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September 24, 1941
9:25 a.m.

HMJr: Hello.

Operator: Mr. Rouse.

HMJr: Hello.

Robert Rouse: Good morning, sir.

HMJr: How are you?

R: First rate. And you?

HMJr: Fine. What's the reaction in the Street?

R: The reaction here is that the bond market was quoted down four and five thirty-seconds at the opening.

HMJr: Today.

R: Yes, sir.

HMJr: Yeah.

R: No blocks of bonds have come in for sale, and quotations have moved back within one or two thirty seconds of the close last night. There was some selling in the afternoon yesterday which put the bond market down about an eighth in the long bonds, and that was pretty well absorbed.

HMJr: But you might say it's really had very little effect.

R: Very little effect. We have checked here with the people - a number of the people to whom any substantial offerings might be made if they came in.

HMJr: Yeah.

R: And they tell us that they've had no offerings, and I've just had a quick flash from the trading

desk that the sixty - sixty-fives are now up two thirty-seconds over last night.

HMJr: Well, I'll be damned.

R: So I guess we won't worry. I just finished talking with Dan, and he said, "How about selling some?"

HMJr: He was kidding.

R: (Laughs)

HMJr: What?

R: Well, partially serious.

HMJr: Well, what the - why the hell should anybody want to sell any?

R: I don't know.

HMJr: Neither do I. He must have been kidding.

R: Oh, he was thinking in terms of the bond market being high.

HMJr: What?

R: He was thinking in terms of the bond market being high.

HMJr: Well, I'd leave it alone and see what happens.

R: Oh sure. He wasn't serious as far as today was concerned.

HMJr: No. Okay.

R: Okay.

HMJr: Thank you.

STATEMENT OF SECRETARY MORGENTHAU
BEFORE THE
COMMITTEE ON BANKING AND CURRENCY OF HOUSE OF REPRESENTATIVES
WEDNESDAY, SEPT. 24, 1941

Page we ought to say 4
say something about
having increased Reserves
(See page 8, Paragraph (4))

Trans list - memo #1

9-24-41

I am glad to testify in behalf of this Bill not only because I am in accord with its objectives, but also because I am convinced of the terrible urgency of the problem which this Bill would help to solve.

As the President said two months ago in recommending to Congress a bill to control prices:

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

In the facts and figures already presented to this Committee there has been ample demonstration of the accuracy and timeliness of the President's warning.

- 2 -

Almost any part of the price data presented to this Committee points to the same conclusion, namely, that the pattern of price rises in the past two years is showing an alarming similarity to the price movements during the first two years of World War No. 1.

In the last war we waited too long. It was not until August, 1917, that the first step was taken to check price rises. The Lever Act empowering the President to control food and fuel prices was not introduced until June 11, 1917, and did not become law until August of that year.

By that time the damage had already been done. The general price level had risen more than 75 per cent and the forces making for further price rises had become so powerful that they could not be stopped.

Are we again to wait until prices have risen 75 per cent before we take bold and effective action?

The wholesale prices of farm products have risen 37 per cent in the past year, and of that rise, 6 per cent has occurred in the last month. All commodities have risen 18 per cent in the last year and 2 per cent in the last month alone.

Similarly down the line: foods are up 25 per cent; hides and leather up 13 per cent; textiles up 23 per cent; building materials up 12 per cent; and chemicals up 14 per cent.

The public is amply aware of what is happening. The housewife knows that pork chops that were 29 cents a pound in January were 30[¢] in February, 31[¢] in April, 32[¢] in May, 35[¢] in June, 37[¢] in July, 38[¢] in August and 41[¢] at the moment, a total rise of 40 per cent in those nine months. The housewife knows that eggs have risen more than a third since January, that coffee is up about one-fourth in the same period, and that sugar and flour are up almost a fifth in the same period, respectively.

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The housewife, the business man, the wage-earner, and the government employee all know from their daily experiences that prices are rising.

The forces at work today are the same as those that brought our inflations in previous periods of war or rearmament. Yet there is fortunately one difference in the situation which, I believe, can save us from the disaster of inflation now. This time the public and the government are aware of what happened before and what is happening now. All of us are able, if we choose, to take positive, effective, preventive measures in time.

That is what the Congress is being asked to do today. Passage of this Bill would be one additional step forward in the war against inflation, the war on our home front, the war that must be fought and won if we are to preserve our American heritage.

It is true, of course, that price control alone will not conquer inflation. This Bill alone cannot stop price rises. Every government that has attempted to check inflation has found that direct price controls alone cannot hold down the lid when the income of the consuming public is increasing and the amount of goods available to the consumer is decreasing. Additional steps are necessary.

Our Government has already taken some of them:

(1) The Congress has passed, and the President has just approved, a tax bill designed to raise more than 3-1/2 billion dollars of additional revenue.

This is a major accomplishment in the anti-inflation effort, for it will absorb a substantial portion of the increased incomes that are initially responsible for price rises.

(2) Secondly, the Treasury is engaged in a borrowing program designed to absorb still more of this excess income. Through the sale of defense savings bonds and stamps the Treasury is trying to borrow a large proportion of its funds from current consumer incomes, rather than from banks.

In the past four months \$1-1/4 billion of defense savings bonds and stamps have been sold.

(3) Thirdly, a new form of borrowing - the tax anticipation note - has been introduced, with the object of absorbing consumer incomes before the date at which income taxes fall due. During the month of August more than \$1 billion of these notes were sold, absorbing income that might otherwise be pushing up prices in the market place.

(4) Fourthly, the Board of Governors of the Federal Reserve System has recently been given the authority to control consumer installment credit, and has just increased reserve requirements of member banks as a further check against inflation.

(5) Finally, the Office of Price Administration has been exerting every effort to control prices through the cooperation of producers and consumers.

Those are the more important steps that the Government is now taking to check price rises. But they are not enough.

If we are to be sure of victory in the fight against inflation, we must prepare further to increase taxes. We may have to extend the general controls over bank credits. We shall certainly have to reduce capital expenditures for non-defense needs, and widen the sale of defense savings bonds and stamps.

It would be wise to extend the social security program to absorb purchasing power now and pave the way for increased purchasing power after the emergency.

It will also be essential for Federal, State and local governments to reduce non-defense spending as much as possible.

I am looking forward now to an early meeting of the joint committee of the taxing and appropriating agencies of Congress, a committee that has just been created to study the whole problem of non-essential Federal expenditures.

I hope that this committee will receive constant support from Congress and the country at large, for it can make a vital contribution in the anti-inflationary struggle.

We must do much more than cut down purchasing power; we must attack the problem from the other side. Rising prices can also be retarded by increasing the supplies of goods which do not compete with defense needs:

We are in a position to do just that. The government has in its warehouses vast quantities of cotton, wheat, and corn. Our granary doors should now be opened, enough at least to prevent unreasonable price rises.

Such a step would be in agreement with our established agricultural policy - the ever-normal granary.

Having accumulated stocks in times of low prices, they should be distributed in times of high prices. Now is the time to draw on these supplies, both as an anti-inflationary measure and as a preparation for replenishing them if that should again become necessary.

The concept of an ever-normal granary, which calls for a control of falling farm prices, seems to me to call equally for control over rising farm prices. This Bill, however, specifically restricts the authority of the price control administration over farm prices.

That is, I believe, the major defect of the Bill. I strongly recommend that this inflexibility be removed - in the interest of the attack upon inflation, in the interest of the standard of living of our people, and in the long-run interests of farmers as well.

I am not disturbed by the general level of agricultural prices now prevailing, but I am deeply concerned about the danger that agricultural prices will continue to rise as they did in the World War. Such a rise would hasten general inflation, would restrict the standard of living, and would even interfere with the health and morale of our people. And it cannot be repeated too often that in the long run the worst sufferers from inflation are farmers themselves.

After the First World War inflation, agriculture was the hardest hit and the slowest to recover.

It has been suggested during these hearings that this price-control bill should include a ceiling over wages. I should like to go on record as not sharing this view. In free countries labor is not a commodity, human beings are not property; and they should not be treated as such.

I fully appreciate that wages affect the cost of production and the general level of prices. However, I feel very definitely that if we can on the one hand keep the cost of living from rising, and on the other hand impose adequate taxes on excessive profits, then we will have removed the major causes for demands for general wage increases.

Furthermore it is worth noting that the major portion of our defense industries today is covered by collective bargaining contracts, and only a sharp rise in the cost of living is likely to upset those contracts.

Two weeks ago I said at Boston that it was folly for labor leaders to seek continual increases in wages every few months, and that it was equally shortsighted for farmers, businessmen, landlords or bankers to seek to exploit the present abnormal situation for selfish gain.

