the procedure being followed in carrying out the Lend-Lease Act, together with samples of the principal forms being used. Since the first report, there has been careful consideration of additional methods which would expedite the supplying of aid to countries resisting aggression. Among recent developments in procedure are the following:

Revolving Funds

Modern war moves with increasing rapidity and the theaters of war change overnight. With these changes come urgent requirements for new types of material and new weapons.

To meet these critical requirements, whether it be a machine tool to replace one destroyed by enemy action, or special equipment for desert operations, there have been established by the direction of the President revolving funds for the War, Navy, and Treasury Departments with which to finance immediately such urgent requests as are recommended for approval by the cognizant departments and endorsed by the Executive Officer of the Division of Defense Aid Reports.

By this authorization it is possible to initiate procurement with lend-lease funds within 24 hours after an urgent request is received from a country desiring lend-lease aid.

Blanket Allocations

Included in the lend-lease program are approved projects for supplying vast quantities of the same general type of defense articles. These include programs for basic raw materials such as steel which maintain the tempo of production abroad; for ship repairs which keep in service merchant and combat vessels; and for aircraft accessories which maintain the fighting efficiency of the combat air forces. These requirements cannot be particularized in advance even though the program as a whole can be closely estimated.

To provide funds for immediate action, as such requirements are made known by cable and overseas telephone, a series of blanket allocations has been made to various departments, carefully restricted as to total amount and purpose, but so established that the recipient of lend-lease aid can draw down these supplies or services as needed by direct application to the cognizant department.

Accelerated Transfer Directive Procedure

In accordance with the act of March 11, 1941, defense articles remain in the custody of the United States Government during the period of production and may not be transferred to a foreign government without the specific authorization of the President. Careful controls have been established so that such directives are issued only for limited periods and they are therefore subject to regular review by the President.

However, the exigencies of war and the availability of shipping space often make it imperative that transfer authorization be issued more quickly than would

(31)

be possible if the requests were processed completely. To meet this requirement the President has delegated to the Executive Officer of the Division of Defense Aid Reports authority in urgent cases to authorize the transfer of all but a limited list of especially critical items.

This power has, of course, been used sparingly, but its existence has been invaluable in the few times that it has been necessary to invoke it.

Simplified Adjustment Technique

In the operation of a program as large and as broad in scope as the lend-lease program, productive efficiency and the rate of delivery can often be improved by minor adjustments upward or downward in the quantity of specific items being procured. To process such adjustments through the same procedure as the original authorization would work a tremendous hardship on the cognizant departments and discourage their efforts in the direction of accelerating the program as a whole.

To encourage the use of such adjustments by simplifying the manner in which they can be made, the President has authorized the Executive Officer of the Division of Defense Aid Reports to approve such adjustments.

SEP 16 1941

My dear Sir Frederick:

I have your letter of September 11, 1941 concerning the desirability of a quick conclusion of the proposed tax convention between the United States and the British Government.

Through a coincidence, I had written to the Secretary of State on September 11, 1941, commenting upon a draft of the proposed convention and expressing my opinion that "the possibility of settling this problem by a tax convention seems to me to provide a readier and more feasible means than any other which has been suggested."

If it should be advisable for me to write the Secretary of State again, I shall bring to his attention your letter and the memorandum of September 10, 1941, enclosed therewith.

Sincerely yours,

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

Sir Frederick Phillips
The British Supply Council in North America
Washington, D.C.

By Messenger 10:00 AM

CLK:t
9-16-41

Sig. Mr. Thompson

11th September, 1941.

Dear Mr. Secretary,

You were good enough to write to Mr. Secretary Hull during July asking him to take up the question of the negotiation of a tax convention between our two countries.

I now enclose for your information a copy of a memorandum on the matter which I have received from the Legal Department of the British Air Commission. I would draw your attention in particular to the final paragraph of the first part of the memorandum, in which it is stated that the total liability may well run to as much as \$20 millions or more; and to the second paragraph of the memorandum, explaining the delays which are taking place in the negotiation of the convention.

In our present dollar situation it is, of course, of considerable importance to us to avoid payment of these taxes, and since, as you will see, some of the taxes are already due or are becoming due, the matter is one of urgency.

The British Government will be most grateful for any assistance which you may be able to give us in impressing, particularly upon the State Department, the desirability of a quick conclusion of the convention.

Believe me,

Dear Mr. Secretary,

Yours very truly,

(signed) F. Phillips

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

MEMORANDUM

FROM: W. A. ROSEBOROUGH

TO: SIER FREDERICK PHILLIPS

September 10, 1941

RE: United States State and
Local Taxation.

Since the date of my memorandum to you of June 30, 1941 in which I endeavored to outline the actual and potential importance of United States state and local taxation, there have been various developments in this situation which should, I feel, be called to your attention. These developments have, on the whole, been unfavorable and the situation with regard to taxation by certain state and local authorities has now become critical, requiring prompt and definite action.

I. Situation in the Various States.

1. Washington. This is the only state in which recent developments have been definitely favorable. As a result of rulings obtained from the State Tax Commission it appears that neither the Use Tax nor the Sales Tax will be claimed upon aircraft (or equipment therefor furnished by the British Government) manufactured in this State. However, the so-called Manufacturer's or Occupational Tax of 1/4 of 1% is claimed and is being paid upon current deliveries of aircraft by the Boeing company. As this tax

is imposed upon the manufacture of the airplanes it is difficult under present legislation to claim exemption although the British Government is bound by contract to pay the tax as a special item, thus causing its economic incidence to fall directly upon the Government. The total amount of the tax which will be payable with respect to airplanes presently on order or heretofore delivered will be something in the neighborhood of \$75,000.00.

2. California. The situation in California, despite the efforts of the State Department and my recent discussions with the tax authorities of that State, remains confused and highly unsatisfactory.

On July 8, 1941 the Attorney General gave the Governor of California an opinion which held, in effect:

A. That the tax is not due on airplanes shipped out of California by means of common carriers (whether railroads or steamships). This was clearly established and provided for in the California Regulations.

B. Steamships operating under the so-called Requisition Scheme of the British Government are deemed to be common carriers for this purpose.

C. Sales taxes are due, however, on airplanes shipped from California ports aboard British owned vessels. The opinion is not, of course, clear as to whether this would apply to airplanes delivered to, for example, the Australian Government, and shipped aboard vessels belonging to the United Kingdom Government. Presumably the tax would not be payable in such a case.

D. The California Use Tax is not payable on "Embodiment Loan" equipment belonging to the British Government and held by the aircraft manufacturers in California for installation. This exemption is on the theory that a foreign government is not a person within the meaning of the Use Tax Statute. The opinion does not cover or exclude the possibility of the application of the theory that the property is "used" within the meaning of the statute by the aircraft manufacturers themselves by reason of their storage and installation of the material. The language of the California Statute in defining the term "use" is broad enough to support such a theory.

E. The personal property tax is payable upon the above referred to "Embodiment Loan" equipment, as well as on office furnishings and equipment owned by the British Government in California.

This opinion appeared to eliminate the potential liability for California Use Tax and to reduce to a relatively insignificant amount the liability for the Sales Tax under the system of delivery being followed at the date of the opinion. As a result of my discussions with the tax authorities of the County of Los Angeles, and the State authorities in San Francisco, I was also encouraged to hope that exemption for the Personal Property tax upon Embodiment Loan equipment supplied by the British Government would also be granted. In the meantime, however, the situation with regard to the Sales Tax has been completely changed by reason of the flight of the airplanes from California by the United States Army Air Corps "Ferrying Command".

The California aircraft companies have taken the position that, despite all steps which have been taken to minimize the danger of the imposition of the tax, there remains such a risk that they must insist upon the entire amount of the Sales Tax being paid over to them and cannot be satisfied, as I had hoped, either by an opinion of the Attorney General or by a ruling of the State Board of Equalization. The total amount of this tax liability on airplanes flown or to be flown by the Ferrying Command will be somewhere in the neighborhood of \$5,000,000.00.

The potential liability for the Use Tax on all Embedment Loan equipment supplied by the British Government (both in the past and in the future) has again been raised by the action of the State Board of Equalization in assessing this Use Tax with respect to such equipment purchased from the Sperry Company. The actual assessment, made on August 25, 1941, amounts to something less than \$7,000.00 but the fact that this assessment has been made would appear to indicate that the Board of Equalization does not feel itself to be bound by, and does not propose to follow, the opinion of the Attorney General and again opens the door for the assessment of the Use Tax on the entire amount of Embedment Loan equipment. This total potential liability may be estimated at somewhere between \$7,000,000.00 and \$10,000,000.00.

No definite decision has yet been given by the authorities in Los Angeles County (who in tax matters are autonomous and act independently of state authorities) with respect to Personal Property Taxes, the actual assessments of which for this year are in

excess of \$300,000.00. While I am still in hopes that the ultimate decision might be favorable, we cannot be assured of this.

The Sales Tax is also being claimed upon certain shipments which have been made in the past on vessels owned outright by the British Government. Although the amount of this tax on such shipments made in the past may not exceed \$50,000.00, the proportion of vessels owned outright by the British Government will, in all probability, increase and substantial amounts of tax on such shipments may be claimed in the future.

3. Michigan. Two assessments of Personal Property Tax have been made by the City of Detroit upon facilities owned by the British Government and held by the Packard Company, and upon other personal property of the British Government in the City of Detroit. The total of these assessments is somewhat less than \$150,000.00 on an assessed valuation of some \$5, 500,000.00. These assessments have not been paid and penalties and interest thereon are accumulating.

4. Connecticut. Capital facilities in the value of something in the neighborhood of \$25,000,000.00 are held by the British Government in the State of Connecticut. The various authorities of the local taxing jurisdictions within which these facilities are held have, despite the efforts of the State Department, indicated their intention to tax this property of the British Government. The attitude of the State Tax Commissioner

is set forth in the paragraphs quoted below, from his communication to the State Department, dated July 30, 1941:

"The memoranda furnished by the Solicitor for the British Ambassador refers to tax exemption in States where sales or Use Taxes are in operation, taking into consideration the commerce clause of the Federal Constitution.

"The situation in Connecticut appears to me radically different, in that the British Government possesses the fee and title to personal and real property in the nature of land, buildings and machinery which is affixed to the realty. To the writer's knowledge there is no exemption either in Connecticut law or in Treaties between His Majesty's Government to own real or personal property within the jurisdiction of the United States having the same exempt from local taxation unless said property was used for embassy or consular purposes.

"May I call to your attention that the Tax Commissioner in Connecticut is an administrative officer without any vested power of supervision and direction over the municipalities of the State unless expressly provided by law, particularly when the question of tax exemption is involved.

"I shall be pleased to refer this matter to the Attorney General of the State of Connecticut for an opinion and on receipt of the same I shall forward you a copy of the opinion with a memorandum of procedure."

It is difficult to give any estimate of the amount of taxes which may be imposed on the facilities held in Connecticut as the rates naturally vary in the various local jurisdictions. In all probability the rates on the average would be substantially lower than those in force in Los Angeles County (approximately 5%) but using these rates as a rough basis for estimating the possible tax, a total potential liability of \$1,250,000 would be arrived at.

5. Rhode Island, Massachusetts and Pennsylvania. The situation with regard to taxation of facilities held by the British Government in these three states appears to be substantially similar to

that in Connecticut, although the amounts involved are smaller. Local authorities in all of these states have indicated that they intend to impose real or personal property taxes and we have just been advised that a tentative assessment of \$40,000 has been made by the City of Pawtucket, Rhode Island upon facilities owned by the British Government and held by the American Overseas Soda Corporation. A total of \$100,000.00 would probably cover the taxes of this nature which would be claimed by the local authorities in these three states for this year.

6. New Jersey. So far as is known, the authorities of this state have so far given no indication of their intention to tax the property, valued roughly at \$15,000,000.00, owned by the British Government and held by Wright Aeronautical Corporation. It is quite possible, however, that such taxes may be imposed in this State and it is virtually inconceivable that the authorities of New Jersey would refrain from taxing this property if the authorities from other states succeed in taxing similar property.

To summarize, present indications are that the total actual or potential liability for state and local taxation may well run to as much as \$20,000,000.00 and it is conceivable that it may exceed this amount. As stated above, the situation in certain cases has become critical and prompt and definite action should be taken.

II.

As a result of numerous discussions with representatives of the Treasury, State and Justice Departments, extending over several months, it is, I believe, the unanimous opinion that the only effective way of dealing with this tax situation is the conclusion of a Convention between the two Governments. This, as you know, has been my conviction for many months. The number of local authorities to be dealt with is too great to make it feasible to obtain satisfactory results by discussion and negotiation. The type of taxes and the legislation under which they are imposed are too varied to render it feasible to deal with the matter by litigation. It is apparent that under the present state of the law the State Department does not have at its disposal the means to produce satisfactory results by its intervention with the various authorities. The difficulty in meeting the situation in this manner is aggravated by the fact that in many states the local authorities who impose the taxes act autonomously and are not bound by the opinions or rulings of the state authorities.

Despite this unanimous opinion on the part of all interested parties, progress toward the conclusion of the proposed Convention has been disappointingly slow. Numerous conferences and discussions have been held. At a joint conference (held about the 15th of August) between representatives of the State, Treasury and Justice Departments, a proposed text of the Convention was tentatively agreed upon. However, this text has not yet been formally

submitted for discussion with representatives of the British Government, but on August 23, 1941 it was resubmitted by the State Department to the Secretary of the Treasury and, I believe, to the Acting Attorney General, with the inquiry whether or not they still desired that the Convention be concluded and whether or not they still agreed with the proposed text. No subsequent action has been taken, and it is my understanding that no action can be taken until Mr. Hackworth, (to whom the matter has been referred in the State Department) has returned from his vacation, on September 16th. It is then to be hoped that the draft Convention will be submitted to members of the British Embassy. The delay is most unfortunate, however, and steps should be taken to assure that the matter will be dealt with with the least possible delay.

W. C. Buchanan

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 16, 1941

TO Secretary Morgenthau

FROM Mr. White

Subject: British Press Clippings on U.K. Food Situation

1. London's stocks of food are larger now than they have been during the last 12 months. According to the London Divisional Food Officer, there are sufficient stocks of six of the most important commodities that will provide the ration, and in some cases double the ration, for everybody for two weeks in any emergency.

2. In order to stop black market deals, an order has been issued requiring all wholesalers dealing in foodstuffs for which retailers require licenses to be licensed themselves. Licensed wholesalers are forbidden to buy from anyone who is unlicensed.