If we provide effective price control and adequate excess profits taxation, and if it should later develop that wage rates are not being kept within bounds, we shall have to consider other measures.

As yet, however, I see no necessity for them.

Before closing, I feel it my particular responsibility as Secretary of the Treasury to point out to you the special interests of the government and the Treasury in stopping prices from rising further.

As the nation's largest purchaser, the government is concerned with the problem in a very direct way. Congress has already appropriated more than \$50 billion for defense, and the end is not yet in sight. The rise in prices which has already taken place will cost us billions of dollars.

If prices are allowed to behave as they did during the World War, we may find that our defense program will cost us double without giving us a single additional gun or plane for that extra expenditure.

We not only are the nation's largest purchaser of goods, but we are the nation's largest employer. The government now employs nearly one and a half million civilians in the executive departments, with a payroll now running at the rate of \$2-1/2 billion a year. A substantial rise in the cost of living will raise for us as an employer a choice of evils: to permit the real incomes of our employees to be unjustly reduced, or to increase still further the payroll that we must meet.

I fully appreciate that it requires courage on the part of Congress to pass this Bill. It always requires courage to put brakes on rising prices. But if any lesson is to be learned from the record of the past, it should be that inflation is inevitable in times like these unless all of us - Congress, the Executive Departments, and the people - fight it on all fronts and with all the strength and courage at our command.

We should gain courage from the knowledge that inflation is not only accompanied by serious evils but is followed by even greater evils. We should never lose sight of the fact that inflation is always followed by deflation and that the ride down is a lot longer and a lot harder and a lot more painful than the short intoxicating ride up.

After all, this question of inflation is one that goes to the very heart of the social aspirations of the American people. An uncontrolled price rise now would endanger the fruits of our hard-won progress of many years. If we lack the necessary realism and courage now, we shall place multitudes of American farmers, workers and Government employees at the mercy of those whom I have called "the three horsemen -- the speculator, the profiteer and the hoarder."

Every hardworking and thrifty man and woman in the United States has a direct personal stake in the success of the battle against inflation. I regard it as vitally important for Congress to pass this bill and pass it promptly.

Statement of Secretary Morgenthau
before the Committee on Banking and Currency
of the House of Representatives

24

Wednesday, September 24, 1941

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We should gain courage from the knowledge that inflation is not only accompanied by serious evils but is followed by even greater evils. We should never lose sight of the fact that inflation is always followed by deflation and that the ride down is a lot longer and a lot harder and a lot more painful than the short intoxicating ride up.

After all, this question of inflation is one that goes to the very heart of the social aspirations of the American people. An uncontrolled price rise now would endanger the

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Every hardworking and thrifty man and woman in the United States has a direct personal stake in the success of the battle against inflation. I regard it as vitally important for Congress to pass this bill and pass it promptly.

-oOo-

PRICE-CONTROL BILL

HEARINGS

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY

HOUSE OF REPRESENTATIVES

SEVENTY-SEVENTH CONGRESS

FIRST SESSION

ON

H. R. 5479

A BILL TO FURTHER THE NATIONAL DEFENSE AND SECURITY
BY CHECKING SPECULATIVE AND EXCESSIVE PRICE
RISES, PRICE DISLOCATIONS, AND INFLATIONARY
TENDENCIES, AND FOR OTHER PURPOSES

PART 16

SEPTEMBER 24, 1941

Printed for the use of the Committee on Banking and Currency



UNITED STATES
GOVERNMENT PRINTING OFFICE
WASHINGTON : 1941

COMMITTEE ON BANKING AND CURRENCY

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MERLIN HULL, Wisconsin

JAMES DOUGLAS BROWN, *Clerk*

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PRICE CONTROL BILL

WEDNESDAY, SEPTEMBER 24, 1941

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

Hearings were resumed at 10:15 a. m., Hon. Henry B. Steagall (chairman), presiding.

Members present were as follows: Messrs. Steagall, Williams, Spence, Ford, Brown, Patman, Barry, Gore, Mills, Mounroy, Lynch, Koppelman, Boggs, Hull, Crawford, Kean, Miss Sumner, Messrs. Kunkel, Rolph, and Dewey.

The CHAIRMAN. The committee will come to order.

We have the Secretary of the Treasury, Mr. Morgenthau, with us this morning.

We are glad to have him.

I assume, Mr. Secretary, that you would like to make a statement without interruption.

Secretary MORGENTHAU. That is agreeable.

The CHAIRMAN. The committee will be glad to accede to your wishes; and you may proceed now.

STATEMENT OF HON. HENRY MORGENTHAU, JR., THE SECRETARY OF THE TREASURY

Secretary MORGENTHAU. Mr. Chairman, and members of the committee, I am glad to testify in behalf of this bill not only because I am in accord with its objectives, but also because I am convinced of the terrible urgency of the problem which this bill would help to solve.

As the President said 2 months ago in recommending to Congress a bill to control prices:

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

In the facts and figures already presented to this committee there has been ample demonstration of the accuracy and timeliness of the President's warning. Almost any part of the price data presented to this committee points to the same conclusion: namely, that the pattern of price rises in the past 2 years is showing an alarming similarity to the price movements during the first 2 years of World War No. 1.

In the last war we waited too long. It was not until August 1917 that the first step was taken to check price rises. The Lever Act empowering the President to control food and fuel prices was not introduced until June 11, 1917, and did not become law until August of that year.

By that time the damage had already been done. The general price level had risen more than 75 percent and the forces making for further price rises had become so powerful that they could not be stopped.

Are we again to wait until prices have risen 75 percent before we take bold and effective action?

The wholesale prices of farm products have risen 37 percent in the past year, and of that rise, 6 percent has occurred in the last month. All commodities have risen 18 percent in the last year and 2 percent in the last month alone. Similarly down the line: Foods are up 25 percent; hides and leather up 13 percent; textiles up 23 percent; building materials up 12 percent; and chemicals up 14 percent.

The public is amply aware of what is happening. The housewife knows that pork chops that were 20 cents a pound in January were 30 in February, 31 in April, 32 in May, 35 in June, 37 in July, 38 in August, and 41 at the moment, a total rise of 40 percent in those 9 months. The housewife knows that eggs have risen more than a third since January, that coffee is up about one-fourth in the same period, and that sugar and flour are up almost a fifth in the same period. The housewife, the businessman, the wage earner, and the Government employee all know from their daily experience that prices are rising.

The forces at work today are the same as those that brought our inflations in previous periods of war or rearmament. Yet there is fortunately one difference in the situation which, I believe, can save us from the disaster of inflation now. This time the public and the Government are aware of what happened before and what is happening now. All of us are able, if we choose, to take positive, effective, preventive measures in time.

That is what the Congress is being asked to do today. Passage of this bill would be one additional step forward in the war against inflation, the war on our home front, the war that must be fought and won if we are to preserve our American heritage.

It is true, of course, that price control alone will not conquer inflation. This bill alone cannot stop price rises. Every government that has attempted to check inflation has found that direct price controls alone cannot hold down the lid when the income of the consuming public is increasing and the amount of goods available to the consumer is decreasing. Additional steps are necessary.

Our Government has already taken some of them:

(1) The Congress has passed, and the President has just approved, a tax bill designed to raise more than 3½ billion dollars of additional revenue. This is a major accomplishment in the anti-inflation effort, for it will absorb a substantial portion of the increased incomes that are initially responsible for price rises.

(2) The Treasury is engaged in a borrowing program designed to absorb still more of this excess income. Through the sale of defense savings bonds and stamps the Treasury is trying to borrow a large proportion of its funds from current consumer incomes rather than from banks. In the past 4 months 1½ billion dollars of defense savings bonds and stamps have been sold.

(3) A new form of borrowing—the tax anticipation note—has been introduced, with the object of absorbing consumer incomes before the rate at which income taxes fall due. During the month of August more than \$100,000,000 of these notes were sold, absorbing income that might otherwise be pushing up prices in the market place.

(4) The Board of Governors of the Federal Reserve System has recently been given the authority to control consumer installment credit and has just increased reserve requirements of member banks as a further check against inflation.

(5) Finally, the Office of Price Administration has been exerting every effort to control prices through the cooperation of producers and consumers.

Those are the more important steps that the Government is now taking to check price rises. But they are not enough.

If we are to be sure of victory in the fight against inflation, we must prepare further to increase taxes. We may have to extend the general controls over bank credits. We shall certainly have to reduce capital expenditures for nondefense needs and widen the sale of defense savings bonds and stamps.