3. Milk will not be "rationed" but its distribution will be strictly controlled to ensure that the people who require milk most will get it, the balance being made available for the others. It is reported that the quantities of milk produced in the winter months will not equal the present level of consumption.

4. Food prosecutions in July totaled 2,346, the highest number of any month since the war began. Only 167 were unsuccessful. Since the beginning of the war the Ministry of Food has undertaken 26,417 prosecutions, 25,035 of them successful.

5. A resolution was unanimously carried by the Transport and General Workers' Union Conference calling on the Government to arrange a more equitable distribution of available food supplies, to be related to need and not to income.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 16, 1941

TO Secretary Morgenthau

FROM Mr. White

Subject: Negotiations between the Bank of England and the
Yokohama Specie Bank for the Establishment of an
Anglo-Japanese Barter Account

1. The Ambassador, in response to inquiries regarding a newspaper report that a barter arrangement was being negotiated with Japan, was informed that an arrangement was under consideration for the establishment of an Anglo-Japanese barter account. However, blocked Japanese funds were not to be released and the amount of transactions under the arrangement would probably be small. Britain would balance her supply requirements against considerations of economic warfare. The one transaction now contemplated is an exchange of 300 tons of asbestos for the same amount of magnesium.

2. The Ambassador was also informed that the transactions under the proposed agreement would depend upon action taken by the United States.

(Coe to Secretary of the Treasury, August 29, 1941)

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THE BRITISH SUPPLY COUNCIL IN NORTH AMERICA

Box 680
Benjamin Franklin Station
Washington, D. C.

16th September 1941.

Dear Cochran,

I enclose some notes about the Chinese scheme.

These are rather scrappy, but I think their general tenor is clear; and if they are not set out in the most logical arrangement, it is because they are taken from more than one telegram.

Perhaps Niemeyer and I might have an opportunity of discussing the matter with you at as early a date as you can manage after you have read these notes.

Yours sincerely,

/s/ T. E. Bewley.

Mr. H. Merle Cochran,
United States Treasury.

Copy:wec:9-16-41

1. While theoretically there is an argument for centralising in the Central Bank of China that Bank is in fact not in a position to exercise any complicated functions. Further, it is directly under the control of Dr. Kung as President.

The Bank of China is also a Government Bank, with the advantage of commercial connections: and its efficient help has so far been very valuable. It would be a mistake to alter the system which is being built up with its assistance.

2. The bulk of transactions will be for Shanghai account, and owing to pressure from Japan and Nanking, the Central Bank of China can certainly not operate openly there. The Bank of China is already the recognised agency for emigrant remittances via Hong Kong.

3. The Joint Committee proposal (three from Agency: three from Board), apart from the difficulty of making it acceptable to Chinese amour propre, would have the effect of eliminating the two Chinese members of the Board (Cryepsi and Hsi-temou) who are practical exchange bankers. Would it not be better to accept the present Agency Standing Committee of five (on which the three Chinese members of the Board are in the majority) and add the two foreign members for liaison with Washington and London? This would be less open to opposition from Kung and probably in practice more effective.

4. Our belief is that the Chinese could not accept the proposal that the Board can claim dollars at a fixed rate at any time from the Central Bank, nor does this seem to us a reasonable request, having regard to the

purpose for which the Stabilisation Funds were set up - which was to create general confidence in Chinese currency, not to provide for preferential individual claims on exchange resources.

5. It must be clear that the Stabilisation Funds' reserves cannot be used at the sole discretion of some Chinese Bank, and that the Central Bank of China, for instance, cannot acquire them automatically by tendering Yuan notes - a purely inflationary process.

6. We should favour therefore -

- (a) no centralisation of clearing accounts in the Central Bank of China, and
- (b) a modification of the Joint Committee proposal in favour of paragraph 3 above.

But in any circumstances no modification of system can work or be brought into functioning until the Agency (or its improved Standing Committee) have evolved and put into working order an adequate devolution of licensing powers, which will obviate continual detailed reference to Chungking. Such reference for physical reasons is irreconcilable with the maintenance of even a modicum of current trade transactions.

7. In order to develop Exchange Control China would have

- (1) As regards outpayments of exchange to create an organisation operating a detailed control over payments for imports, financial remittances, etc.
- (2) As regards inward exchange, to rely in the main on the cooperation of the British and American controls.

The British Control could direct that no payments to China may be made otherwise than to a bank licensed by the Chinese authorities to deal in foreign exchange.

8. But the immediate problem is how to create an effectively operating machine to meet the above needs. This machine needs two essential parts -

(a) Licensing machinery for allocating exchange both for goods and financial payments.

(b) Banking machinery for paying and collecting exchange.

On (a):-

The requisite of any effective exchange control is that there are adequate facilities for quick local decisions as to whether exchange is to be allowed for a given purchase or not. Marginal cases, it is true, may need to be referred but the general run of requests for foreign exchange must be dealt with quickly and on the spot if essential trade is to be kept moving. There is never any possibility of referring the vast majority of cases, much less in a country such as China. Who under the proposed plan would pronounce on individual applications?

We assume that the Agency, in conjunction with the Joint Policy Committee will lay down general principles, but who will be responsible for administration in each locality? It is contemplated to select certain banks who will be authorised to pay out exchange on lines laid down by the Agency, or is it intended to set up branches of the Agency, through whom local payments may be made? The banks may be unwilling to accept the

responsibility of allocating exchange but we doubt whether it would be practicable to set up competent local branches of the Agency.

On (b):-

So far as banking machinery is concerned, we do not believe that one central organisation could effect the necessary payments in exchange. Whoever is made responsible for allocating exchange, we think it will prove essential to use licensed foreign and Chinese banks as Agents in the receipt and payment of foreign exchange.

It is clearly impossible for the British Control to canalise payments to China, as suggested in paragraph 7, until they are assured that there are an adequate number of such channels to make it possible for the counterpart to sterling payment to be made in Fapi wherever it may be called for in China.

We do not see the position of the Central Bank of China in this matter. Clearly it cannot be willing to do all the work because it has not got the necessary branches, quite apart from any lack of confidence that might be felt in the way it would exercise its powers. Since the real licensing power would be in the hands of the Agency and the Joint Policy Committee, and the mechanics of banking would have to be worked through the local banks, there would not be much point in holding the funds in the name of the Central Bank. Would it not be better to hold them either in the name of the Agency or, better still, of the Stabilisation Board, leaving licensed banks to settle direct with the body chosen

without going through the intermediary of the Central Bank?

9. The main difficulty in our minds is that anything unduly cumbersome is bound to break down completely. On our suggestion, the scheme would consist of -

- (a) The Agency responsible for directing control at the centre and laying down principles on which exchange could be granted;
- (b) The licensed banks paying and collecting exchange on behalf of the Agency, payments being made either at the banks' discretion under Agency guidance or against permits issued by the local branches of the Agency;
- (c) The body in whose name all foreign balances, over and above working balances, would be held.

16th September 1941.

Copy:wec:9-16-41

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218

PARAPHRASE

A confidential telegram of September 16, 1941 from the American Consulate at Kunming reads substantially as follows:

According to information received by the Consulate the arrivals at Kunming during the first half of September of trucks over the Burma Road have reached a new high. This is attributed to the use of newly arrived American vehicles. The Consulate is informed that about 2,400 new trucks are due to be delivered to the Southwest Transportation Bureau before the end of October and that 1,002 new trucks have been received. Many of these are said to be bound for the fronts. A large portion of them seem to be carrying gasoline. For their initial trip all new trucks are required by a recent regulation to carry Government cargo.

Copy:bj:9-26-41

TK

PLAIN

219

Tokyo via Shanghai &
N. R.

Dated September 16, 1941

Rec'd 11:05 p.m., 19th.

Secretary of State

Washington

1465, September 16, 5 p.m.

The following note verbale, number one hundred ^(SECTION ONE)

American one, has been received from the Ministry of
Foreign Affairs:

"The Imperial Ministry of Foreign Affairs presents its compliments to the American Embassy at Tokyo and has the honor to state that the views of the Japanese Government concerning the matter of granting the necessary permission, on a reciprocal basis, for the payment of the expenses of the Japanese and American Embassies Consulates and other Governmental establishments and for the payment of the living and traveling expense of the officials thereof, concerning which a proposal was made in the American Embassy's memorandum of August 9, 1941, were expressed in the memorandum of the Japanese Government under date of August 26, 1941. The Ministry also acknowledges the receipt of the American Embassy's memorandum of September 9, 1941 referring to the same
subject

-2- #1465, September 16, 5 p.m., from Tokyo.

subject and has the honor to inform the Embassy that the Ministry is in accord with the following arrangement arrived at through exchange of the above memorandum and to request the Embassy to forward the necessary documents and to furnish the necessary reports and assurance to the Japanese Government in accordance with the above agreement. September 13, 1941.

It is added that the necessary documents pertaining to the Japanese Embassy Consulates and other official establishments in the United States and to their personnel shall be forwarded and the necessary reports and assurances made by the Japanese Embassy at Washington to the Department of State. Addendum one. The United States (or Japanese) Government shall forward to the Japanese (or the United States) Government a list of the various official accounts (irrespective of whether there are in the name of the chiefs of establishment individuals or any other names) belonging to the United States (or Japanese) Embassy Consulates General Consulates or other United States (or Japanese) officials items as communications charges wages for employees, rent.

GREW

CSB

NWN

BLAIN

Tokyo via Shanghai & N. R.

Dated September 19, 1941

Rec'd. 1:20 p.m. 20th.

Secretary of State,
Washington

1465, Nineteenth, (SECTION TWO)

entertainment expenses, and other running expenses customarily paid from such accounts shall be combined in total sum for each month, and the details of those items omitted. The Japanese (or the United States) Government, on the basis of the past record, shall grant a general license to the above mentioned United States, or Japanese, official establishments and transacting banks to permit the free expenditure of a fair monthly sum. With regard to the extraordinary expenditures involving large amounts of money such as the purchase of office supplies, extensive repairs on buildings et cetera application shall be made in each instance by the United States (or Japanese) Government to the Japanese (or United States) Government.

The United States (or Japanese) Government shall report to the Japanese (or United States) Government the method of replenishment of such accounts.

The above mentioned report is required to specify
clearly

-2- 1465, Nineteenth, (SECTION TWO) from Tokyo.

clearly the source of the fund to be used for replenishment of such accounts and the amount of the funds to be transferred monthly to each account concerned.

The Japanese (or United States) Government shall grant promptly all necessary permits to the above mentioned official establishments and banks handling the transmissions to enable the United States (or Japanese) official establishments in Japan (or the United States) each month to replenish appropriately their official accounts. In order that assurances may be given by the United States (or Japanese) Government to the Japanese (or United States) Government to the effect that the payments permitted from such accounts are used only to cover official expenditures of the United States (or Japanese) official establishments in Japan (or the United States), the banks handling such accounts shall be required to make prescribed reports to the Japanese Ministry of Finance (or the United States Treasury).

GREW

ALC

AF

PLAIN

Tokyo via Shanghai
& N. R.

Dated Sept. 19, 1941

Rec'd 11:55 a.m.

Secretary of State,
Washington.

1465, September 19 (SECTION THREE)

Two. The United States (or Japanese) Government shall forward to the Japanese (or United States) Government a list of the names of the United States (or Japanese) Ambassador and staff members of the American (or Japanese) Embassy at Tokyo (or at Washington); the American (or Japanese) Consul General and staff members of the American (or Japanese) Consulates General in Japan (or the United States); Consuls or staff members of the Consulates and all other employees of the American (or Japanese) official establishments.

It is required that the list shall indicate the name of the private account of each individual, the name and address of the transaction bank and the amount of monthly living and travel expense needed by each person. Although such monthly amount
is limited

-2- 1465, September 19 (SECTION THREE) from Tokyo.

is limited both for Japan and the United States to two thousand dollars or the equivalent for ambassadors, one thousand dollars or the equivalent for financial commissioners, one thousand five hundred dollars or the equivalent for counselors and military and naval attaches, one thousand dollars or the equivalent for first secretaries, seven hundred fifty dollars or the equivalent for consuls and second secretaries and yen fifteen hundred for all other American Government officials in Japan and five hundred dollars for Japanese Government officials in the United States, the Japanese (or United States) Government shall grant necessary licenses or similar treatment so as to render free the case of such required amounts. The expression 'or its equivalent' means the amount in yen of the aforementioned amount of dollars converted at the official exchange rate. When, due to special circumstances, an amount is required in excess of that granted by such general license or treatment corresponding thereto, necessary permission for the expenditure of such excess amount shall be granted on the basis of applications by the American or Japanese Embassy at Tokyo (or at Washington).

The United

-3- 1465, September 19 (SECTION THREE) from Tokyo.

The United States (or Japanese) Government must give guarantees to the Japanese (or American) Government when forwarding the aforementioned list of names, that the accounts concerned included only individual accounts, that the funds concerned will be used only to defray the personal expenses in the Japanese Empire (or the United States) of the period in whose name the account is established.

GREW

WSB

RS

PLAIN

Tokyo via Shanghai & N.R.

Dated September 19, 1941

Rec'd 1:15 p.m., 20th.

Secretary of State,
Washington.

1465, Nineteenth, (SECTION FOUR)

and his family and that when a person in whose name an account is established departs from the Japanese Empire (or the United States) or loses his status, notification will be given immediately to the Japanese (or United States) Government.

Three. The Japanese (or United States) Government shall permit the remittance to the National Treasury of the balance from running expenses and the proceeds from the disposal of property of the Embassy, consulates general, consulates and other official establishments of the United States in Japan (or of Japan in the United States) as well as the income derived from the performance of consular functions. Also, officials and employees of those establishments shall be permitted to remit funds to their home consul for the support of their families or for personal payments. When such a remittance is made, a sum in

yen

-2-, No. 1465 from Tokyo, September 19, 1941;
(SEC.FOUR), 1:15 p.m., 20th.

yen (or dollars) corresponding thereto shall be transferred to the frozen account.

Four. Upon receipt from the Japanese Embassy at Washington of the list of Japanese officials in the United States above the rank of Chancellor, the Government of the United States shall grant comprehensive permits each month the Yokohama Specie Bank necessary to make possible the payment of allowances remitted by the Japanese Government to the said officials through the Yokohama Specie Bank.

GREW

GW

NWN

Tokyo via Shanghai & N. R.

Dated September 17, 1941

228

Rec'd. 4:24 p.m.

Secretary of State,
Washington.

1465, September 19, (SECTION FIVE)

The said officials shall be able freely to obtain their allowance.

Five. The Japanese Government and the United States Government shall grant necessary permits to the National City Bank of New York and the Yokohama Specie Bank respectively, to enable the two banks to handle the financial transactions of American and Japanese Government establishments respectively.