It would be wise to extend the social-security program to absorb purchasing power now and pave the way for increased purchasing power after the emergency.

It will also be essential for Federal, State, and local governments to reduce nondefense spending as much as possible.

I am looking forward now to an early meeting of the joint committee of the taxing and appropriating agencies of Congress, a committee that has just been created to study the whole problem of nonessential Federal expenditures. I hope that this committee will receive constant support from Congress and the country at large, for it can make a vital contribution in the anti-inflationary struggle.

We must do much more than cut down purchasing power; we must attack the problem from the other side. Rising prices can also be retarded by increasing the supplies of goods which do not compete with defense needs.

We are in a position to do just that. The Government has in its warehouses vast quantities of cotton, wheat, and corn. Our granary doors should now be opened, enough at least to prevent unreasonable price rises. Such a step would be in agreement with our established agricultural policy—the ever-normal granary. Having accumulated stocks in times of low prices, they should be distributed in times of high prices. Now is the time to draw on these supplies, both as an anti-inflationary measure and as a preparation for replenishing them if that should again become necessary.

The concept of an ever-normal granary, which calls for a control of falling farm prices, seems to me to call equally for control over rising farm prices. This bill, however, specifically restricts the authority of the price-control administration over farm prices. That is, I believe, the major defect of the bill. I strongly recommend that this inflexibility be removed in the interest of the attack upon inflation, in the interest of the standard of living of our people, and in the long-run interests of farmers as well.

I am not disturbed by the general level of agricultural prices now prevailing, but I am deeply concerned about the danger that agricultural prices will continue to rise as they did in the World War. Such a rise would hasten general inflation, would restrict the standard of living, and would even interfere with the health and morale of our people. And it cannot be repeated too often that in the long run the worst sufferers from inflation are farmers themselves. After the

first World War inflation, agriculture was the hardest hit and the slowest to recover.

It has been suggested during these hearings that this price-control bill should include a ceiling over wages. I should like to go on record as not sharing this view. In free countries labor is not a commodity, human beings are not property; and they should not be treated as such.

I fully appreciate that wages affect the cost of production and the general level of prices. However, I feel very definitely that if we can on the one hand keep the cost of living from rising, and on the other hand impose adequate taxes on excessive profits, then we will have removed the major causes for demands for general wage increases. Furthermore, it is worth noting that the major portion of our defense industries today is covered by collective-bargaining contracts, and only a sharp rise in the cost of living is likely to upset those contracts.

Two weeks ago I said at Boston that it was folly for labor leaders to seek continual increases in wages every few months, and that it was equally short-sighted for farmers, businessmen, landlords, or bankers to seek to exploit the present abnormal situation for selfish gain.

If we provide effective price control and adequate excess-profits taxation, and if it should later develop that wage rates are not being kept within bounds, we shall have to consider other measures. As yet, however, I see no necessity for them.

Before closing, I feel it my particular responsibility as Secretary of the Treasury to point out to you the special interests of the Government and the Treasury in stopping prices from rising further.

As the Nation's largest purchaser, the Government is concerned with the problem in a very direct way. Congress has already appropriated more than \$50,000,000,000 for defense, and the end is not yet in sight. The rise in prices which has already taken place will cost us billions of dollars. If prices are allowed to behave as they did during the World War, we may find that our defense program will cost us double without giving us a single additional gun or plane for that extra expenditure.

We not only are the Nation's largest purchaser of goods, but we are the Nation's largest employer. The Government now employs nearly one and a half million civilians in the executive departments, with a pay roll now running at the rate of 2½ billion dollars a year. A substantial rise in the cost of living will raise for us as an employer a choice of evils—to permit the real incomes of our employees to be unjustly reduced, or to increase still further the pay roll that we must meet.

I fully appreciate that it requires courage on the part of Congress to pass this bill. It always requires courage to put brakes on rising prices. But if any lesson is to be learned from the record of the past, it should be that inflation is inevitable in times like these unless all of us—Congress, the executive departments, and the people—fight it on all fronts and with all the strength and courage at our command.

We should gain courage from the knowledge that inflation is not only accompanied by serious evils but is followed by even greater evils. We should never lose sight of the fact that inflation is always followed by deflation and that the ride down is a lot longer and a lot harder and a lot more painful than the short intoxicating ride up.

After all, this question of inflation is one that goes to the very heart of the social aspirations of the American people. An uncontrolled price rise now would endanger the fruits of our hard-won progress of many years. If we lack the necessary realism and courage now, we shall place multitudes of American farmers, workers, and Government employees at the mercy of those whom I have called "the three horse-men—the speculator, the profiteer, and the hoarder."

Every hard-working and thrifty man and woman in the United States has a direct personal stake in the success of the battle against inflation. I regard it as vitally important for Congress to pass this bill and pass it promptly.

Thank you.

The CHAIRMAN. Now, Mr. Morgenthau will be glad to respond to any questions that the members may desire to submit.

Mr. WILLIAMS. Mr. Chairman—

The CHAIRMAN. Mr. Williams.

Mr. WILLIAMS. Mr. Secretary, I think that we are all agreed that the time has come when some very stringent action must be taken regarding this inflationary problem. The difficulties, it seems to me, that confront the committee and that will confront Congress as a whole are, first, the question that has been raised here, about which there seems to be a difference of opinion, as to whether legislation should be enacted with reference to selective-price control over certain commodities that get out of line or whether there should be a general ceiling placed as of a certain time on all prices. The latter plan, as you know, has been advanced by the leader of that theory, Mr. Baruch. The alternative is, as I stated, should we follow the policy outlined in this bill, which, as I understand it, is to take selective commodities, as they get out of line as to price, and try to regulate and control them as those conditions arise.

What is your view on that question?

Secretary MORGENTHAU. Mr. Williams, we in the Treasury believe that the most workable way is outlined in the bill, namely, the selective method, as you just described it.

Mr. WILLIAMS. The next question of great difficulty is the question of farm commodities. Now, as I understand your statement, you are not in accord with this bill on that question. Is that correct?

Secretary MORGENTHAU. That is right.

Mr. WILLIAMS. In what respect do you think that this bill does not meet that situation?

Secretary MORGENTHAU. As I understand, it sets agricultural prices off to one side, and I think that in administering this bill, whoever is in charge of it should have the same right to fix prices of agricultural commodities, if they get out of line, or get above parity, as he should do with any other commodity.

Mr. WILLIAMS. Would it be your idea to interfere with any farm commodity price that was below parity?

Secretary MORGENTHAU. My position is the position that the President took in his veto message. If you care to, I would be glad to read it, because I cannot state it any better, or, in fact, as well as the President did. It is very short.

Mr. WILLIAMS. I think that it might be well to have that in the record, if you care to read it.

Secretary MORGENTHAU. The part that I refer to is in his message on bill H. R. 5300. I am quoting now from this message:

The goal of the administration's agricultural policy has been parity prices for the farmers, and this has been accepted by the producers, the consumers, and the Congress as fair and reasonable. I do not feel that farmers would wish this acceptance destroyed by action designed to force prices above parity through the arbitrary withholding of Government-owned stocks from the normal channels of trade and commerce.

Mr. WILLIAMS. Then, as I understand your position and the President's, there would be no desire to have price-control legislation interfere with the general policy which has already been worked out by Congress to establish parity prices for agriculture?

Secretary MORGENTHAU. That is right.

Mr. WILLIAMS. And it would be only in case those prices rose above parity that the Price Administrator should interfere?

Secretary MORGENTHAU. That is my feeling.

Mr. WILLIAMS. This bill, as I understand it, follows exactly that principle, except for the 10 percent additional rise.

Secretary MORGENTHAU. That is right.

Mr. WILLIAMS. You think that that is not wise?

Secretary MORGENTHAU. Well, this parity has been worked out by Congress, by the President, and by the Department of Agriculture, and it seems to me that it is what we might call administration policy, and on matters of that nature I am more than willing to go ahead with the administration and with Congress. As you pointed out, in this bill there is a provision that prices on agricultural commodities may rise to 110 percent, and it is the extra 10 percent that I object to.

Mr. WILLIAMS. Now, in the over-all ceiling policy advocated by some there is involved the question of the control of profits, along with everything else. This bill does not provide for that.

Secretary MORGENTHAU. That is right.

Mr. WILLIAMS. Except insofar as a reasonable and a fair price is fixed on a commodity, and, according to the extent to which that is successfully administered, profits will necessarily be reduced to a reasonable and a normal basis, will they not?

Secretary MORGENTHAU. That is right.

Mr. WILLIAMS. Now, in those cases which cannot be reached under the general policy provided for in this bill, and there will be those cases, how do you suggest that we can reach them?

Secretary MORGENTHAU. Well, the only way that you can reach them, Mr. Williams, is through another tax bill. We have just finished one. We in the Treasury, in appearing before the Committee on Ways and Means, have presented our viewpoint. We felt that we would have liked to see them go further on the question of excess profits; but, after all, we are just hired men, and we present our views, and the responsibility is yours.

But I still feel that we are going to have to have much more stringent laws affecting excess profits before we get through. If we are going to ask everybody else to be unselfish and patriotic—the farmer, the laborer, the banker, and everybody else—I think that the owners of corporations will have to do likewise.

Mr. WILLIAMS. Briefly, what is your plan? What do you have to suggest in addition to what we already have, in addition to the tax bill which has just recently been passed? What method?

Secretary MORGENTHAU. Do you care to have us go into that technically?

Mr. WILLIAMS. I do not care for that; but if you can, do it in general, and briefly.

Secretary MORGENTHAU. I can tell you my own philosophy very briefly. I think that in times like this, if a corporation earns 8 percent on its invested capital, it ought to be satisfied. I think that everything over and above that, of course, with such exceptions as equity calls for, should go to the Government until this emergency has passed and we have paid for these extraordinary expenditures.

Mr. WILLIAMS. You mean that they should simply be allowed a net income of 6 percent on the invested capital, and all above that should go into the Treasury as excess profits?

Secretary MORGENTHAU. To pay for these unusual emergency expenditures.

Mr. WILLIAMS. You have expressed yourself in your statement on the question of labor. You are opposed, I understand, to placing a ceiling on wages.

Secretary MORGENTHAU. Yes, sir.

Mr. WILLIAMS. You have stated, as I understood you, that, of course, labor is not a commodity in the sense that goods are, which goods you can regulate and control by price measures; and, in addition to that, we have the constitutional provision, which most people think prohibits any kind of a fixed, hard-bound rule concerning a wage schedule. On top of that we have, through the years, developed a policy concerning labor just as we have concerning agriculture, which is expressed in legislation.

Is it your view that any attempt on the part of this legislation to fix a ceiling on wages, or to establish a price or a wage schedule, would interfere with and set aside the policy of all labor legislation that has been passed and adopted through the past years?

Secretary MORGENTHAU. I agree entirely with what you say.

Mr. WILLIAMS. For that reason it would be impossible to establish a ceiling on wages?

Secretary MORGENTHAU. Impossible and, I think, undemocratic.

Mr. WILLIAMS. And if our Constitution is what we think it is, on the question of involuntary servitude, it could not be done by Congress?

Secretary MORGENTHAU. I am sure that you are right, but I would have to ask a lawyer that.

Mr. WILLIAMS. Now, of course, we all realize that the fiscal and monetary policy of the Government plays a very important part in this question of prices. You have already mentioned the tax measure which has already been passed and the loan policy of the Government. I believe you stated that some billion and a quarter of defense bonds had already been sold.

What is the outlook along that line for the future? Is that movement being accelerated? Is there being an increased activity, or has it slowed down some?

Secretary MORGENTHAU. Mr. Williams, in dollars it has slowed down, but we have had experience with the United States savings bonds which we have sold for about 5 years prior to May 1, and in that experience we always found that in August and September our sales slowed down as against the previous months, because the people had gone on their holiday and they spent a lot of their money, and they

did not have much left after the holiday for savings. I simply feel that we have the same situation right now.

In the short time that we have been going I have been very much encouraged. As you know, there are two schools of thought about this. One is the voluntary way, to get people to set aside so much a month from their savings or their earnings, and to invest it in these bonds; and the other way is what the people call forced savings.

I have been convinced that we can do it the voluntary way, and from first-hand information from actually contacting the working people, which I did last week, and meeting them face to face and explaining what it is all about, I am satisfied that the response from the wage earners of the country will steadily grow.

In the case of our saving stamps, they have shown a very nice increase each month over the preceding month. When you consider the short time that we have been going and that we are doing it the difficult way, with no quotas, no hullabaloo, and all of the sort of thing that was done during the World War, I think you will agree that we are on the right track.

Now, I can turn around and have quotas for each State, for each town, for each county, and do what was done in the last war, and then have the bonds go down to 83, the way they did then, and have a lot of people selling them, who took them because they were practically forced to. So that I think that we are following the better way of doing it. Taking it as a whole, and seeing the response that we have had, I think that we are on the right track.

Mr. WILLIAMS. What do you anticipate, if you have estimated it, will be those sales during this fiscal year?

Secretary MORGENTHAU. Well, I am not very good at forecasting.

Mr. WILLIAMS. In view of what has happened and what your experience has been thus far with them, up until June 30 of next year.

Secretary MORGENTHAU. I hate to forecast, but I would say that we ought to average a minimum of \$300,000,000 a month, and it might go much more than that. That is just for the stamps and bonds. It does not include the tax-anticipation notes.

Mr. WILLIAMS. Before I get to them, you spoke of forced saving.

Secretary MORGENTHAU. Yes.

Mr. WILLIAMS. Has that plan been seriously considered?

Secretary MORGENTHAU. Not by us, but it has been discussed very freely in the newspapers, and I think that there are some people—I know that there are some people—who would like to see it done.

Mr. WILLIAMS. What is the general plan?

Secretary MORGENTHAU. We would have to get legislation which would make it obligatory to have a pay-roll deduction the amount of which would be invested in Government securities.

Mr. WILLIAMS. What are you going to do with those who are not on a pay roll?

Secretary MORGENTHAU. It would be difficult to reach them.

Mr. WILLIAMS. It seems to me that if you started an enforced plan, that there ought to be some kind of a method devised by which everybody could be reached.

Secretary MORGENTHAU. I agree with you. That is one of the many things that I do not like about it.

Mr. WILLIAMS. Now, as to the tax-anticipation notes that you mentioned, how many of those have you sold?

Secretary MORGENTHAU. We sold, in August, over a billion dollars. This month, so far, we sold about \$100,000,000. It is a little difficult to tell what it will be, because the corporations who have been the principal buyers wait until the last few days. They did in August, and they will again this month.

Mr. WILLIAMS. Who have been the principal buyers, if you have any particular class?

Secretary MORGENTHAU. Well, it has been the corporations, large and small, who have the money in the bank, and they are glad to invest them in United States tax notes against next year's taxes.

Mr. WILLIAMS. There are different classes and limitations on those; are there not?

Secretary MORGENTHAU. There is a series A which you can buy up to \$2,400 for 2 years' taxes; and the series B, on which there is no limitation.

Mr. WILLIAMS. And those larger ones are the ones that the corporations have been buying, I assume?

Secretary MORGENTHAU. Yes. One corporation bought up to \$200,000,000.

Mr. WILLIAMS. And the rate of return on those is considerably lower?

Secretary MORGENTHAU. The rate on the so-called series B is just under one-half percent, and the rate on series A just under 2 percent.

Mr. WILLIAMS. I want to ask you now whether or not there has been a very marked decrease in the excess Federal reserves in the banks in the country during the last few months.

Secretary MORGENTHAU. They have gone down about one billion seven hundred million. They are down to just above \$5,000,000,000.

Mr. WILLIAMS. Is there any connection between that and this defense-bond buying program?

Secretary MORGENTHAU. Some relation; yes.

Mr. WILLIAMS. That is one cause of it, in your judgment?

Secretary MORGENTHAU. Yes.

Mr. WILLIAMS. What is the other?

Secretary MORGENTHAU. It is the increased use of many, increased circulation, and also our selling these tax-anticipation notes, people buying those and withdrawing the money from the banks.

Mr. WILLIAMS. Would there be any connection between the reduction in the reserves and the increased volume of circulating medium? But before you answer that, there has been a very great increase in the amount of money in circulation, has there not?

Under Secretary BELL. Yes.

Mr. WILLIAMS. In recent months.

Under Secretary BELL. There has been an increase of about \$2,000,000,000 in the last year.

Secretary MORGENTHAU. I have the figures here. Between July 1940 and July 1941 the currency in circulation went up from \$7,883,000,000 to \$9,732,000,000, or not quite \$2,000,000,000. So that would explain a good part of it.

Mr. WILLIAMS. That would partly explain why the excess reserves have done down?

Secretary MORGENTHAU. That is part of it.

Mr. WILLIAMS. Have you the figures at which our excess reserves were at their highest point, and I do not have the date of that, but I think you have it there.