Establishments and American and Japanese official in Japan and the United States respectively.

Oral

In general, the Japanese Government has no objection to the drawing of drafts or checks by American Government establishments or employees in the United States. As a practical problem, however, the Japanese Bank and the National City Bank of New York, which are supposed to handle these transactions, may decline to purchase such drafts or checks of funds allotted for purchasing drafts and checks because of or employees in Japan on the Department of State or on individual accounts

(1465?)

-2- 1460, September 19, (SECTION FIVE).

accounts in the United States. As a practical problem, however, the Japanese Bank and the National City Bank of New York, which are supposed to handle these transactions, may decline to purchase such drafts or checks of funds allotted for purchasing drafts and checks because of insufficiency and also because of the irregularity of mail connections between Japan and the United States in order to avoid such inconvenience, it is considered that American official establishment and employees might also most suitably receive remittances from United States by telegraphic money orders through the Yokohama Specie Bank or remittance drafts"

(END OF MESSAGE)

Sent Department via Shanghai.

GREW

CSB

GS

PLAIN

London

Dated September 16, 1941

Rec'd 2:35 a.m., 17th

Secretary of State,
Washington.

4300, Sixteenth.

Solicitors request cabled reply as to licenses
referred to in Embassy's despatch No. 1098 of August
1st.

STCOR.

WINANT

EMB

TREASURY DEPARTMENT

231

INTER-OFFICE COMMUNICATION

DATE September 16, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£52,000
Purchased from commercial concerns	£15,000

Open market sterling remained at 4.03-1/2. The only reported transaction consisted of £24,000 purchased from a commercial concern.

The Canadian dollar discount widened to 10-3/4% by the close, as compared with 10-5/8% last night.

Continuing its downward movement, the Argentine free peso declined to a final quotation of .2368. It will be recalled that this currency was quoted at the current high of .2390 a week ago.

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

Brazilian milreis (free)	.0505
Colombian peso	.5200
Mexican peso	.2070
Venezuelan bolivar	.2755
Uruguayan peso (free)	.4400
Cuban peso	7/16% discount

In Shanghai exchange market, licensed banks were reported to be quoting official rates only (for yuan in terms of our currency, approximately 5-11/32).

We sold \$7,500,000 in gold to the Bank of Java, which was added to its earmarked account.

The Federal Reserve Bank of New York reported that the following shipments of gold were being consigned to it:

\$6,242,000 representing two shipments from Canada, shipped by the Bank of Canada for account of the Government of Canada, for sale to the New York Assay Office.

2,102,000 from Colombia, shipped by the Central Bank of the Colombian Republic for its account, disposition unknown.

\$8,344,000 Total

- 2 -

The State Department forwarded a cable to us stating that the National Bank of India, Bombay, shipped \$695,000 in gold from India to the Chase National Bank, New York, for sale to the New York Assay Office.

We were advised that the Bombay gold price on September 13 was equivalent to \$34.04, or 10¢ lower than the quotation for August 30. Silver advanced 1/16¢ to the equivalent of 44.78¢.

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 one purchase of new production silver amounting to 125,000 ounces under the Silver Purchase Act. This silver, which was bought for forward delivery, came from Peru.

The Federal Reserve Bank's report of September 10, listing deposits of banks in Asia with the New York agencies of Japanese banks, showed that such deposits totaled \$56,588,000, an increase of \$124,000 since September 3. Also reported were selected items from the statement of the Yokohama Specie Bank's New York Agency; these showed no appreciable change.

CONFIDENTIAL

JMP

RESTRICTED

G-2/2657-220; No. 494 M.I.D., W.D. 11:00 A.M., September 16, 1941.

SITUATION REPORTI. Eastern Theater.

Ground: Moscow reports the repulse of an attempt by German forces to land on the Baltic island of Oesel.

German forces continue their advance towards the city of Leningrad.

In the region south of Lake Ilmen, the Sixteenth German Army of General Busch reports the destruction of nine Russian divisions and the capture of 53,000 prisoners and large quantities of war materiel.

Russian counterattacks on the Central Front appear to have subsided.

No further information has been received as to the German operations in the Ukraine or in the direction of the Crimea.

The Russian garrison of Odessa continues to offer stubborn resistance.

Air: Soviet planes operated against German troop transports off Leningrad with reported heavy German losses. German planes made attack on the island of Oesel, North Riga.

II. Western Theater.

Air: Large numbers of British bombers attack Hamburg and industrial areas in Northwestern Germany and also LeHavre, also the Wilhelmshaven and Cuxhaven submarine bases.

No German activity reported over Britain.

III. Middle Eastern Theater.

Ground: No significant reports.

Air: Italian communique reported attacks on Tobruk and Marsa Matruh while the British claim raids on Tripoli, Benghazi, Gambut and Gerbini.

RESTRICTED

Paraphrase of Code Cablegram
Received at the War Department
at 2:05 p.m., September 16, 1941.

London, filed: 5:20 p.m., September 16, 1941.

1. British Air Activity over the Continent.

a. Day of September 15. A total of 351 fighters were employed as follows: 219 in the protection of shipping, 64 on interception patrols, 61 on offensive missions, and 7 on special operations. Hugesund was attacked by 6 Messerschmitts, hits being obtained on a factory and a motor vessel. 8 Messerschmitts claimed hits on 2 motor vessels during an attack on shipping off the Frisian Islands. A B-17 carrying 2 - 2000 pound bombs abandoned its mission against Cologne when it sighted a patrol of 6 German fighters over the Dutch coast in a position slightly above and about 20 miles ahead. The B-17 was flying at 32000 feet. No interception was made and the B-17 returned with its bomb load.

b. Night of September 15-16. A total of 209 bombers were dispatched as follows: 159 against the railway center at Hamburg, 45 against the Le Havre docks, 3 on sea mining off Warnemunde and 2 on sea mining in the Fehmarn channel. Most of these aircraft attacked their primary objectives. The weather conditions were favorable.

2. German Air Activity over Britain.

a. Day of September 14. 15 reconnaissance and 15 long range bombers were used.

b. Night of September 14-15. 15 reconnaissance planes and 5 long range bombers were employed.

c. Day of September 15. No German aircraft appeared over

British. Defensive patrols were maintained and reconnaissance of shipping was carried out on a small scale.

4. Night of September 15. A few localized raids were made on British. Operations against shipping took place off the coast of East Anglia. Miss Landing aircraft were active in the Thames Estuary.

3. Aircraft Losses Reported.

a. British Losses. On September 15, 1 Hurricane and pilot and 1 Blenheim were lost. During the night of September 15-16 bomber losses were: 5 lost and 4 crashed in British, the crews of the latter all being safe.

b. Axis Losses. On September 15, there were as follows: 1 Ju-88 and 1 Me-110 shot down and 1 He-119 and 1 Me-110 damaged.

4. British Air Activity, Other Theaters.

a. North African Theater. Benghazi and Borne were attacked by 4 Wellingtons the night of September 13-14. On September 14, 50 planes on the ground at Gambut were machine gunned by 6 F-40's and 12 Hurricanes. 2 F-40's were damaged and several Axis aircraft were destroyed or damaged. The same day in Axis sector column of 500 vehicles near Alam Dignah was attacked by Hurricanes. 13 vehicles were sunk and direct hits obtained, resulting in several fires. 6 Hurricanes with an escort of fighters were engaged by 12 He-119's and 6 Ju-87's, ^(ITALIAN FIGHTERS) losses resulting from this action were 3 Hurricanes, 1 Hurricane, 1 He-119 and 1 Ju-87.

5. Axis Air Activity, Other Theaters.

a. Middle Eastern Theater. The night of September 13-14

-3-

Suez was attacked by 18 Axis aircraft. Only slight damage was caused. Alexandria was attacked by 5 Axis planes the night of September 14-15. The damage caused by this raid was also small.

LES

I. B. # 14, 4:20P, 9/16/41

Distribution:

Chief of the Army Air Forces
State Department (2)
War Plans Division
Office of Naval Intelligence (2)
G. H. Q.
Record Section
Intelligence Branch
Secretary of Treasury
O.A.S.W.
A.S.W.A.
Section File
Collection Section
B.E.
C-3
A.C.
CE, B & M

CONFIDENTIAL

September 17, 1941
9:00 a.m.

RE SOCIAL SECURITY

Present: Mr. Bell
Mr. Brown
Mr. Blough
Mr. White
Mr. Haas
Mr. Currie
Mr. Bell
Mr. Viner

H.M.Jr: All right, Bell, at your service. I love to give the Administrator of Petroleum Products the statistics on oil.

Bell: Do you want Mr. Blough to explain what the program of the Social Security Board is? He gave you last week--

H.M.Jr: I tell you what I would like to do. I have done a little homework but not enough. I would like Mr. Blough, with interruptions - we will say no interruptions first. What the Social Security program is, as you understand it, and then what we are thinking of doing in connection with Professor Brown's separation wage and where the two, if any, overlap, you see. How is that? Is that all right, Dan?

Bell: Yes, fine.

- 2 -

- H.M. Jr: Do you think that is a good way to approach it?
- Brown: Very good.
- H.M. Jr: For my sake - everybody in the room most likely knows all about that, but I don't, so take it slowly.
- Blough: The Social Security program for this year is an expansionist program. In practically every field in which they have Social Security services; on the public assistance side, they want the old age assistance liberalized by making the eligibility tests easier and simpler and by increasing the minimum payments. They want the Federal Government to contribute more in the poorer states for all of the public assistances through some variable grants in aid program and they want the general relief - a general relief category added to the other categories of public assistance.
- In the insurance program, which is quite separate and which seems to me might be considered quite separately from the assistance program so far as its fiscal and other aspects are concerned, in the insurances, they proposed broadening, for one thing, the coverage of the old age and survivors insurance to include practically everybody that isn't in it now. All those they can on a compulsory basis and with respect to Government, state and local employees, on a voluntary basis, letting the governmental unit accept it or not as they like.
- The incorporation of a stamp book system to take care of the administration for the very transient groups like domestic servants,

- 3 -

agricultural labor and other groups with which the employers - employers are nearly as numerous as employees. Likewise, to reduce the retirement age for women from sixty-five to sixty. Also to add to that program permanent disability so that it will not only be old age but it will be old age and survivors as it is now plus permanent disability would be taken care of in that program.

On unemployment insurance, they want it made a Federal scheme, a Federal plan instead of a Federal-State plan as at present. They want higher benefits for longer periods and they want the coverage extended to include practically all people who work for wages except the Government employees and a few other groups that didn't seem to them practicable.

- H.M.Jr: Well, now, Roy, what is the present insurance scheme, right now?
- Blough: The present insurance scheme for unemployment insurance is a Federal three percent payroll tax plus Federal grants for administration. That is on the Federal end, plus Federal standards for administration.
- H.M.Jr: That is fifty-fifty, isn't it?
- Blough: The Federal Government pays all of the administration, as I understand it, of unemployment insurance.
- H.M.Jr: The whole three?
- Bell: But it comes out of the three percent tax.
- Blough: In effect, it comes out of the Federal share of the three percent tax.

- 4 -

H.M.Jr: But doesn't the worker contribute anything on it?

Blough: The worker, in some states, contributes, but may I continue. The Federal Government doesn't have an insurance system. It has a forcing tax, a three percent tax, against which the employer is allowed to credit the taxes paid to the state government up to nine-tenths of that three percent, or two and seven-tenths percent. In other words, if the employer doesn't pay to a state unemployment system, he has to pay the whole three percent to the Federal Government. If he pays to a state unemployment system, he can use his tax receipts from the state as part payment of his Federal tax, up to nine-tenths of the Federal tax. As a result of that practically forcing Federal tax, every state in the Union has an unemployment insurance system to which employers contribute and in a few states workers also contribute, but by and large it is an employer contribution system.

H.M.Jr: And how much does that pay the worker?

Blough: That pays the worker fifty percent of his wages up to twenty dollars a week, I believe is the maximum, after a week's waiting period, and not to exceed sixteen weeks.

The standards vary, however, from state to state. I think that is a fairly typical standard, however.

H.M.Jr: Up to twenty dollars a week?

Blough: My understanding is most states have that as an upper limit.

Brown: They vary a good deal, but fifteen to twenty is about the range of the maximum; and then the

- 5 -

range of the period of time paid is, say, from thirteen to twenty weeks. There is quite a bit of range in there.

Blough:

Yes.

H.M.Jr:

Do you mind if I stop right there? What I can't get in my own mind is, you have got this - you call it unemployment insurance.

Blough:

That is right.

H.M.Jr:

Now you come along with what you call a dismissal wage. Now, just how do those two dovetail? That is what isn't clear in my mind.

Brown:

Of course the unemployment insurance is a long-range proposition that will go indefinitely, in good times and bad and in time of a defense program or ordinary business. In the case of the defense program, there seems to be an unusual risk tied up in over-all Government policy. That is the movement of millions of people into defense production and, at the same time, a very real affect on the earnings of workers, and then an expected morning after.

In other words, it is an unusual risk factor.

H.M.Jr:

I appreciate that.

Brown:

So that the deferred wage, or whatever you want to call it, would be a special type of unemployment protection because of the unusual risk.

H.M.Jr:

Well, now, I have got the background. I get that. But I don't get how these two overlap or dovetail each other. That is what I need.

- 5 -

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In other words, it is an unusual risk factor.

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- 6 -

- Brown: Well, the idea is that I suggested, where in the case of a dismissal compensation, that would be the development of equities in the case of the individual. In other words, what he contributed or his employer contributed on his behalf would be labeled with his name so that when the post defense recession came, it would be to his credit as he became unemployed as an individual. In the case of unemployment insurance, that is insurance. That is for spreading of risk and the amount an individual pays in as long as he is eligible is only used to determine what his benefit average would be, whether it is fifteen dollars or twelve dollars. In other words, he could be drawing for twenty weeks against another person at ten weeks by the basis of rules rather than the exact amount he put in.
- Blough: The man who paid in the most might get nothing out of it.
- Brown: If he weren't unemployed.
- Blough: Yes.
- Brown: In this case, the idea is, since we will get into more money, that a man will get back whatever he put in.
- H.M.Jr: Just give me an example, for instance.
- Brown: Well, some of these young men that are normally getting, say, twenty-five dollars a week are now moving over into defense and earning fifty or sixty dollars a week.
- H.M.Jr: Right.
- Brown: And by their contributing an amount per week and their employer contributing, they would

build up a kitty, see, that would become available to them as an individual when they were laid off and, say, were on the street for several months after this thing is over.

(Mr. Currie entered the conference.

H.M.Jr:

Hello.

Brown:

Now, meanwhile they would be eligible for unemployment insurance, but this would be something additional to that because of the extra hazard involved in the defense program.

H.M.Jr:

What we are talking about is, for my edification, just how unemployment insurance, dismissal wage, where they overlap, you see.

Currie:

Yes.

H.M.Jr:

I still don't quite get it. Let me ask you this. I can understand that a man - let's say we have got a fellow forty or fifty years old who is a skilled mechanic and they continue him after this thing is over. But now we come along with a dismissal wage. As I understand it, it is to be fifty-fifty.

Brown:

Fifty-fifty would be the normal.

H.M.Jr:

Well, it would be something like that.

Brown:

Yes.

H.M.Jr:

All right. I want to ask you, supposing he isn't dismissed and let's say he has accumulated five hundred dollars in this fund. Let's say there is five hundred dollars accumulated to John Jones, you see, and he is not dismissed.

Brown: There would be two or three things, I should think. It could be held in the form of securities, that is, for a period of time, and then he can have it back if he so wanted or it could be added to his old age protection. That is what is happening in the case of some of the companies using it like Harvester. If a man is unemployed, it goes to him. If he is retained in the company, it goes against - makes it in addition to his pension when he is old.

Bell: It buys him an additional annuity.

H.M.Jr: But we don't have anything like that.

Bell: Yes.

Brown: No, we don't.

Bell: Well, you couldn't put it in old age.

H.M.Jr: We don't have anything like that.

Bell: You would have to return it to him.

White: There are a number of other possibilities, too, in which he could benefit by that depending on what details you want to work out.

H.M.Jr: Is it warm in here?

Currie: I was hurrying, Mr. Secretary.

Brown: Well, it is an equity available to him and could be drawn in different ways.

H.M.Jr: The reason I am asking these questions is, I raised this twice at Cabinet and Madam Perkins sat on me very hard. She says I don't understand it and she just brushes this

- 9 -

dismissal wage thing aside. I don't know whether you know that she seems very much opposed to it.

Brown:

I didn't know it.

H.M.Jr:

Yes. She seems to be - no one evidently is doing any work on it. She seems very much - can you hold your talk a minute, Harry?

White:

Oh, yes.

H.M.Jr:

Now let me ask you another thing. Why isn't this, inside of this room, forced savings? Why aren't we forcing the fellow to save?

Brown:

Well, it is, but you can put it this way, any time you require a man to contribute, it is requiring him to save; but it is, of course, for specific purposes, not just general. That is, it is a program related to the defense program so that he will be able to help meet his situation after the defense program.

White:

Well, I think there is another reason why it is not forced savings in the pure sense, Mr. Secretary.

Bell:

Enforced savings, I think.

White:

I think it is an important distinction. It is that the employer contributes and gets nothing directly. Therefore, it is not forced saving for him in so far as the employee is concerned. He gets, depending upon the - how you share it, he gets an additional amount over what he saves. Secondly, the Government makes some contribution, either in the form of the administration costs or possibly in the form of a direct saving, so that it can be called forced saving only

- 10 -

in the sense that the individual is required to save a portion of what he gets in return, but if you use that phrase with regard to that, then why not use forced saving with regard to old age pensions, to unemployment insurance, to even taxation, in which the employer may get certain benefits later on? I think it is stretching the term, forced saving, when you apply it to this.

- H.M.Jr: Let me ask you this: Why should the management contribute toward this? I mean--
- White: Well, for a very important reason, I should say.
- H.M.Jr: Why?
- White: Two reasons.
- H.M.Jr: He is going to just - if he is doing business with the Government, he is going to add the cost.
- Bell: Going to increase prices.
- H.M.Jr: And increase prices.
- White: Well, he shouldn't.
- H.M.Jr: Well, where is he going to get it? Let's say it is three percent.
- White: Get it out of his profits, because he is supposed to be partly responsible - partly only - partly responsible for disemployment which occurs later. He shares some responsibility, both as a member of the business community and as an individual concern in which he hasn't made full provision for. Of course the Government shares also. That is, the people as a whole share, and that is why

- 11 -

the Government should make some slight contribution if possible.

H.M.Jr: Well, I am going to argue with you. I have got a little factory, and I have got the various forms of insurance which are in existence today. Now you come along and say, because this fellow is getting fifty or sixty dollars a week, I, as a factory owner, should contribute toward the day when we have world peace. Now let's say it is going to be one percent or three percent. I mean, we have got to get out. I figure out all of these things. It is a direct increase to cost. I am not going to absorb it. I am going to pass it on.

White: Every employer tries to pass on his costs when he can, but presumably when he deals with the public he may have some difficulty in passing that on. With the Government it may be easier, but I think steps ought to be taken to prevent the passing of that cost on in so far as it is possible.

H.M.Jr: Well, I can see this. I can go this far. I can see why it is terribly important that the people who are in defense work today should be urged to set aside some of their money so that after the - what is it, you say thirteen weeks?

Brown: Thirteen up to twenty.

H.M.Jr: Weeks, that after that is off, they don't immediately come back onto the dole. We are talking here in the room. You have got to give me the time to think out loud. As I or anybody else talks about inflation or as it becomes more obvious, people aren't going to invest in the Government bonds. I mean, it

is going to be more and more difficult. They are going to go into equities. I just don't see - I mean, I just don't see how you are going to go to the Congress or to the owners and management, business management, and say, "We want you to set aside another one, two, or three percent out of your business today against - I can see at this moment why we should try to find some way to get - we are doing it through the voluntary payroll deduction plan, which is very moderately well, but I have got to be sold on this thing.

Brown:

Well, Mr. Secretary, I was on a committee on economic policy of the Business Advisory Council in which we went over this thing, and then they asked me to present it to the whole Council. Those are all presidents of companies and so on. We had quite a discussion and got relatively very favorable response. There was some, of course, definitely questioning and others not. In fact, they got in quite a discussion as to whether the employer should pay all or the employee should pay all, but here is what we faced there. A great many corporations, I think upward of five hundred altogether, have paid in some form dismissal compensation because they felt a certain obligation in maintaining the morale of their total employees, that when they laid men off due to no fault of their own and who had served them for a period of time, that they owed something more than just the last pay check.

Now, my own personal evolution on this idea was that we had the post defense problem to meet. I didn't think unemployment insurance was enough. On the other hand, we had the job of getting much larger flows of income to the Government from these wage earner levels.

H.M.Jr: That is right.

Brown: They are making tremendous money compared to what they made before. It is a fairly difficult area in which to get income to Government.

H.M.Jr: That is right.

Brown: At the same time, politically and otherwise, as well as the advantage socially, it seems best to get it on an equity basis rather than a straight tax basis, that is, to get it from them for a period of time so that after the defense program was over they would get back something that was their own and had all the advantages of getting back something for which they had saved rather than relief from WPA or some other outright gift of Government.

H.M.Jr: I am sold on that.

White: May I give some reasons why the business man should be in favor of it, Mr. Secretary, why even from his point of view I think it is a desirable thing? In the first place, the forward looking businesses already have some such arrangement, whereas a good many of the less social minded or less progressive business don't. That puts the more forward looking corporations at a competitive disadvantage in some cases. More important, however, is the fact that the businesses who will contribute to a scheme of this character are those who will benefit by its operations because during the down turn, in so far as this maintains business activity, they share in the general improved business.

On the other hand, they likewise share in the

prevention of price rising during the period of inflation. So they get benefits which are very real, just as the employee gets benefits. Moreover, they are the ones who are benefiting more than the employee in absolute amounts, anyway, if not proportionate, from rising business during this period and finally, it is a social obligation which they have as leaders of enterprise or as participants of enterprise. They are responsible in large part for the way business operates.

- H.M.Jr: That is very pretty, Harry, very, very pretty, but how many do you think - how many business men do you think would subscribe to that?
- White: Just as many as subscribed to increased taxes. A good many of them won't subscribe.
- H.M.Jr: Well, how many is that?
- White: Not many. Therefore, they cannot be a criterion.
- H.M.Jr: I would like to meet them, Harry.
- White: I say not many.
- H.M.Jr: I would like to meet them.
- Brown: I think you would get much more support for this idea than the general taxes. In other words, they see the equity relationship. For example, they look back at the last war when we had silk shirts and pianos.
- H.M.Jr: Silk shirts and what?

- Brown: Pianos. Remember these boys who work in the shipyards and every place else? They had to spend their money and they put it into all sorts of things and they paid two prices to get it. They just had to spend their money. That is the normal psychology of workers who get double income all of a sudden; so this is a case of getting this and holding it to pay their rent instead of paying double prices for a silk shirt.
- White: Why put it on that narrow basis of merely those who are getting large increases in pay? I think the severance wage is an important element of any social security program. That could be justified even if you never had a boom of this character resulting from war. It has more - it has important fiscal consequences now which it wouldn't have under other circumstances. But - and I think those important fiscal consequences are an additional reason why the business man might very well be in sympathy with it where he otherwise wouldn't be.
- Blough: May I make one or two comments? I don't think the business man will like this nearly as well as taxes because in the case of this type of thing he feels he is going to pay it again later, whereas if he pays it in taxes there is no obligation on the part of the Government to pay it out again and he doesn't face the necessity for paying it back again, but I would like to pass on to one or two other things. Let us see what happens to these taxes, to these payments by the employer.
- (Mr. Viner entered the conference)
- H.M.Jr: We are talking about unemployment insurance

- 16 -

and dismissal wage. I hope you have got the answer.

Blough: Take these --

H.M.Jr: Do you want a lawyer in here now with all these economists?

Bell: Not particularly.

Blough: May I - whenever you are ready, Mr. Secretary.

H.M.Jr: Go ahead.

Blough: This dismissal compensation taxes or payments by the employer, take those parts that are paid by the employer if any, one of three things is likely to happen. Either the employer absorbs them - now, if he absorbs them, in the case of those people who are in defense industries or who have had big increases of profits due to defense, the Government bears seventy percent of the burden because those people would be paying thirty-one percent normal tax plus about seventy percent excess profits tax, which added together is a net burden of something over seventy percent. So if the employer absorbs it in those industries, it is the Government that absorbs or pays about seventy percent of the total.

Now, the employer may not absorb it. He may not raise wages as much as he otherwise would. In that case it is the worker who takes the burden and in effect he is paying it just as if it were put directly on his payroll. Or in the third place, it may be passed on to the public in the form of higher prices, which means that in so far as the Government is the buyer, the Government again is paying it and in so far as the

consumer is the buyer there you have the so called real cost to the extent that it is the real cost going to the consumer but it isn't the real cost because it is on a savings account basis and not an employment insurance basis.

Brown: May I just talk on that? I think the United States Government owes a dismissal compensation even if it bears a cost just as much as these progressive employers owe it to their people. The Government is pulling tremendous numbers of people to Government work indirectly or directly.

H.M.Jr: Well, may I - I am sold on the dismissal wage. I think we ought to have it but I am trying to get the arguments back and forth and also fit it in. Now let me ask you this. I want to ask Bell this question. On the Social Security thing, when this is over, how we would be able to lower the taxes. Let's say we take in a billion dollars through the dismissal wage, you see. The funds are set up somewhere, I don't care where, but the money comes to us and we spend it, right?

Bell: Yes.

H.M.Jr: Now, this thing is over. We have either got to borrow or borrow it again to pay out the wage or have some kind of tax --

Haas: Borrow short term.

H.M.Jr: One way or the other. We spend it now.

White: Got to borrow it, that is right.

Bell: All you are doing is borrowing that tax

money and it becomes a part of your public debt due to those individuals. Now, when you pay it out to them you have got to borrow from the other part of the public and pay it back. It doesn't increase your public debt.

H.M.Jr: No, but this memo which I have which says that when the thing is over we will be able to drop these taxes, I don't think that that is quite --

Bell: You would be able to drop the dismissal - so called dismissal taxes.

White: That won't affect the borrowing. That will merely mean that there are less sums available for you to borrow but it won't affect how much you have to borrow. On the contrary.

H.M.Jr: It wasn't dismissal and the argument given me for the Social Security program was that when this thing is over we will be able to reduce the amount.

White: I think that was the other part of the program, Mr. Secretary.

H.M.Jr: In the Social Security.

White: Well, I think it probably referred to the part of the program of contributions to old age pensions and so on where it was stepped up for - partly for fiscal reasons and partly for others. Then they thought that if desirable you could move that down. But that wouldn't call for any more borrowing.

H.M.Jr: But do you think we could intellectually and honestly say - let's just stick to the straight

dismissal wage. If we could call it somehow or other an emergency savings, something to tie it up with the emergency - that this is only for the emergency, and that when this emergency is over and if necessary, possibly to convince the people, make the legislation only for one or two years at a time.

- White: I think you could get it more easily that way.
- H.M.Jr: Only two years and then with a renewal to show the people that we only consider this for an emergency. What would you think of that?
- Brown: I think it definitely ought to be tied to the emergency, sir.
- White: Only because you can get it more easily that way, not because it is justified.
- H.M.Jr: No, no, but I mean - what do you think, Lauch, so as to leave it in the peoples' mind just like our gold devaluation and all that, it just runs for two years. It is emergency legislation.
- Currie: Yes, I think so. Present it as an emergency measure. I think it should be presented as an emergency measure to last as long as the emergency.
- H.M.Jr: Let me ask another question. Could this be worked out so that we could distinguish between ordinary unemployment insurance, which I understand is limited to twenty dollars a week --
- Brown: That is right.
- H.M.Jr: Couldn't we say that - step it up from there

where this leaves off.

White:

I think the unemployment insurance can easily - if you have this type of a wage and it has sufficiently broad coverage, the unemployment insurance can be postponed. That is, instead of beginning just the week after as it does in some cases, it could begin either three weeks or four weeks, depending upon how long the dismissal wage lasts, which would give an opportunity for the Administration to function more effectively in preparation of the insurance payments.

Bell:

Are you speaking of the disbursement of the funds or the tax?

H.M. Jr:

I am talking about the funds.

Brown:

Well, Mr. Secretary, there is a basic difference between the unemployment insurance, being insurance, and this being equity. That is, it is in the individual name. Now, so that it would be repaid, suppose the man is unemployed. My own personal notion was that he would be paid in a lump sum. Now, the unemployment insurance is paid periodically. One of the troubles with the thing is that here we have got a tremendous concentration of people in Norfolk and places like that. In the case of unemployment - when the thing is over, tens of thousands of those fellows will go way back to Ohio and West Virginia and places of that sort. The dismissal compensation payment is going to help them do that, pick up their belongings and move back and start over, whereas the unemployment benefits are nothing but a relatively small periodic sum which, under the present arrangement, goes through a whole lot of

machinery to get payments in Ohio from Virginia contributions and so on.