Secretary MORGENTHAU. It was about in November 1941 when they were just under \$7,000,000,000. I will put the exact date into the record.

(The high point was reached on October 23, 1940, when the excess reserves stood at \$6,940,000,000.)

Mr. WILLIAMS. And, at the present time, what is the amount?

Secretary MORGENTHAU. Just a little over \$5,000,000,000. If I may, I will put exact figures in the record.

(On September 17, 1941, they stood at \$5,250,000,000.)

Mr. WILLIAMS. Now, the Board has just now increased the reserve requirements?

Secretary MORGENTHAU. That is right.

Mr. WILLIAMS. Up to the limit?

Secretary MORGENTHAU. That is right.

Mr. WILLIAMS. You, I suppose, were in consultation with them regarding that matter?

Secretary MORGENTHAU. Not only suppose, but we were and have been in consultation with them now for quite a long period, and I was delighted that as the result of it the Federal Reserve Board and the Treasury saw eye to eye and could make a joint statement to the public.

Mr. WILLIAMS. You have now reached the limit under the law?

Secretary MORGENTHAU. That is right.

Mr. WILLIAMS. In your judgment, do you think that it will be necessary to raise those requirements by law?

Secretary MORGENTHAU. Mr. Williams, do you mind if I just take a minute to read a very short statement which the Federal Board and the Treasury gave out on that point?

Mr. WILLIAMS. I would be glad to have you do so.

Secretary MORGENTHAU. I would like to do that, if I may, because a lot of time went into this statement, and I would rather read it.

Mr. WILLIAMS. That is entirely satisfactory to me, and, I assume, to the committee.

Secretary MORGENTHAU. That was a statement issued last night jointly by the Federal Reserve Board and the Treasury.

In connection with the action taken today by the Board of Governors of the Federal Reserve System to increase reserve requirements, the Secretary of the Treasury and the Chairman of the Board issued the following statement in which the Board of Governors concurs:

"The Treasury and the Board of Governors will continue to watch the economic situation and to cooperate with other agencies of the Government in their efforts, through priorities, allocations, price regulation, and otherwise, to fight inflation. Recommendations on the question of what additional powers—

This is the question that you are asking me—

"Recommendations on the question of what additional powers, if any, over bank reserves the Board should have during the present emergency and what form these powers should take will be made whenever the Treasury and the Board, after further consultation, determine that such action is necessary to help in combating inflationary developments."

Mr. WILLIAMS. With that increase in reserve requirements, what will that leave the excess reserves at, at the present time?

Secretary MORGENTHAU. About four billion

Mr. WILLIAMS. I understood you in your statement to make possibly some recommendation or suggestion about further general credit control by the banks of the country.

Secretary MORGENTHAU. Well, I put it in my statement because I felt that it would let you gentlemen know what we in the Treasury are thinking about, and if this situation should become aggravated, after careful consideration with the Federal Reserve Board we might want to ask you for additional powers. But right at the moment we do not.

Mr. WILLIAMS. Would you care at this time to tell us in general what you have in view, in case the necessity should arise, what form or what kind of general credit control you have in mind?

Secretary MORGENTHAU. I am not prepared to do that, because I would say that it is still in the stage of study.

Mr. WILLIAMS. You endorse fully, do you, the action of the Federal Reserve Board in regulating installment buying credit?

Secretary MORGENTHAU. It not only has our endorsement, but the understanding that we have with the Board is that before they get out any regulations, they will consult us.

Mr. WILLIAMS. Would you extend that general policy of installment buying to real estate and homes?

Secretary MORGENTHAU. Yes, I would.

Mr. WILLIAMS. In other words, you would restrict the amortization plan by which homes are being bought, and for which loans are being made over a period of time in order to finance the buying of a home, just as loans are made in order to finance the buying of an automobile or of a refrigerator?

Secretary MORGENTHAU. Or another way, which I think would be a little bit more effective, would be to ask the man who is buying a home to put down, as a down payment, a little bit more cash than at present.

Mr. WILLIAMS. That is the same policy that is applied to installment credit buying now.

Secretary MORGENTHAU. Yes.

Mr. WILLIAMS. You would apply, in other words, to the home-financing problem the same principles that you are applying to the financing of the buying of home equipment?

Secretary MORGENTHAU. I think that it should be.

Mr. KUNKEL. Would you yield, Mr. Williams?

Mr. WILLIAMS. Yes.

Mr. KUNKEL. Do you favor restricting the present liberal payments of F. H. A. loans for houses?

Secretary MORGENTHAU. I think that the terms of the F. H. A. should be given careful consideration, and I think that they could very well be tightened up.

Mr. WILLIAMS. What do you have in mind with reference to an extended social-security program?

Secretary MORGENTHAU. Again, Mr. Williams, the Social Security Board is studying that, and so are we. So it is in the study stage. But I think that one of the phases of social security could very well be extended, and that is the unemployment insurance, and, in conjunction with the Social Security Board, we have been making a study. I have gone into it far enough to feel that if, through social security, we could withdraw money from circulation at this time and save it

for the people against that day when peace comes, the change-over from our present situation to peacetime would be cushioned by the savings that could be set aside for that purpose.

Mr. WILLIAMS. I think that we all agree with your statement that there should be, as far as possible, all encouragement given to increased production, and you mentioned a means by which we could do that, and that would be to release some of the surplus products now in storage. What about encouragement of some kind or character to business industry for the production of new materials, especially these smaller businesses?

Secretary MORGENTHAU. For years I have been in favor of doing something for the so-called small businessman, and so far I think everybody has been sort of shadow boxing, as far as that is concerned.

Mr. WILLIAMS. It seems to be rather difficult to get right down to some practical proposition by which that can be done. I am wondering if you had anything in mind.

Secretary MORGENTHAU. I have no cure-all, other than I know that the situation is there, and there are a lot of small manufacturers with less than 100 employees who are being affected by this situation and who apparently have difficulty in getting defense contracts. It hits them pretty hard. I think that so far they have been awfully good sports about it, but that does not mean that we should not do something about it to help them.

Mr. WILLIAMS. There is one other method by which this shortage of goods for civilian use, which we seem to be encountering, might be helped. It might be by importation of some of those goods. What do you think about that?

Secretary MORGENTHAU. There are certain commodities which could be imported from Canada and from Central and South America. I think anything that could be brought in at this time which would supply the need, where we cannot produce the goods ourselves, would be all on the plus side.

Mr. WILLIAMS. Would it be wise to do that, by reducing or eliminating entirely some of the duties on those imports?

Secretary MORGENTHAU. It might be in specific cases. It would have to be studied. But I think that in certain cases that could be done. I think that we have done it in connection with lumber, and it could be done with other commodities.

Mr. WILLIAMS. There is another matter that has been discussed here by a good many members of this committee, and which some feel has had a very large influence in this inflationary movement, that I now want to ask you about, and by asking you this question, I do not mean to say that I agree with a great deal that has been said about it. That is the gold policy of the United States, the gold-buying policy.

I expect that you have heard of that before.

Secretary MORGENTHAU. Yes. I thought that you said coal. [Laughter.]

Mr. WILLIAMS. You know the stock argument about it, I assume?

Secretary MORGENTHAU. I think that I have heard it.

Mr. WILLIAMS. What effect has it had?

Secretary MORGENTHAU. Well, it depends on what you want to believe about it. [Laughter.]

My own attitude on gold has been this, and I will try to state it simply. If you want it technically, we have enough technicians here-

We must have a way to settle balances of payment between countries. If we sell more goods and services to a country than they buy from us, they have to settle. And for a good many years, gold has been the medium with which they have settled those balances of payment, and until somebody can come along and show me a better way of paying, or making up the difference between what we buy and what we sell, I am for gold. I have to be for gold enthusiastically, because if I show any doubts about gold, then immediately a lot of people will have a lot of doubt about the gold that this Government owns, and it will cast a shadow on the whole thing.

But I have yet to find anybody that I have listened to who has any better plan, and until somebody comes along who has, I am for gold.

Mr. WILLIAMS. We have heard a great deal of talk about buying gold just the same as if the Government went out to buy gold by the ounce the same as it would buy a bushel of potatoes or a sack of wheat. Is that the situation?

Secretary MORGENTHAU. No; that is not the situation.

Mr. WILLIAMS. Well, how does the gold come into this country? I wish you would try to explain that.

Secretary MORGENTHAU. Can Mr. Bell give you a short talk on it?

Mr. WILLIAMS. Anybody.

Secretary MORGENTHAU. Mr. Bell believes Mr. White should do it.