H.M.Jr: How about the argument that you hand a fellow a check for five hundred dollars and he is going to spend it all just like the soldiers' bonus?

Brown: Well, there is always that, sir.

White: And I think there are some other disadvantages to the lump payment which would have to be considered. There are some advantages. The important ones Mr. Brown has just enumerated, but there are some disadvantages that might make you end up, I think, with deciding that there shall be periodic payments, not stretched out in small amounts, but certainly not in one lump sum, maybe stretched out over three or four weeks.

H.M.Jr: Evidently, Professor Brown, you haven't had a discussion with my people here, have you?

Brown: Well, individually with some, some time back and at various times.

Bell: Not since it was studied by this group.

Currie: I might ask a few questions, because I am coming into this rather cold.

H.M.Jr: You and me both.

Currie: In the first place, I want to clear up one thing in my mind. You call it a dismissal wage. Does that mean that it does not accrue to the person if he leaves employment voluntarily?

Brown: It is pretty hard to work out a terminology that clicks, but severance or termination or

separation, but since it would be an equity it would be in his name. If he continued in employment it would still be to his account, let's say withdrawable after a certain time or reserved for additional old age protection or something of that sort. I don't think you could disqualify him if he quit or were discharged.

H.M.Jr: Well, I have got - do you mind? I just had a thought. Supposing again, using the fellow with five hundred dollars and he quits Pratt and Whitney. Let's say he doesn't go to work anywhere else. How would it be to say that this wage, this accumulation of savings, will not be paid to anybody until the President terminates the national emergency?

Brown: That is right.

H.M.Jr: See? Until the President terminates his national emergency, whether the fellow is fired or quits or retires.

Blough: Or with the possible exception of some great personal emergency, a very special need.

H.M.Jr: We would have a board to appeal to. Would that take care of you?

Currie: Yes.

H.M.Jr: I keep thinking of this, Lauch, in terms of emergency.

White: If you want to modify that and make it flexible so it really declares an emergency in a particular commodity, because it is conceivable that you might have some industries - I mean, you wouldn't expect an emergency in all of them.

- H.M.Jr: Harry, you have got to keep in mind that we have got to sell this thing. The President has declared a state of national emergency. Some day he has got to say that is over and when that is over this thing would begin to --
- White: It would increase its saleability, I think, unquestionably.
- H.M.Jr: Go ahead, Lauch.
- Bell: It seems to me it has got to be some other term.
- Haas: I think so too. The last war, Mr. Secretary, if you used that basis, you would have paid it out just when you were having the top of the inflation, you see, after the Armistice when the big price boom came.
- White: You can have some objective measurements, namely to decline unemployment at a certain rate or something of that character.
- Bell: Certainly this emergency wouldn't be over until peace is declared.
- H.M.Jr: Use the commodity dollar. Use the General Motors-Cornell Index.
- Brown: One suggestion was that as of a certain time only those who were unemployed could withdraw and then maybe a year later or any other set time, those who were in employment could withdraw. In other words, that would control the outpayments by having those payments go only to unemployed persons first.
- H.M.Jr: Well, go ahead, Lauch.
- Currie: Well, the next question I had in mind was

considering this in relation to the unemployment insurance. That seems to me in the course of the discussion to be more or less dismissed as not being awfully helpful. We can't rely very much on that. I was wondering if we had given much thought to the possibility of extending - increasing the benefits, extending the period when these benefits are paid. The fund is growing pretty rapidly, isn't it, Dan?

Bell: Oh, yes. You mean the unemployment insurance?

Currie: It could be even more, probably. You could finance considerably higher benefits with an equalization scheme to have it more uniform throughout the country.

White: You don't think there was any impression here that this would be in any way a substitute for the expansion of the unemployment insurance? I gather that this was to be in addition to the expense.

H.M.Jr: Well, we are exploring it, Harry.

Blough: There is a certain limit beyond which we can't go on small incomes. At the present time what happens is, a man gets a hundred percent of his wage, less whatever the taxes are, and then when he gets in - when we get into a depression period, the Government finances him through relief. Now, what you are saying is this, in these heavy payroll taxes, that for people with small incomes, "We are going to take away from you part of your income, a substantial part, during the period when you are earning, so that you can finance yourself during the depression period that follows," and it seems to me in the case of a great many wage earners the size of their wages is so small that they simply cannot have fifteen percent, let's say, of that wage taken away and still finance themselves during the period when they are earning. They will have to have relief while they are working as well as while they are unemployed.

- 25 -

White:

Let me restate that in other terms of the same situation and see whether it sounds quite the same way.

What you are asking the employers to do is to make some partial contribution. I am not directing my remarks to those who are advocating that the employees contribute all, because that is nothing but a scheme of forced saving that has all the disadvantage that you are suggesting, but he contributes part. It can easily be made progressive so that - your own suggestion, I think, in a memo was that those under ten dollars the employer contributes. Above, the employee makes some contribution. So that it becomes progressive and doesn't strike the very lowest strata and you can even make it more moderate on the group from eight hundred to twelve hundred income by having it somewhat progressive and they only contribute part and they are doing that at a time when it is in their interest to prevent inflation, and when they are, as a group, better off, and it will take care to some extent of the time when they will be worse off, and it doesn't reduce the contributions which the Government presumably is going to make in unemployment insurance or any other form the Government sees fit to help them out in except relief, and the employee should be the last one who wants direct outright relief if he can avoid it.

Blough:

The prevention of inflation calls for contributions from the workers. This other idea calls for contributions from the employers. The two are not consistent.

Brown:

I wouldn't say that they are inconsistent. I think because the thing does a good job for two reasons doesn't make it internally

- 26 -

inconsistent. You are just using two arguments for the same thing. As this matter of unemployment insurance over against this, the unemployment insurance is a permanent machinery, and while it needs a very real improvement and will help in the post-defense, I don't think it should be lifted to a level which you would not want to continue, but now we are faced with an emergency where the Government of the United States really takes over a tremendous share of the economy and just pushes it to the limit, and then there has to be a relapse when peace comes.

Now, that is a very special hazard for the great majority of our people, direct and indirect, that will be affected by defense and that is a particular hazard I think we need to face in advance rather than merely having it a relief - WPA - after the program.

Currie:

There is one important question of principle involved here, Mr. Secretary. That is, in one case the insurance or social legislation generally is designed to look after those who need it. All of us are the people who are working for the sake of those who are either unemployed or are old and can't work or disabled or something like that. This particular scheme, as Mr. Brown pointed out, is a matter of equity, that a lot of these people will continue to work in the post-defense period, most people will.

The benefits will be given to the individuals, regardless of the need. In fact, the higher his salary has been, the higher his pay through the emergency, the greater his bonus will be at the end. There is quite a difference in

- 27 -

principle in these two things. I think we ought to thoroughly explore that.

Haas: Call it a readjustment bonus or something to separate it from this other.

White: Moreover, I think we must bear in mind the fact, what I am convinced of, that unless we have some scheme of this character, we will be forced to go into an unadulterated scheme of forced savings. This is only a partial one.

Haas: You may have to do that anyway.

Viner: Is this an adulterated scheme of forced savings?

White: It is adulterated by other contributions. It isn't pure.

Brown: This is a well-bred scheme.

White: A well-made scheme.

Haas: You still may be in the other before it is over.

H.M.Jr: Well, it is pretty close to forced savings. It is like using the word "convoy". We couldn't call it "forced savings" --

White: What would you call the share the employer gets? He doesn't get anything back. It certainly is enforced savings.

H.M.Jr: Well, who thinks about the employer?

White: The employer does, and really that is enough. He is able to take care of himself.

- 28 -

- H.M.Jr: Harry, honestly, sometimes I think Harry talks like a dollar a year man. I don't understand it.
- White: Yes, I am moving in that direction. (Laughter).
- Bell: If they keep on taking away taxes, you will be down to a dollar a year. (Laughter).
- Blough: It seems to me there is another aspect entirely we musn't forget in considering this, and that is that we are going to need a lot more taxes before this thing is all over.
- Viner: Spot newsflash. (Laughter).
- Blough: That is flash news as you point out, but relate it to this. To what extent will a scheme of this kind - I don't use the word "scheme" objectionably. I have juch sympathy for this plan. I would, however --
- H.M.Jr: Harry doesn't have time to read his own memos, out of his own shop, let alone yours.
- White: I read this one. (Laughter).
- H.M.Jr: He gets somebody to review them for me and incidentally, himself.
- Blough: There is one danger in it at this time, and that is, will we, if we introduce the plan now, have shut off the sources of increased taxes or would it be better to go the limit on increased taxes and then when you have gotten the last dollar out of them finally, then come along and say, "All right, we can't get any more from you in taxes. We will take some more which we will pay back to you." I put that very baldly.

- 29 -

It probably wouldn't be quite that bald, but there at least is that consideration.

H.M. Jr:

Roy, what we have got to try to do is this, and I am not at all satisfied that we are doing it. To keep abreast with these increased payments which are being made and mop up so much of them as we can, first so that the fellow won't have the money to spend, and second, that we get - raise the money in that way to pay for armaments.

Now, I am not satisfied at all that we are mopping up the money as fast as the fellow is getting it.

Blough:

Oh, we are not.

H.M. Jr:

If we have him put the money into saving, well the answer is there will be that much less to tax from that group. You can't get it twice. But I think we would get it faster. That is my own feeling. If we could get it through having him put his money into savings than if we wait to tax them on it through tax bills, and it has the other advantage that - I mean the savings plan, insurance plan, that it is there for the cushion when this is over. So I don't know how you people feel, but I am inclined toward any - call it whatever you want, savings, insurance - rather than the taxes.

Blough:

Well, the taxes don't have to be paid back at the end.

H.M. Jr:

Because what we tax the fellow and take away from the fellow on seven hundred fifty dollars, the dollar that we take away from him doesn't do him much good five years from now.

- Blough: Of course in the tax program you can put a bottom, a minimum on it and not tax below that point.
- H.M.Jr: Listening to this, if anybody disagrees with me I wish they would talk on this point, but I think every dollar we get out of savings and get a man to put into savings will be of some use to him when this is over, and I would rather do it in that way than I would through a taxation or certainly a sales tax or anything like that to raise the money.
- Bell: Well then are you coming around to the view that the dismissal wage proposal has priority over the insurance?
- H.M.Jr: No, I am using the two together. I am using the two together, but I am saying - all I am saying this morning is, and I am splitting it up to be knocked down, that whatever we can take through legislative action, take away from the worker and set up either in insurance or savings, I would rather do that than take it away from him in taxes. That is all I am saying.
- White: Mr. Secretary, these are such unusual --
- H.M.Jr: Lauch?
- Currier: I agree. Then the next question is, the further question, what way you will do it.
- H.M.Jr: Yes. But I mean there are two - Roy brought it up. You can either tax this fellow or you can take it away from him and set it up in an insurance or a fund earmarked for him.
- Bell: Of course the dismissal --

- H.M. Jr: Excuse me. But which way we go, I haven't travelled that road, but as between taxes and that, I certainly lean toward insurance and dismissal wage. What?
- Currie: That is right.
- Bell: The dismissal wage gets back, regardless of who contributes it, whereas the insurance scheme, the fellow who may contribute the most may never get it back.
- Currie: I would say instead of that being an objection to that, it may be a merit. After all, we have a lot of pressing social needs we haven't met in this country. We haven't got a decent old age unemployment insurance scheme. We certainly haven't got an old age pension scheme that is decent or health insurance, or disability insurance. There is a lot of more pressing urgent needs that to me - I am just thinking out loud - seem to outweigh the advantages of - if we could work that - outweigh the advantages of just giving five hundred dollars to somebody who is well employed and doesn't really need it.
- Bell: My point is that the unemployment insurance tax is a tax on a lot of people, and as Roy says, it is never paid back.
- Blough: It really comes to this.
- White: He gets something. He gets the assurance, whatever it is worth, that should anything happen to him, he is buying that degree of security which he may never cash in on, but at least he gets the pleasant and real satisfaction of knowing that he has something coming to him should he be unemployed.

Bell: It is like the term insurance. Of course there you have to die to get it, and death is inevitable. But in the other place you have to be unemployed to get it, and you may never be unemployed.

Viner: It is term insurance. If you think for some reason or other you are going to live forever, you don't have to take out the insurance, and also, if you are in a specially safe occupation, you may get special rates.

This is unselective insurance and compulsory.

Brown: Well, it is term insurance and certainly part of the advantage is the sense of protection, because I think you could manage salary fellows at three thousand who certainly got burned in '29 and times like that.

H.M.Jr: I would just like to do two things. I would like to write a letter.

Roy, you write it and show it to the people here. To the President, you see, something along this line:

One person has to write it.

"Dear Mr. President: We in the Treasury have been studying the suggested program of the Social Security Board, and we are impressed with the enormity of it. I am afraid that in the preparation of this program the Social Security Board did not give serious consideration to my task and responsibility of financing the Government."

I mean, some of you people may object to that.

"I also would like to point out that the Social Security Board has not given consideration to what is known as either dismissal or separation wage. Therefore, I am asking you either to postpone making any commitment yourself on this program, or if you feel that you must go ahead at this time, I would like to be present at whatever conference you hold on this subject."

Do you see, something along that line.

Flaugh:

May I put in a few more sentences?

H.M.Jr:

Any more you want, and then if you want to say that we here lean toward raising as much money as possible in combination with a savings plan, either through savings or insurance, you see. Do you want to put that in, so that he knows that we are just not opposed to anything?

Flaugh:

Yes.

H.M.Jr:

But give it thought and show it to these people and try to get it to me - well, get it to me by tomorrow morning. That gives you twenty-four hours to write it.

- 34 -

- Viner: You want them to go ahead with part of their program, don't you?
- H.M.Jr: I don't want the President to send a message to Congress on the program as it is now. McNutt is pushing it. If he feels he has got to do something, I want to be heard, but I want him to know that we here are giving it a great deal of time and thought and we will have some suggestions to make.
- Viner: I think that letter ought to strike the note that you do want a program very soon.
- Bell: Mr. Secretary, I think the only thing you need is the last sentence, that you don't want him to send a report without having you present. Now, Smith is trying to bring about just that. He wants you and himself and Altmeyer and McNutt present at that conference, and have it thoroughly discussed, and he wants the President to devote an hour to it. That is what he is trying to work.
- H.M.Jr: Well, I don't think it would do any harm for me to write a letter and simply run up a red light before the President. I am not satisfied, and the Social Security Board hasn't considered our problem.
- White: You must tie inflation up with that, because it is that aspect that makes it important.
- Bell: I think that the Social Security Board has considered one aspect of the Treasury's problem. I think they believe that this is a beautiful time to get their program through because of this talk of inflation and because of the need of the Treasury for funds. I think they have considered it from that angle, although in the

President's message they do not want to stress the fiscal aspects and I think that is a mistake. I don't think they will get it if they don't stress the fiscal aspects.

- H.M.Jr: I would like to stop now. I want to absorb what I have heard. I would like to continue again tomorrow morning at nine o'clock. Would you rather have it nine fifteen, Lauch?
- Currie: No.
- H.M.Jr: For the benefit - I can make it nine fifteen just as easy. Could you do it?
- Brown: Well, sir, I am running a conference at Princeton. I will try very much to work it out if I could just have a time to do some figuring.
- H.M.Jr: Well, it isn't much use having it unless you could be here.
- Brown: I will be here, sir, if you want me.
- H.M.Jr: Nine or nine fifteen?
- Brown: It doesn't make any difference.
- H.M.Jr: With Viner here, I guess we had better make it nine fifteen.
- Viner: Nine thirty would be even better.
- H.M.Jr: I would like to give this another hour tomorrow. I have got a lot out of this, but I would like to keep at it, you see, and then we will get this letter off and you can have the letter here tomorrow morning, koy.

Blough: I can have a draft of the letter even earlier than that if you wish it.

H.M.Jr: Well, if you can - I mean, if I see it, your letter is finished and you can go on home. You shouldn't be here this afternoon. He (Blough) is on a holiday. And then be back again tomorrow morning.

Blough: All right, good.

H.M.Jr: Have lunch at home.

Blough: Well, we will work that out.

H.M.Jr: It is silly to be here. Nine fifteen tomorrow. How is that?

Bell: The Social Security Board has got a big program and when you hear it all the rates are going to run up what, ten per cent?

Blough: Their program goes to ten per cent rates.

H.M.Jr: I have read this thing.

White: It is a very unusual time and it is going to take unusual measures.

Bell: They have taken advantage of it, too.

H.M.Jr: I want to get that letter off. If I could get it to the President today that is much better. You are very much interested in this?

Currie: Yes.

H.M.Jr: Have you got time to stick with us?

Currie: Yes.

Brown: I think there is a very basic argument for expanding social security now.

- 37 -

- H.M.Jr: My mind is wide open. I would like to do the thing which is the best for the most people, and doesn't leave me completely in the hole with my own peculiar responsibilities of raising the money, that is all, but I will always give the social aspects a break over my own particular problem.
- Brown: But in developing the protection socially, there is a lot of income coming in during the period of good business.
- H.M.Jr: Well, one bridge I crossed this morning, which is important from my standpoint, I would rather get the money through savings or insurance than I would through taxes.
- Haas: So would the workmen. They would agree with you on that.
- Blough: That means that in the long run you want to get the taxes from the middle classes, but not from the working classes, because presumably these taxes will have to be collected later, at least enough to service the debt, during the post-defense period and what you have in mind is getting them out of somebody else besides these working classes.
- H.M.Jr: That is right.
- Bell: What you are doing is borrowing at this time from another group in effect. Later on you are going to have to tax the whole population to pay off that debt.
- H.M.Jr: That is right.
- Bell: You may have to refund it in the meantime.
- White: You would have to do that anyhow.
- Bell: Sure, you would have to do this anyhow.

White: You would have to borrow now anyway.

Bell: This is certainly less inflationary.

Haas: Post-war adjustment is much easier.

H.M.Jr: It is anti-inflationary.

Bell: When you have it all over you have to refund this debt by borrowing from other people and paying this back.

H.M.Jr: Well, I will be back on the farm and the only thing that will worry me will be the price of apples.

Haas: Borrowing from banks will be the proper thing to do then.

White: I don't think you have a choice of this or taxes. I think you are going to have as hard a job as you want to get as much taxes as you can and this will be in a way supplementary.

H.M.Jr: With this exception, Harry. Mark my word, I don't like to set this up, but it will be something like this or a sales tax.

White: Well, I think you are right.

H.M.Jr: It will be this or a sales tax, and certainly we want this before we want a sales tax. This takes care - helps to take care of inflation and it sets up the other thing, a nest egg for the worker when this thing is over, which I think from the standpoint of morale is terribly important.

Well then, nine fifteen tomorrow morning?

Brown: Yes, sir.

H.M.Jr:

And I would like to ask Mr. Brown a personal question.

SEP 17 1941

Dear Mr. President:

The Social Security Board has transmitted to the Treasury a draft program for expansion of the social security system, and I understand that this program is to be presented to you for action in the immediate future. I am wholeheartedly in favor of expanding and improving the social security system, and I have no objections in principle to most of the Board's proposals.

The program, however, would of course have marked fiscal effects which call for careful consideration, particularly during the defense emergency when the fiscal requirements of the Government and the need for stemming inflationary tendencies are especially urgent. The timing of the initiation of various items in the program should be very carefully considered from the point of view of their effect on Treasury receipts and disbursements during the next few years. There is also the need for simultaneous consideration of the Board's proposals and of other related proposals not dealt with in its program, such as the proposal for dismissal compensation (severance wages) under which special taxes on wages of employees and on payrolls would be collected during the defense period with reimbursement in the post-defense period at the time of dismissal or of general economic depression.

I hope that the Treasury will be given a little more time for examination of the Board's proposals and for discussion with the Board in the light of these considerations. If, however, you feel that you

- 2 -

must proceed with the program at once, I would like to be present at whatever conference you may hold on the subject in order that I may have the opportunity to present my views thereon prior to any final commitments being made.

Faithfully yours,

(Signed) H. Morgenthau, Jr.

The President,

The White House.

copy for D.M.C.
Secret Service
By Messenger 4:45 P.M.

EB:dsd
9/17/41

September 17, 1941

MEMORANDUM FOR THE SECRETARY:

The attached letter to the President regarding social security, which you requested this morning, was redrafted by Mr. Viner and Mr. White and has been approved in this form by Mr. Haas. Mr. Daniel Bell, who is out of the office this afternoon, has not seen it.

Roy Blough

September 17, 1941
2:55 p.m.

William
Rosenwald:

You very - when I was in Washington about a year ago, you very kindly expressed an interest in.....

HMJr:

That's right.

R:

.....in refugee work in this country.

HMJr:

Yes.

R:

A meeting is being called by Sam Rosenman and David Dubinsky and Will Shroder of Cincinnati, the Chairman of Council of Jewish Federations and Welfare Funds, and myself, in the middle of October.

HMJr:

Yes.

R:

And I'm very anxious to speak to you a few minutes about it, at your convenience. I know how busy you are, and I'll make a special trip to Washington where I can have a few minutes with you.

HMJr:

Well, that's not necessary. I think I had an invitation to come to it, didn't I?

R:

Yes, you did, and we were sorry to receive your regret; but we'd like to speak to you about the content of the meeting - about helping us in connection with the formulation of the meeting.

HMJr:

Well, if you care to come down, I'll be glad to see you.

R:

That's awfully nice of you if you would. Will you be free tomorrow? Any time at your convenience - preferably in the afternoon.

HMJr:

Well, let me see.

R:

Or evening, if you prefer.

- 2 -

HMJr: No. What's tomorrow? Thursday?

R: Yes.

HMJr: I can see you at three o'clock.

R: I'll be there.

HMJr: Thank you.

R: Thank you very much. Good-bye.

September 17, 1941
3:13 p.m.

281

HMJr: Hello.

Operator: Secretary Jones.

HMJr: Hello.

Jesse Jones: Hello, Henry.

HMJr: Jesse?

J: Yeah.

HMJr: How are you?

J: Pretty good.

HMJr: Jesse, I see by the papers you've got a bill up on the Hill there.....

J: Yeah.

HMJr:that affects us, the Treasury, as far as Customs duties are concerned.....

J: Yes.

HMJr:and as far as I know I don't think you did us the courtesy of talking about it.

J: Henry, I thought you cleared that some time ago in a much bigger way than this.

HMJr: No. According to Bell - I've asked him to check it and.....

J: Why there's a bill - Henry, I think there's a bill up there.....

HMJr: Uh huh.

J:been there two or three months.....

HMJr: Yeah.

J:put in by the War Department or somebody.....

- 2 -

HMJr: Yeah.

J:that covered this and much more.

HMJr: Yeah. But the part that bothered our people - that's correct.....

J: Yeah.

HMJr:is the part that has to do with the bill - you know, the duties and the taxes - that part really should be Ways and Means.

J: Yeah.

HMJr: I never believe in trying to make things more difficult, and I just thought I'd call you up and I wonder - is there anybody besides yourself looking after this?

J: Well, Claude Hamilton and I. What did you have.....

HMJr: Well, I think if it's Hamilton - and let Hamilton - if he'd talk to Dan Bell, see?

J: Yeah.

HMJr: Because Dan talked with the Budget and they say they don't know anything about it.

J: Well, that's right.

HMJr: (Laughs) Well, I don't want to - just because you didn't talk to me - I don't want to make any difficulty and I'd like to work the thing out.....

J: Well.....

HMJr:so that our boys here will be satisfied.

J: Fine. Well, now, I cleared it with the President, of course, before I went up there.

HMJr: Yeah.

J: And this other matter, having been stalled and because it was - I assume because it covered a good many more things - this just applies to the RFG.

HMJr: Well, if you'd have Hamilton talk with Bell.

J: All right.

HMJr: Let's see if the Treasury's interests can't be taken care of without trying to raise a jurisdictional fight between Banking and Currency and Ways and Means, you see?

J: Yeah.

HMJr: What?

J: Well, of course, the Banking and Currency Committee already voted it out.

HMJr: Yeah, but.....

J: They approved the bill.

HMJr: I don't know. Bob Doughton could, if he wanted to, raise objections.

J: Yeah. Well, I'll get.....

HMJr: Well, I expect - you know me well enough now.....

J: Yeah.

HMJr:and I just thought I'd call you up and say that we don't quite understand it and if you'll send your lawyer over to see Bell.....

J: I'll be glad to do that.

HMJr:I think it would be.....

J: Okay.

HMJr: Listen.

J: Yeah.

HMJr: Why, I can't tell from reading the papers what you did for Oumansky.

J: What did I did?

HMJr: (Laughs) Yeah, what you did.

J: What I did was to - we agreed to buy from Oumansky.....

HMJr: Yeah.

J:from Amtorg - a hundred million dollars worth of strategic materials.....

HMJr: Such as intestines?

J: Huh?

HMJr: Intestine organs?

J: Yeah.

HMJr: Huh?

J: And to make them advances against those purchases up to fifty million dollars for the purchase of materials supplied in this country and to give them the money as they need it.

HMJr: Up to fifty million for what they need in this country?

J: To buy things in this country.

HMJr: What do they do with the other fifty?

J: Well, they don't get it. We - well, we pay them the dollars when we deliver the stuff, but they'll probably be quite a little while delivering it.

HMJr: I see.

Well, then we're not partners, is that it?

J: We're not partners, no.

HMJr: You and.....

J: You and I, yes.

HMJr: Well, how are we partners?

J: You've got to come off with another fifty. Then that'll be a hundred.

HMJr: (Laughs) I don't know anything about it.

J: What?

HMJr: I haven't heard a thing about it.

J: What?

HMJr: I haven't heard a thing about it.

J: Okay.

HMJr: Honestly, I don't know anything about it.

J: Yeah. Well, that's what we've done.

HMJr: Well, no one's approached me. I'm still - I'm still a virgin.

J: Okay.

HMJr: No one's made any advances.

J: Okay.

HMJr: All right.

J: Good-bye.

TREASURY DEPARTMENT

286

INTER OFFICE COMMUNICATION

DATE September 17, 1941

TO Secretary Morgenthau
FROM Mr. [Signature]
Subject: Amount of cotton owned by the Government.

In accordance with your request, we have made another check on the amount of cotton owned by the United States Government and find that the 6,000,000 bales, given in the attached report, is correct. This is a rounded figure taken from the report of the Commodity Credit Corporation, as of July 31, the exact figure being 6,126,482 bales. Information from the Department of Agriculture indicates that as of August 31 the figure remained unchanged. This represents cotton designated in the official report as "owned by Commodity Credit Corporation." There is, however, a statutory provision which provides that not more than 300,000 bales can be sold in any one calendar month and not more than 1,000,000 bales in any one calendar year.

September 17, 1941

287 ✓

My dear Mr. President:

I am inclosing herewith a copy of the memorandum which I showed you at Cabinet last week. You questioned my figure of six million bales of cotton mentioned in this memorandum.

I have had my people re-check this figure, and find that the latest report of the Commodity Credit Corporation, who is the owner of this cotton, shows that they had on hand, as of July 31st, 6,128,482 bales. There is, however, a statutory provision which provides that not more than 300,000 bales can be sold in any one calendar month and not more than one and a half million bales in any one calendar year.

Yours sincerely,

(Signed) H. Worgenthau, Jr.

The President,
The White House.

Enclosure.

Sent by Secret Service.

September 12, 1941

Secretary Morgenthau

Mr. Cairns
Mr. Egan

Subject: Use of farm surpluses for inflation control, within the framework of the Administration's agricultural policy.

The President has stated in his press release of May 26, 1941, approving the 85 percent of parity loans (S. J. Res. 60):

- (1) "This is an effort to obtain farm prices nearer parity. It reflects the Government's objective for the past eight years."
- (2) He stated that "wholly unmanageable surpluses should not accumulate in the hands of the Government. Finally, the Commodity Credit Corporation should be free to dispose in an orderly manner of many commodities acquired under the loan program."
- (3) "I am approving this Joint Resolution on the distinct understanding that parity payments will be limited to the amount necessary to bring the basic commodities to parity but not beyond parity."

A method by which the Government holdings of cotton and wheat could be used to stabilize prices, consistent with the Administration's stated policy on agricultural prices, is as follows:

The President or the Secretary of Agriculture could announce that the Government stood ready to sell wheat and cotton at parity price levels. The Government has 170,000,000 bushels of wheat and 6,000,000 bales of cotton available for this purpose. It is believed that these are sufficient quantities to maintain the open market price at parity for the time being. The parity price for cotton is at approximately the present market level, and for wheat somewhat higher than present market prices.

September 17, 1941

Dear Harold:

I am sending you herewith the figures on export of petroleum products.

Please note that during the past month our exports to Japan have dropped off entirely.

Also please note that beginning with September we started to export considerable petroleum products to Russia.