Mr. HARRY D. WHITE (assistant to the Secretary). When the amounts that are due this country on the various items is the balance of payments are in excess of the amounts which this country owes all other countries, then the only way the balance can be made up is to acquire dollars, and the only way that other countries can acquire dollars is to send gold here as money to be sold to the Treasury.

Mr. WILLIAMS. In other words, the balances on foreign exchange are settled in gold?

Mr. WHITE. That is right.

Mr. WILLIAMS. That is one means by which we get gold into this country.

Mr. WHITE. That is right.

Mr. WILLIAMS. And in what other ways?

Mr. WHITE. There is no other reason why gold comes here, only to obtain dollars.

Mr. WILLIAMS. Yes; to obtain dollars, but it isn't all brought here for the purpose of settling international exchange.

Mr. WHITE. It is in the sense that people want dollars, and in that sense it is here to settle balances of payments, but their desire for dollars arises from a variety of causes.

Mr. WILLIAMS. What are the main influences that have brought this enormous amount of gold to this country?

Mr. WHITE. There are several important causes. One has been that people the world over have felt that the dollar is the soundest currency, the most secure currency, and so because of the troubled conditions which have prevailed throughout the world during the past 6 or 7 years there has been a large stream of funds coming from foreign countries to be turned into dollars to be kept here in banks for safety, or to be invested in American industry. That

has been one very large reason for the large inflow of gold that has taken place since 1934. I think something over \$6,000,000,000 has been recorded as coming in for that reason. Then there would likely be several billions of unrecorded funds coming in over the 7-year period for the same reason.

A second reason, closely akin to that, is that Americans have had a growing feeling of insecurity with respect to their holdings in foreign countries. American concerns and banks have for years held balances abroad, and with increasing international disturbance, they have tended to reduce those balances. American individuals who have had investments abroad have tended to withdraw those investments, and so we have had a stream of funds that belonged to Americans, coming back here from foreign countries. That is a second reason for the inflow of gold. A third reason—did you wish me to go into detail, Mr. Williams?

Mr. WILLIAMS. I don't care for all the detail, Dr. White. I don't think it is necessary to have that. What I wanted to know was the general categories.

Mr. WHITE. A third reason would be the hope or promise of profit from exchange. Apparently the dollar was the strongest currency in the world, and a lot of other currencies were weaker, and people felt if they bought dollars and held them, some day they could make an exchange profit.

A fourth reason has been that we have had a favorable balance on goods and services; we have exported more than we have imported. If you combine all of those reasons you will get an explanation of our gold imports.

Mr. WILLIAMS. Isn't this true; that the only reason any foreign gold should come to this country is because somebody had the gold and wanted to secure dollars?

Mr. WHITE. That is the only reason.

Mr. WILLIAMS. And can those dollars be used anywhere except in the United States?

Mr. WHITE. Not eventually. A firm in South Africa might sell gold and obtain dollars, and then sell those dollars, let us say, in England for sterling, but the person in England who gets those dollars would have to use them here or sell them to someone else who will use them here. Eventually dollars could be used only in the United States.

Mr. SPENCE. He would have to buy United States products to use them.

Mr. WHITE. He would have to buy United States products, or United States investments, or services, or pay interest, and so forth.

Mr. KOPPLEMAN. When I was in Europe I could spend dollars more easily than I could any other kind of money. I could buy with American dollars, anywhere I went, anything made in Europe.

Mr. WHITE. But some person who buys those dollars must spend them here unless he hoards them in form of currency. Dollars must eventually be used here for services or investment or goods.

Mr. KOPPLEMAN. That may be true, but they interchange dollars in Europe.

Mr. WHITE. Quite true. The dollar is so sound it is used practically the world over as international currency. That is a tribute to

our monetary policy. Because of our monetary policy the dollar is used the world over.

Mr. CRAWFORD. Mr. Secretary, I have some questions here, some of which have been lightly touched upon by Mr. Williams. But before going into these, I wish to clear up one or two points in connection with your formal statement which you just submitted to us, first, by saying that I am in agreement with you 100 percent that 6 percent net on present transactions is sufficient for American industry. I think we should take 100 percent of the profit over and above 6 percent in a tax bill just as quickly as we can enact it into law.

Secretary MORGENTHAU. What I said, if I remember, was that I thought while this emergency was on and while we have these enormous expenditures, that if a corporation could earn 6 percent on its capital, it ought to be satisfied.

Mr. CRAWFORD. That is what I am agreeing with.

Secretary MORGENTHAU. I am sorry. I did not know whether you wanted me to restate it.

Mr. DEWEY. May I interject there that a company that has a very low capitalization, which is doing a great deal of business—should that be fixed at 6 percent?

Mr. CRAWFORD. May I ask you this? Do you mean by your inquiry 6 percent on the outstanding capital stock, or upon the invested capital?

Mr. DEWEY. The question was asked with respect to 6 percent of the capital, as I understood the reply of the Secretary. I would like to know what would be the position of many companies, partnerships, and so on, personal-service corporations and others. I just want to clear that statement up. We want to keep alive the average earnings, as well as the fixed interest rate.

Mr. CRAWFORD. Let us see if we are clear on this. Mr. Secretary, may I ask you this question? When you speak of capital, do you mean invested capital, or outstanding capital stock?

Secretary MORGENTHAU. I mean the dollars put into the business.

Mr. CRAWFORD. That is exactly what I meant. Do you agree with that?

Mr. DEWEY. No; I do not.

Mr. CRAWFORD. When you speak here of Mr. Henderson's proposal being the most workable with reference to selecting a few commodities as against putting a ceiling on all commodities, do you mean from an administrative standpoint? Would you care to enlarge on that just a bit?

Secretary MORGENTHAU. I mean not only from an administrative standpoint, but from the standpoint of equity.

Mr. CRAWFORD. Would you go into that a little bit?

Secretary MORGENTHAU. Well, some commodities have gone up nearly 200 percent, while some other commodities have gone up very little. Such situations, and there are many of them, would result in a great deal of equity. If you try putting a ceiling on the entire economic fabric of this country, I just do not think it will work.

Mr. CRAWFORD. I had understood from Mr. Henderson's testimony that he had in mind making many perhaps necessary adjustments, even on the few commodities he might select, pushing the price up or down as the case might be, subsequent to the time the ceiling was

set. In connection with Mr. Baruch's testimony, where he advocated a ceiling be set on all commodities, to be followed by adjustments, up or down, so as to bring everything into equilibrium from the standpoint of equity, I had gotten a very firm impression from both these gentlemen that the slide rule and a form of adjustment would be used, and that they had it in mind, particularly Mr. Henderson. Now, did you have in mind in making your presentation that the slide rule or adjustments would not be used? And if you did have in mind that they would be used, would that not make it possible to have an equitable administration of the act, taking in all commodities.

Secretary MORGENTHAU. I am at a disadvantage, Mr. Crawford, I haven't heard all of Mr. Henderson's testimony; you have. All I can say is that I have had the advantage, though, of watching him work with the limited tools he has at hand. He has demonstrated to my satisfaction that he is on the right path. If he gets the additional authority which this bill would give him, his task would be made so much easier.

Mr. CRAWFORD. When you say in your opinion he is on the right path, you mean from the standpoint of taking a few commodities and making adjustments, if necessary?

Secretary MORGENTHAU. Do you mind if I just put it a little differently?

Mr. CRAWFORD. Right.

Secretary MORGENTHAU. I think he is on the right path in coping with this whole situation, as I say, with the limited tools he has at hand. I know, from the contact I have had with him, and the Treasury has had with him through Procurement who are large purchasers, that he is doing as well as anybody could do with the limited authority he has. After all, he has to rely largely on moral persuasion, and I think it speaks well not only for him, but for the American public, that he has been able to do as much as he has.

Mr. CRAWFORD. One other question that Mr. William raised here. You made a rough estimate as to the \$300,000,000 per month sales of stamps and defense bonds for the balance of the fiscal year. May I ask you on that, what does it now look like you will have to issue in the way of new securities for the remainder of this fiscal year?

Secretary MORGENTHAU. Mr. Bell advises me the best estimate we can make at this time for the rest of this fiscal year is that we will have to borrow somewhere between seven and eight billion dollars of what we call new money, over and above the refundings.

Mr. CRAWFORD. That is what I had reference to, new issues. Would that include any R. F. C. obligations—

Secretary MORGENTHAU. No.

Mr. CRAWFORD. They would be straight obligations of the Treasury?

Secretary MORGENTHAU. That is right.

Mr. CRAWFORD. Deducing from that seven to eight billion, the total of the \$300,000,000 average per month, using that as a rough figure, that would leave you a balance of about what?

Secretary MORGENTHAU. If we take—

Mr. CRAWFORD. You would have about 9 months to run, would you not?

Secretary MORGENTHAU. Well, taking the defense savings bonds, stamps, and the tax-anticipation notes, and assuming that we will get

\$4,000,000,000 from this source during the remainder of this fiscal year. Mr. Bell tells me—and this is very rough—

Mr. CRAWFORD. That is all right.

Secretary MORGENTHAU. It will run somewhere between three and four billion dollars of so-called regular Treasury securities to be sold on the market.

Mr. CRAWFORD. Where would those likely be placed, with the banks?

Secretary MORGENTHAU. No, not necessarily. Quite a large proportion will go to the banks. But the insurance companies have been large buyers; and also individuals who cannot get as many defense bonds as they would want; and estates. People, generally, who have money to invest.

Mr. CRAWFORD. When you referred to releasing cotton, corn, and wheat back into the market, you didn't have in mind any new production flowing out of that, did you? You were referring only to the effect it may have on prices.

Secretary MORGENTHAU. What I had particularly in mind is the cotton and wheat which is now owned by the Commodity Credit Corporation. It owns a lot of cotton and wheat right now. It is the cotton and wheat which is owned by the Commodity Credit Corporation that I had in mind.

Mr. CRAWFORD. But releasing those commodities back into the market would not necessarily increase production, would it?

Secretary MORGENTHAU. Oh, no.

Mr. CRAWFORD. It would just have an effect on the price structure.

Secretary MORGENTHAU. Well, if you don't mind my enlarging a little bit, there are two things I would like to see accomplished. One would be to keep the price of cotton at parity. When we do reach that point we could sell the goods on the shelves of the Commodity Credit Corporation against the day when we may have to buy again. When I first came to Washington I had the questionable distinction of being Governor of the Farm Board for about 6 weeks, and I found at that time—and it seemed like a lot of money—that they owned about a hundred million dollars of merchandise which they had been accumulating over 2 or 3 years, and we set out to sell it. We were fortunate, if you will remember the spring of 1933, in having a small boom; and during that period we sold every dollar's worth of merchandise that the old Farm Board had. If the system continues that we are working for now—and I hope it will—we will have our ups and downs, and this may be a good time for Commodity Credit to do some selling as against the time when they may have to do some buying again.

Mr. CRAWFORD. Could you say whether or not the cotton mills are all running to capacity? And I ask that question that way because, suppose we release two or three million bales of cotton in an orderly manner into the market, could the mills absorb that, and thus turn out a greater quantity of consumer goods in the form of cotton goods?

Secretary MORGENTHAU. That is outside of my field. Our own people would not be able to answer that.

Mr. CRAWFORD. You would not be prepared to answer on manufactured products made from wheat or corn, either?

Secretary MORGENTHAU. No; that is outside of our field. My backyard is pretty big, but it is not quite that big.

Mr. CRAWFORD. You may want Mr. White to answer this very brief question I will read. If so, it is all right. In connection with this gold, we offered to buy the gold, did we not, from the world? We offered to buy whatever they would ship?

Secretary MORGENTHAU. We stand ready to buy all the gold offered to us at \$35 per ounce, less a quarter of 1 percent and mint charges.

Mr. CRAWFORD. And as we made that offer, whether we raised the price or not—I won't bring that into the discussion.

Secretary MORGENTHAU. Thank you.

Mr. CRAWFORD. But we did take the gold which was offered at the advanced price, did we not?

Secretary MORGENTHAU. Well, we took it at today's price.

Mr. CRAWFORD. That is right; \$35 an ounce.

Secretary MORGENTHAU. Today's price.

Mr. CRAWFORD. Now, then, in accepting that gold, and in paying that price to the world, which wanted dollar exchange for one purpose or another, did we not contribute to the creation of the potentially profitable transactions in exchange, and in whatever that type of trader wants to do?

Secretary MORGENTHAU. In my own belief, the answer to that is emphatically "No."

Mr. CRAWFORD. Well, had we not bought the gold, he would not have been able to obtain the dollar exchange, would he?

Secretary MORGENTHAU. Maybe I don't understand you. You used the words "exchange trader." One thing that I feel a little proud of is that since I have been in the Treasury the one person who has been eliminated from business is the international exchange speculator who wants to profit from an unstable dollar. He just cannot do business on this basis.

Mr. CRAWFORD. I am not referring to him, Mr. Secretary.

Secretary MORGENTHAU. Then I misunderstood you.

Mr. CRAWFORD. I am referring to those fellows who may be down in Mexico and who had the power to accumulate \$5,000 of American currency, or in South Africa who accumulated \$2,000 worth, and all those people all over the world who became interested in our currency for one reason or another and were able to secure our currency by reason of the movement of gold, independent of trade balances. We did contribute to that. They may not make a profit on it, of course, virtually, but we did contribute to it.

Secretary MORGENTHAU. I don't know just how far you would like to go into that.

Mr. CRAWFORD. This is about as far as I ought to go.

Secretary MORGENTHAU. Well, then, if you don't mind, I don't agree with you. If you want to leave it there.

Mr. CRAWFORD. I do not want to press it, because I do not want to take the time now. I would like to discuss it with you, if I could, either technically or nontechnically.

Secretary MORGENTHAU. Come up to my farm and we will take 2 weeks.

Mr. CRAWFORD. Thank you. You made a speech up in Boston the other day that I have read and reread with a great deal of interest, and I find I again agree with a great many of the views set forth therein. I also read the joint statement which you inserted in the record awhile ago in answer to one of Mr. Williams' interrogations.

and which is joined in by Mr. Eccles. I wonder if you would like to expand somewhat on a subject which, although technical, is of vital concern to this committee. In your Boston speech you said:

We may have to extend general control over bank credits.

I presume this reference was to a possible increase in reserve requirements of member banks. In the same address you said:

In 1916 the cost of living began to rise sharply, but there were few who saw its significance. It was only when prices had risen by 70 percent that President Wilson recommended any steps to prevent inflation. In fact, the country was so blind to its dangers that late in June 1917 Congress actually hastened the rise in prices by reducing the reserve requirements of members of the Federal Reserve System. The consequences were serious, and there must today be housewives who can remember this.

In your joint statement with Mr. Eccles, which has already been referred to, and in connection with what Mr. Henderson said the other day in his testimony before this committee, that he believed that this committee should consider legislation right now to give the Federal Reserve Board power to raise reserve requirements substantially above the present legal limit, as recommended by the Federal Reserve Board in their special report to Congress dated December 30, 1940, and having in mind what you have already said to Mr. Williams, I will continue my question. Do you believe this committee should consider such legislation at the present time? As I understood your previous statement you did not say that we should consider it at this time. Or did you?

Secretary MORGENTHAU. I just come back to my statement, the joint statement, and if I may refresh my memory, please—it reads as follows:

Recommendation on the question of what additional powers, if any, over bank reserves the Board should have during the present emergency, and what form those powers should take, will be made whenever the Treasury and the Board, after further consultation, determine that such action is necessary to help in combating inflationary developments.

Mr. CRAWFORD. Earlier this year the impression prevailed that you were very cold to the Federal Reserve System's request that additional powers to increase reserve requirements beyond the legal limit. If these impressions were substantially correct, would you mind telling us why you have changed that opinion on this question, or are changed economic conditions and the greater danger of inflation matters which this committee should study carefully, been factors in influencing your opinion? I think the record you have made this morning answers that question.

Mr. PATMAN. Mr. Crawford, you brought out a point that I think should be answered. You stated awhile ago that he mentioned in the Boston speech that it was possible we may have to extend control over bank credits. Then you passed over that and said you presumed that was answered by raising the reserve requirement. I would like to have the Secretary's answer on that.

Secretary MORGENTHAU. If Mr. Patman would permit me to go back on one question, then I will take up his question.

Mr. PATMAN. I just hoped before you finished you would elaborate on that. I don't think Mr. Crawford's presumption is right.

Secretary MORGENTHAU. I can answer your question. The same question was raised by Mr. Williams earlier, and I said as to additional

credit control that the Federal Reserve and the Treasury are studying this now, and I am not prepared to discuss it, because we have not made up our mind.

Mr. PATMAN. But you do not agree with Mr. Crawford that the question of credit control was answered by raising the requirements?

Secretary MORGENTHAU. That is right.

Mr. PATMAN. You are still studying the question of credit control? Secretary MORGENTHAU. It is under constant study. I said here, "In view of this statement we have no recommendation or request to make of Congress." Does that answer it?