I would appreciate hearing from you whether or not these are the statistics that you wanted.

Yours sincerely,

(signed) Henry

Honorable Harold L. Ickes,
Secretary of the Interior.

By Messenger 9:30 am

Exports of Petroleum Products to Japan
as Shown by Departure Permits Granted
(In thousands of barrels)

Departure period ended	Fuel and gas oil (including Diesel oil)	Crude			Gasoline			Lubricating oil		
		Blended or California high octane ^{1/}	All other	Total	Aviation	All other ^{2/}	Total	Aviation ^{3/}	All other	Total
Jan. 4, 1941	339	1,003	90	1,093	-	790	790	3	129	132
Feb. 1, 1941	913	278	244	522	-	470	470	2	109	111
Mar. 1, 1941	31	471	296	767	-	269	269	9	183	192
Mar. 29, 1941	212	976	242	1,210	-	268	268	2	90	92
Apr. 26, 1941	633	300	332	652	-	249	249	15	177	192
May 24, 1941	499	477	170	1,146	-	116	116	8	186	194
June 21, 1941	399	699	269	1,367	-	330	330	199	21	240
July 19, 1941	674	633	189	1,496	-	128	128	39	90	129
Aug. 16, 1941	294	86	69	449	-	98	98	-	4	4
Aug. 17, 1941	798	^{3/}	^{3/}	962	^{3/}	^{3/}	231	^{3/}	^{3/}	114
Sept. 13, 1941	-	-	-	-	-	-	-	-	-	-
Sept. 16, 1941	647	629	338	1,614	22	203	225	-	10	10

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

September 16, 1941.

Source: Office of Merchant Ship Control, Treasury Department.

- ^{1/} Any material from which by commercial distillation there can be separated more than 3 percent of aviation motor fuel, hydrocarbon or hydrocarbon mixture - President's regulations of July 26, 1940.
- ^{2/} Includes gasoline from which by commercial distillation there can be separated more than 3 percent of aviation motor fuel, hydrocarbon or hydrocarbon mixture.
- ^{3/} As defined in the President's regulations of July 26, 1940.
- ^{4/} Not available.

Exports of Petroleum Products to Russia
as Shown by Departure Permits Granted
(In thousands of barrels)

Four-week period ended	Fuel and gas oil (including kerosene oil)	Grade			Gasoline			Lubricating oil		
		Blended or California high octane ^{1/1}	All other	Total	Aviation	All other ^{2/}	Total	Aviation ^{3/}	All other	Total
Mar. 4, 1942	-	-	-	-	-	104	104	-	-	-
Mar. 11, 1942	15	-	-	-	-	62	62	-	95	95
Mar. 18, 1942	-	-	-	-	-	-	-	-	-	-
Mar. 25, 1942	60	-	-	-	-	-	-	-	-	-
Apr. 1, 1942	62	-	-	-	-	2	2	-	-	-
Apr. 8, 1942	-	-	-	-	-	-	-	-	-	-
Apr. 15, 1942	-	-	-	-	-	-	-	-	-	-
Apr. 22, 1942	-	-	-	-	-	162	162	-	-	-
Apr. 29, 1942	-	-	-	-	-	189	189	11	-	11
May 6, 1942	2	-	-	-	-	75	75	-	-	-
May 13, 1942	-	-	-	-	-	196	196	-	-	-
May 20, 1942	65	-	-	-	-	231	231	-	-	-
May 27, 1942	-	-	-	-	-	21	21	-	-	-

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

September 16, 1942.

Source: Office of Merchant Ship Control, Treasury Department.

- ^{1/} Any material from which by commercial distillation there can be separated more than 3 percent of aviation motor fuel, hydrocarbon or hydrocarbon mixture - President's regulations of July 26, 1940.
- ^{2/} Includes gasoline from which by commercial distillation there can be separated more than 3 percent of aviation motor fuel, hydrocarbon or hydrocarbon mixture.
- ^{3/} As defined in the President's regulations of July 26, 1940.
- ^{4/} Not available.

Reports of Petroleum Products to Spain
as Shown by Exports From the United States
(In thousands of barrels)

Month and period ended	Gas and gas oil (including kerosene oil)	Crude			Gasoline			Lubricating oil		
		Excluded by California State action 1/	All other	Total	Aviation 2/	All other	Total	Aviation 2/	All other	Total
Aug. 2, 1940	38	-	-	-	-	103	103	-	9	9
Aug. 1, 1940	179	-	-	-	-	-	-	-	13	13
Aug. 1, 1940	30	-	-	-	-	8	8	-	22	22
Aug. 29, 1940	5	-	-	-	-	-	-	-	-	-
Apr. 26, 1940	39	-	-	-	-	67	67	-	1	1
May 24, 1940	101	-	-	-	-	11	11	-	22	22
June 21, 1940	132	-	-	-	-	64	64	-	43	43
July 13, 1940	-	-	-	-	-	136	136	-	8	8
Aug. 16, 1940	6	-	-	-	-	-	-	2	15	17
Aug. 17, 1940	2	-	-	-	-	-	-	-	-	-
Sept. 13, 1940	143	-	-	-	-	-	-	-	30	30
Sept. 10, 1940	34	-	-	-	-	138	138	-	-	-

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

September 16, 1940.

Source: Office of Merchant Ship Control, Treasury Department.

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

Exports of Petroleum Products to Great Britain
as Shown by Departure Permits Granted
(In thousands of barrels)

Month and period ended	Fuel and gas oil (including kerosene oil)	Crude			Gasoline			Lubricating oil		
		Blended or California high octane 1/	All other	Total	Aviation	All other 2/	Total	Aviation 3/	All other	Total
Jan. 4, 1941	137	9	-	9	178	27	205	14	36	50
Feb. 1, 1941	409	-	-	-	-	315	315	126	72	198
Mar. 1, 1941	578	-	127	127	70	185	255	149	76	225
Mar. 29, 1941	422	-	-	-	240	318	558	90	89	179
Apr. 26, 1941	739	-	55	55	260	555	815	71	386	457
May 24, 1941	700	-	69	69	26	384	410	236	127	363
June 21, 1941	1,503	56	-	56	620	721	1,341	164	128	292
July 19, 1941	1,824	-	74	74	1,105	1,222	2,327	223	65	288
Aug. 16, 1941	2,717	-	174	174	1,046	1,369	3,015	73	131	204
Aug. 17, 1940	416	1/	1/	99	1/	1/	130	1/	1/	202
Sept. 15, 1941	2,732	-	90	90	1,514	2,555	4,069	207	103	310
Sept. 14, 1940	221	-	-	-	77	184	261	22	194	176

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

September 16, 1941.

Source: Office of Merchant Ship Control, Treasury Department.

- 1/ Any material from which by commercial distillation there can be separated more than 3 percent of aviation motor fuel, hydrocarbon or hydrocarbon mixture - President's regulations of July 26, 1940.
- 2/ Includes gasoline from which by commercial distillation there can be separated more than 3 percent of aviation motor fuel, hydrocarbon or hydrocarbon mixture.
- 3/ As defined in the President's regulations of July 26, 1940.
- 4/ Not available.

294



THE SECRETARY OF THE INTERIOR
WASHINGTON

September 17, 1941.

Dear Henry:

Thank you for sending me the figures that came with your letter of September 17. You are most obliging. These are figures that I wanted.

Sincerely yours,

Harold I. Felts

Secretary of the Interior.

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

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 17, 1941

TO Secretary Morgenthau
FROM Mr. White
Subject: Exports to China, Japan and Russia during the first week of September, 1941

1. Exports to Russia

Substantial exports to Russia, amounting to \$4,280,000 were reported to the Treasury during the first week of September. Industrial machinery ranked first in value with \$1.7 million, airplanes next with \$1.1 million and gasoline third with \$.5 million. (See Appendix C).

2. Exports to Japan

There were no shipments to Japan reported during the week under review. Much of the exports to occupied China, however, may eventually find their way to Japan.

3. Exports to China

(a) Exports to free China

The figures for U.S. exports to China as reported to the Treasury for the first week of September, 1941 indicate that shipments to occupied China continue. Out of total exports valued at \$898,000 to all China, free China accounted for only \$204,000, or less than 25 percent. Oil well drilling equipment was the principal item. (See Appendix B).

(b) Exports to occupied China

Exports to occupied China amounted to \$693,000 and, as in the previous month, raw cotton and grains and preparations were among the leading items. (See Appendix A).

APPENDIX A

Principal exports from U. S. to Occupied China as reported
to the Treasury, September 2 - 6, 1941

(In thousands of dollars)

Total Domestic Exports	\$693
Raw cotton	327
Grains and preparations	47
Electrical machinery and apparatus	31
Medicinal and pharmaceutical preparations	28
Lumber	24
Cigarettes	22
Industrial machinery	16
Office appliances and supplies	13
Photographic and projection goods	12
Fruits and preparations	10

Treasury Department, Division of Monetary Research September 9, 1941

APPENDIX B

Principal exports from U. S. to Free China
as reported to the Treasury September 2 - 6, 1941

(In thousands of dollars)

Total Domestic Exports	\$204
Oil well drilling equipment	145
Printed matter (bank notes)	59

Treasury Department, Division of Monetary Research. September 9, 1941

APPENDIX C

Principal exports from U. S. to U.S.S.R. as reported to the Treasury
September 2 - September 6, 1941

(In thousands of dollars)

Total Exports, including reexports	\$4,280
Total Domestic Exports	4,180
Industrial machinery	1,557
Airlanes	1,152
Gasoline	496
Electrical machinery and apparatus	324
Cartridges	176
Aircraft engines	151
Lubricating oil	150
Total Foreign Exports (Reexports)	\$ 100
Cocoa beans	62
Spices	38

Treasury Department, Division of Monetary Research. September 9, 1941

APPENDIX D

Exports from the U. S. to China, Japan and U.S.S.R.
as reported to the Treasury Department, daily,
July 28, 1941 - September 6, 1941

(Thousands of dollars)

	Exports to China		Exports to Japan	Exports to U.S.S.R. ^{2/}
	To Japanese Controlled Ports ^{1/}	To Chinese Controlled Ports		
July 28 - Aug. 2	542	395	1,657	4,523
Aug. 4 - Aug. 9	2,794	-	159	551
Aug. 11 - Aug. 16	969	309	42	986
Aug. 18 - Aug. 23	1,350	2	6	2,735
Aug. 25 - Aug. 30	735	1	-	1,023
Sept. 2 - Sept. 6	693	204	-	4,280

^{1/} These figures include reexports of
\$ 25 thousand during the week ending August 9
\$ 83 " " " " " " " 16
\$ 8 " " " " " " " 23
\$201 " " " " " " " 30

^{2/} These figures include reexports of
\$148 thousand during the week ending August 2
\$ 40 " " " " " " " 16
\$ 11 " " " " " " " 23
\$ 15 " " " " " " " 30
\$100 " " " " " " Sept. 6

Treasury Department, Division of Monetary Research

September 9, 1941.

OFFICE OF THE VICE PRESIDENT

IMMEDIATE

RELEASE

Office Of Export Control Placed Under
Economic Defense Board

Vice President Henry A. Wallace made two announcements today dealing with the strengthening of our total defense.

He stated that the President had issued an executive order placing the Office of Export Control under the Economic Defense Board. The order also designates the Economic Defense Board as the agency to obtain, develop, and determine overall estimates of materials and commodities required for export purposes in the interest of the economic defense of the Nation, exclusive of lend-lease operations, and to advise the Supply Priorities and Allocations Board of such estimated requirements.

The Economic Defense Board also will provide a central clearing service to which exporters, manufacturers, and foreign importers may submit proposals for the export of materials and commodities; in addition it also will obtain clearance for such proposals from the several Federal agencies concerned with the control of exports and related financial transactions.

Vice President Wallace further announced that the additional functions of the Economic Defense Board will be administered by Mile Perkins, the Executive Director of the Board. Following the completion of the difficult assignment of launching the Export Control program, Brig. Gen. R. L. Maxwell has been ordered by the President to return to the War Department to assume his former duties.

The Vice President said: "Under this executive order, the powers of the Office of Export Control will be more closely integrated into the broader work of the Economic Defense Board as set forth in the order establishing it. The international crisis requires a determined interdependence of

our policy of preventing shipments to Axis-dominated countries.

"At the same time, we must help see to it that other nations in that part of the world which is still free get enough goods to maintain the stability of their own economies insofar as that is possible. This is particularly important in the western hemisphere."

The second announcement by the Vice President had to do with stepping up the supplies of raw materials for our total defense effort. He continued: "Because of our rearmament program and our policy of full aid to nations resisting aggression, certain materials are becoming increasingly scarce, which makes the allocation of priorities under the Supply Priorities and Allocations Board much more difficult. In the time ahead, these difficulties will become greater. I am, therefore, asking both the Supply Priorities and Allocations Board and the Economic Defense Board to consult with all affected Departments and agencies at once and report to me as soon as possible on the extent to which supplies of critically needed raw materials can be increased. I am asking for an action program under which we can step up the total amounts of raw materials available to us."

As chairman of both boards, the Vice President further explained that part of this increase will be secured from within our own country and part of it, of course, from other trade areas of the world, with particular emphasis upon the republics of this hemisphere.

He said: "We shall have to secure this increase in supply in ways best suited to the production of each commodity. Among the approaches to be considered, however, will be an expansion of production facilities both here and abroad, conversion of non-defense plants to military uses, the working of more shifts, and payment of premiums for certain metals coming from low-yielding veins of ore.

"Even with all this, however--and we shall drive forward aggressively toward maximum and balanced production in every trade area open to us--

difficulties will still have to be made by civilians and certain non-

defense industries within this hemisphere. The threat of Hitler is such that a 'business as usual' attitude is like a foreign army within our borders.

"Goods and more goods," the Vice President emphasized, "of the kinds essential to our defense effort are what we need most to assure the overthrow of Hitler. We already have an ever-normal granary which is being converted into an ever-normal food supply to provide for more adequate nutrition within the democracies. Insofar as possible, we want to establish an 'ever-normal stock pile' of critically needed metals and other materials, particularly those coming from overseas, so that we shall have adequate reserves for our total defense in the difficult years ahead of us. Our use of shipping must be further adjusted to achieve this goal. In the present world crisis, dollars have value only as we convert them into goods which are the life-blood of our national strength."

TREASURY DEPARTMENT

303

INTER-OFFICE COMMUNICATION

DATE SEP 17 1941

TO Secretary Morgenthau
FROM Mr. Foley

Re: General Dyestuffs Corporation and
General Aniline and Film Corporation.

General Dyestuffs Corporation which is owned primarily by E. K. Halbach, its President, and Walter H. Duisberg (described in an indictment obtained by the Department of Justice as the American representative of I. G. Farbenindustrie) is the exclusive sales agent for dyestuffs manufactured by the General Aniline and Film Corporation. It has applied for a license to purchase the controlling interest in General Aniline and Film Corporation from I. G. Chemie. I. G. Chemie is a Swiss holding company which is believed to exist for the purpose of holding foreign investments for I. G. Farbenindustrie.

We are still considering what action to take on this matter.

S. J. FL

THE WHITE HOUSE
WASHINGTON

304

September 12, 1941

Dear Henry:

I am enclosing a copy of a memorandum I got from a friend of mine in New York. I will give you his name if it will help any but he is a responsible attorney with a very important law firm and a great friend of the Administration.

Very cordially yours,



HARRY L. HOPKINS

enclosure.

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

COPY

305

GENERAL ANILINE FILM CORPORATION

As Pending before the Treasury an Application
to Sell 1,500,000 shares of its Class "B" Common Stock

The General Aniline Film Corporation was originally organized by I.G. Farbenindustrie Aktiengesellschaft, which is the German Chemical Trust, and the bonds that are now outstanding are guaranteed unconditionally as to principal, interest and premium, if any, by I. G. Farbenindustrie. Some years ago, their interest was transferred to a Swiss Company and since that time they have maintained that there is no connection between the General Aniline Film Corporation and German interests. I cannot prove that it is not controlled by the Germans but every one in the Street sincerely believes that it is. If the German Company divorced itself from this Company, why did they leave their endorsement on the bonds.

For your information, General Aniline Film Corporation has outstanding the following securities:

5-1/2% Debentures due 1949.....	\$18,000,000
Class "A" Common stock no par value.....	529,271 shares
Class "B" Common Stock \$1.00 par.....	2,050,000 shares

Class "B" shares are entitled to $1\frac{1}{10}$ of what the "A" shares get in liquidation and are entitled to receive dividends to the extent of $1/10$ of what the "A" shares receive. Both classes of shares are entitled to vote. You can readily see that the 2,050,000 shares would carry control of the Company.

- 2 -

The Company has sold 1,500,000 shares of "B" stock for a nominal consideration. This sale carries with it control of the Company and the matter is before the Treasury Department for approval. It is quite obvious what the purpose of such a sale is.

1. It would prevent the sale by the Alien Property Custodian of the 529,000 odd shares of "A" stock. No one would buy these shares because they would be afraid to have so much money invested in a company which they do not control. These are the real valuable shares of the Company.
2. After the war, if the interests to whom this voting stock was sold for a nominal consideration were friendly, the German interests would buy it back and control the Company.

Certainly the Treasury should not approve such a sale, at least not without making a very thorough investigation. It is to be borne in mind that this is one of the largest chemical companies in the United States.

S.K. FROM: MR. SCHWARZ'S OFFICE

TO: The Secretary

Elliott Bell of the Times called in at 10:40 a.m. to relay, at Mr. Sulzberger's request, the appraisal he had gathered on Thomas E. Murray.

Bell said that Murray had developed a good reputation in a difficult situation as receiver of I.R.T., that he had handled the labor situation well. Murray is not looked upon as a strong, powerful personality, conspicuous in a group or an obvious leader, but is considered shrewd, hard-working, effective, capable of doing an honest job and getting along well with his associates. Bell is prepared to answer any specific questions you may have.

ca
9/17/41.

CONFIDENTIAL

September 17, 1941.

TO: SECRETARY MORGENTHAU

FROM: Mr. Schwarz *ca*

Leon Henderson at the Press Club today said that the next four months will be the critical period in the determination of possible full-fledged price inflation in the United States. He said that the new tax bill alone will not prevent a price spiral. While we need the brakes of increased taxes and encouraged and compulsory savings, he said, there will be from three to eight billion dollars of purchasing power running around loose in our economy that can only find expression in the price level.

Leon read a list of wholesale prices for this spring, this fall and next spring scheduled by a large mail order company. For most items, the second jump was more than double the first. In answer to a question, he said that the Treasury and the Federal Reserve should be given ample controls to prevent credit inflation.

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TREASURY DEPARTMENT

309

INTER OFFICE COMMUNICATION

DATE September 17, 1941

TO Mr. Foley
FROM Mr. Feidler

The three Acts upon which statistics have been compiled are (1) the Lever Act, Act of August 10, 1917, (2) the Joint Resolution to prevent rent profiteering in the District of Columbia, approved May 31, 1918, and (3) the amendments to the Lever Act, contained in Food Control and the District of Columbia Rents Act, approved October 22, 1919.

The statistics on the Lever Act are based on the votes in the House and Senate on the passage of the Act itself. However, the only recorded vote on the Resolution of May 31, 1918, was the vote in the Senate on acceptance of the conference report. Likewise, the only recorded vote on the Act of October 22, 1919, was the vote on the conference report in the House. Consequently, it was necessary that the statistics on the latter two Acts be based on those conference report votes, although it is recognized that a vote against the acceptance of a conference report is not determinative of the voter's final position on the bill itself.

The statistics are sufficient to show, however, that the vote on these measures did not influence the result of the succeeding

elections. It will be remembered that there was a Republican landslide in 1920 and that the Republicans made substantial gains in 1918. The position taken on price control measures would thus seem to have been a factor of no significance in determining the fate of a particular candidate.

EAT
JAS

SENATE VOTE ON LEVER BILL (ACT OF AUG. 10, 1917)

		<u>YEAS - 81</u>		
Re-elected	41	50.62 %		Of the 65 who sought re-election, 41 or 63.08% were re-elected, while 24 or 36.92% were defeated.
Defeated, 1918	7	8.64		
Defeated, 1920	8	9.88		
Defeated, 1922	9	11.11		
Did Not Run	<u>16</u>	<u>19.75</u>		
	81	100.00 %		

		<u>NAYS - 7</u>		
Re-elected	2	33.33 %		Of the 5 who sought re-election, 2 or 40% were re-elected, while 3 or 60% were defeated.
Defeated, 1918	1	16.67		
Defeated, 1922	2	33.33		
Did Not Run	<u>2</u>	<u>16.67</u>		
	7	100.00 %		

		<u>NOT VOTING - 9</u>		
Re-elected	3	33.33 %		Of the 5 who sought re-election, 3 or 60% were re-elected, while 2 or 40% were defeated.
Defeated, 1920	1	11.11		
Defeated, 1922	1	11.11		
Did Not Run	<u>4</u>	<u>44.44</u>		
	9	100.00 %		

SENATE VOTE - AGREEING TO CONFERENCE REPORT ON RENT CONTROL BILL. (H. RES. OF MAY 31, 1916)

		<u>YEAS - 31</u>		
Re-elected	10	32.25	%	Of the 25 who ran, 10 or 40% were re-elected and 15 or 60% were defeated.
Defeated, 1918	3	9.68		
Defeated, 1920	9	29.04		
Defeated, 1922	3	9.68		
Did Not Run	6	19.35		
	<u>31</u>	<u>100.00</u>	%	
		<u>NAYS - 17</u>		
Re-elected	9	52.94	%	Of the 13 who ran, 9 or 69.23% were re-elected and 4 or 30.77% were defeated.
Defeated, 1918	3	17.65		
Defeated, 1922	1	5.88		
Did Not Run	4	23.53		
	<u>17</u>	<u>100.00</u>	%	
		<u>NOT VOTING - 48</u>		
Re-elected	28	58.33	%	Of the 40 who ran, 28 or 70% were re-elected, and 12 or 30% were defeated.
Defeated, 1918	3	6.25		
Defeated, 1920	3	6.25		
Defeated, 1922	6	12.50		
Did Not Run	8	16.67		
	<u>48</u>	<u>100.00</u>	%	

HOUSE VOTE ON LEVYER BILL (ACT OF AUG. 10, 1917)YEAS - 365

Re-elected	277	75.90 %
Defeated	51	13.98
Did Not Run	30	8.21
Defeated for the Senate	4	1.09
Elected to the Senate	<u>3</u>	<u>.82</u>
	<u>365</u>	<u>100.00 %</u>

Of the 335 who sought re-election, 280 or 83.58% were re-elected and 55, or 16.42% were defeated.

NAYS - 5

Re-elected	2	40.00 %
Defeated	1	20.00
Did Not Run	<u>2</u>	<u>40.00</u>
	<u>5</u>	<u>100.00</u>

Of the 5 who sought re-election, 2 or 66.67% were re-elected, and 1, or 33-1/3% was defeated.

ANSWERED "PRESENT" - 5

Re-elected	3	60.00 %
Defeated	1	20.00
Did Not Run	<u>1</u>	<u>20.00</u>
	<u>5</u>	<u>100.00 %</u>

Of the 49 who answered "present" or who were "not voting" and who sought re-election 39 or 79.59% were re-elected and 10 or 20.41% were defeated.

NOT VOTING - 55

Re-elected	36	65.45 %
Defeated	8	14.55
Did Not Run	10	18.18
Defeated for the Senate	<u>1</u>	<u>1.82</u>
	<u>55</u>	<u>100.00</u>

HOUSE VOTE AGREEING TO CONFERENCE REPORT OF
BILL AMENDING THE LEVER ACT
(ACT OF OCT. 22, 1919)

YEAS - 210

Re-elected	157	74.76 %
Defeated	32	15.24
Did Not Run	18	8.57
Defeated for the Senate	<u>3</u>	<u>1.43</u>
	210	100.00 %

Of the 192 who sought re-election, 157 or 81.77% were re-elected, and 35, or 18.23% were defeated.

NAYS - 8

Re-elected	6	75.00 %
Defeated	<u>2</u>	<u>25.00</u>
	8	100.00 %

ANSWERED "PRESENT" - 4

Re-elected	4	100.00 %
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NOT VOTING - 207

Re-elected	138	66.67 %
Defeated	38	18.35
Did Not Run	<u>31</u>	<u>14.98</u>
	207	100.00 %

Of the 176 who sought re-election, 138 or 78.41% were re-elected, and 38, or 21.59% were defeated.

UNITED STATES SAVINGS BONDS

Comparative Statement of Sales During
First Thirteen Business Days of July, August, and September, 1941
(July 1-16, August 1-15, September 1-16)
On Basis of Issue Price

(Amounts in thousands of dollars)

Item	Sales			Amount of Increase or Decrease (-)		Percentage of Increase or Decrease (-)	
	September	August	July	September over August	August over July	September over August	August over July
Series E - Post Offices	\$ 20,815	\$ 22,371	\$ 27,780	-\$ 1,556	-\$ 5,409	- 7.0%	- 19.5%
Series E - Banks	<u>34,858</u>	<u>42,625</u>	<u>47,676</u>	- <u>7,767</u>	- <u>5,051</u>	- <u>18.2</u>	- <u>10.6</u>
Series E - Total	55,673	64,996	75,457	- 9,323	- 10,461	- 14.3	- 13.9
Series F - Banks	8,990	12,050	12,748	- 3,060	- 698	- 25.4	- 5.5
Series G - Banks	<u>58,262</u>	<u>74,696</u>	<u>85,625</u>	- <u>16,434</u>	- <u>10,929</u>	- <u>22.0</u>	- <u>12.8</u>
Total	<u>\$122,924</u>	<u>\$151,742</u>	<u>\$173,830</u>	- <u>\$28,818</u>	- <u>\$22,088</u>	- <u>19.0%</u>	- <u>12.7%</u>

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

September 17, 1941.

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

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

UNITED STATES SAVINGS BONDS

Daily Sales - September 1941
On Basis of Issue Price

(In thousands of dollars)

Date	Post Office Bond Sales	Bank Bond Sales				All Bond Sales			
		Series E	Series F	Series G	Total	Series E	Series F	Series G	Total
September 1941									
2	\$ 3,021	\$ 3,385	\$ 1,182	\$ 5,510	\$ 10,077	\$ 6,406	\$ 1,182	\$ 5,510	\$ 13,098
3	972	1,933	585	5,790	8,308	2,905	585	5,790	9,280
4	1,365	2,540	645	4,846	8,032	3,906	645	4,846	9,397
5	1,852	3,689	1,162	10,486	15,336	5,540	1,162	10,486	17,188
6	1,419	3,144	707	4,666	8,516	4,562	707	4,666	9,935
8	2,858	3,032	521	3,549	7,102	5,890	521	3,549	9,960
9	973	2,013	528	1,532	4,073	2,987	528	1,532	5,046
10	1,479	2,883	975	4,984	8,841	4,362	975	4,984	10,320
11	1,422	2,657	484	3,168	6,309	4,079	484	3,168	7,731
12	1,312	3,004	436	2,536	5,975	4,316	436	2,536	7,287
13	988	1,997	498	3,493	5,988	2,985	498	3,493	6,976
15	2,312	2,384	797	4,898	8,079	4,695	797	4,898	10,390
16	843	2,198	470	2,807	5,474	3,040	470	2,807	6,317
Total	\$ 20,815	\$ 34,858	\$ 8,990	\$ 58,262	\$102,110	\$ 55,673	\$ 8,990	\$ 58,262	\$122,924

September 17, 1941.

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

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

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

September 17, 1941.

317 ✓

To: Secretary Morgenthau
From: Alan Barth

SUMMARY OF SPEECH BY DONALD M. NELSON

Mr. Nelson opened his speech by complimenting the retailers on their cooperation with the Secretary of the Treasury in the sale of Defense Bonds and Stamps.

Hitler's greatest allies, he said, are doubt and confusion. They arise, in part from "designing persons who play Hitler's game"; in part from public misunderstanding of governmental purposes. The Government must see that the public understands what it is doing and why. We are going to demand much of the American people. So far we have only begun to feel the effects of the defense program. We must greatly increase defense production. At the same time "we must provide the things which our civilian economy needs. Notice -- I said the things that it needs. Everything that it does not need is, in a sense, and for the duration of this emergency, sheer waste."

"We are compelled to use all of our materials, all of our men and all of our factories for the production of essentials." This means a somewhat lower standard of living for all. "We are going to give up the frills and the trimmings." In part, this may turn out to be a "blessing in disguise." Simplification of lines and styles of goods - not standardization - will aid the retailer. He does most of his business on a small part of his stock. The range of choice can be reduced, the fancy trimmings can be temporarily foregone. "Within a day or so the Office of Production Management will announce a broad, detailed campaign to bring those savings into effect." You will hear much more about priorities in the near future. They will be administered without favors or favorites.

Acceptance of this sort of regulation is disagreeable but all-important for the preservation of our freedom. The controls will be planned carefully so that they can be dismantled after the emergency is over.