Mr. PATMAN. Yes, sir.

Mr. CRAWFORD. That was my understanding.

Secretary MORGENTHAU. Mr. Crawford, there is just one thing you said, and that was that it had gotten out in the minds of the public, some of the public, that I had either approved or disapproved the statement which the Federal Reserve made at the end of December. As a matter of fact I have never made any public comment; there is no record of any public comment I ever made on this thing. I just wanted to mention that.

Mr. CRAWFORD. Thank you. I think your statement is clearly set forth. You now feel these steps should be taken as a result of this inflationary development that is on.

Secretary MORGENTHAU. Yes.

Mr. CRAWFORD. I understand spokesmen for the Federal Reserve Board are now saying, and I think maybe you referred to it a few moments ago, that the Board will not take any action under its present powers or any other powers it may obtain from Congress during the emergency without prior consent of the Treasury. Is that substantially correct?

Secretary MORGENTHAU. No. The statement which I read is the only public and private statement. I am confident of what I am saying so far as the Federal Reserve is concerned—

Mr. CRAWFORD. Let us see if we are together on this. I think the Board made a very positive statement here a few days ago, and I understood you to say to Mr. Williams a few minutes ago that the Board had agreed it would not do thus or so without conferring with you. I am making this a little more specific. I think this is very important; at least it is to me as a member of the committee, because we may enact a law and the Board might refuse to take any cognizance of that authority we may give them. Here is my question. I understand spokesmen for the Federal Reserve Board are now saying that the Board will not take any action under its present powers or any other powers it may obtain from Congress during the emergency without prior consent of the Treasury.

Secretary MORGENTHAU. Well, you refer to a spokesman. He is a mysterious kind of fellow.

Mr. CRAWFORD. Mr. Eccles, the Chairman.

Secretary MORGENTHAU. There is nothing mysterious about Mr. Eccles. All I can say is this: What you have there may refer to installment credit, and the understanding between the two Departments is that before they do issue any regulations affecting installment credit, they will consult the Treasury. As to this joint statement which was given out last night, that is the combined opinion of the Chairman of

the Federal Reserve Board and of its members and their staff; and that goes for the Treasury, too. When that statement was finally issued there was 100-percent agreement between the two groups.

Mr. CRAWFORD. The statement says:

Recommendation on the question of what additional powers, if any, over bank reserves the Board should have during the present emergency and what form those powers should take will be made whenever the Treasury and the Board—

And so forth.

Secretary MORGENTHAU. That is right.

Mr. CRAWFORD. That is the recommendations, we will say, that may be made to this committee or to the Congress. What I am trying to clear up—and I think it is important—is, first, is there a gentleman's agreement or a working agreement or arrangement between the Treasury and the Board of Governors that in the event the Congress should authorize the Board, let us say, to double or triple the present reserve requirements, go the limit, that the Board will not do those things thus authorized without the consent of the Treasury?

Secretary MORGENTHAU. Well, I am going to try to answer it. I am not sure you will be satisfied, but I know the members of the Board very well, and I know that they take their responsibility very seriously; and if Congress enacts any new legislation, I am confident that the members of the Federal Reserve Board will carry it out to the best of their ability.

Mr. FORD. Isn't the word "consent" rather drastic? Is that the word that is used?

Mr. CRAWFORD. I am just trying to follow up what Mr. Eccles led me to believe in his statement.

Mr. FORD. Did he use the word "consent"?

Mr. CRAWFORD. We will leave it exactly up to his formal statement.

Mr. FORD. Does he use the word "consent"?

Mr. CRAWFORD. My understanding is he did. Here is the reasoning behind that. Here is the Treasury with its enormous fiscal problem. Its securities have to be sold some way. If the Federal Reserve Board runs in one direction and the Treasury in another, we may get into serious difficulty.

Mr. PATMAN. Mr. Crawford, did you understand that he was referring to installment credits?

Mr. CRAWFORD. No; that is not my understanding. If it referred only to installment credits, I have been misled.

Mr. KOPPLEMAN. Doesn't this joint statement answer your question, Mr. Crawford?

Mr. CRAWFORD. No. The word "recommendation" appears in the joint statement.

Mr. FORD. What I am objecting to is that if Congress should pass a law, the Federal Reserve would have to get the consent of the Treasury to do it. I don't think any such statement has been made. Of course, they would discuss it with the Treasury, but they would not have to get its consent.

Mr. CRAWFORD. We may not direct the Board; we might authorize the Board to do thus and so.

Mr. FORD. Even so.

Mr. CRAWFORD. The joint statement again, I might say, refers to recommendation. I presume, from this statement we are now referring

to, the joint statement released last night, that the Treasury and the Federal Reserve Board will cooperate in determining possible future action to raise the reserve requirements if Congress increases the Board's powers.

Secretary MORGENTHAU. I didn't get that.

Mr. CRAWFORD. From this joint statement, I repeat that I presume that the Treasury and the Federal Reserve Board intend to cooperate in determining possible future action to raise the reserve requirements if Congress increases the Board's power to do so. I am now speaking about the actual performance of raising the requirements if the law authorizes them to do so.

Mr. FORD. Mr. Crawford, are you sure the authority they will ask for will be limited to raising the limit? Would there not be more authority than that?

Mr. CRAWFORD. Sure; they might ask for a lot of things. I am directing my questions only to the raising of the requirements.

Secretary MORGENTHAU. May I answer this way, and again, if it is not satisfactory I will try to give you what you would like to know. I think I can say this for the Board—and I understand Mr. Eccles will be here Monday and he can talk for himself—after the experience we have just gone through with the Board and with Mr. Eccles, I think I may say that both the Federal Reserve Board and the Treasury are fully cognizant of the unusual financial situation we are going through, and it is our desire to cooperate with each other on the fiscal and monetary efforts. This statement is a concrete demonstration of that policy.

Mr. CRAWFORD. I think that is important. My attention has been called to the fact that the Treasury has not done any financing on the quarterly date of September 15. Can you tell us whether this delay has been due in part to the desire to clear up the situation so far as credit control legislation is concerned?

Secretary MORGENTHAU. This action, taken last night, has been under discussion for the last 2 or 3 weeks, and the Board and the Treasury felt it would be unfair to investors for us to offer new securities, as they were not aware of the discussions which were taking place, until the matter was settled. Now, the matter being settled, we will go ahead with our borrowing program.

Mr. CRAWFORD. I think that clears that up. In other words, if you sold long-term bond issues after this whole question had been settled, which it has to the extent of this release of yesterday—if the long-term issues had been sold before that, as you say, some of them may have resented it and felt it was unfair.

Secretary MORGENTHAU. Well, I think they would be justified.

Mr. CRAWFORD. The elimination of some of the excess reserves outstanding, with an increase in reserve equipment, would, I presume, result in some higher interest rates and therefore some low-bond prices. This may be a difficult question to answer or discuss at the present moment, but I wonder whether in very general terms you can give us your views as to the probable increase in the cost of money to the Treasury which would result from the application of legislation permitting the Federal Reserve Board to raise the reserve requirement?

Secretary MORGENTHAU. Mr. Crawford, the best answer to that is that I have had one policy, and so far it has been correct, never to

make any forecast, for then I do not have to swallow any words. To our amazement, when I left the office this morning, we being an hour behind New York, the bond market went up after the statement was out this morning. Which means interest will be down fractionally. So, the answer to your question is I do not know, and nobody else knows.

Mr. CRAWFORD. Do you think it may be necessary to buck the market if adequate action is taken on reserves? When I say adequate, I mean with reference to washing out reserves so as to prevent them from encouraging inflation.

Secretary MORGENTHAU. I am sorry. I could not hear the first part of your question.

Mr. CRAWFORD. If we went so far—let me put it this way. As we proceed to prevent further inflation, I feel it is very necessary, first, to take some drastic steps with reference to the excess reserves. If I understood you correctly this morning, it seemed to me that a situation could develop where a billion and a half or two billion of currency might be returned to the banks in the form of demand deposits. If that occurred what would that do to excess reserves?

Secretary MORGENTHAU. Well, it would increase it.

Mr. CRAWFORD. So, then, we have a potential return in the form of currency to the banks that might push the reserves up another \$2,000,000,000.

Secretary MORGENTHAU. Not only possibly, but it is likely.

Mr. PATMAN. Push reserves up \$2,000,000,000?

Mr. CRAWFORD. Push up excess reserves \$2,000,000,000.

Secretary MORGENTHAU. That is perfectly possible.

Mr. PATMAN. How much would have to be turned in?

Secretary MORGENTHAU. I didn't get the question. I am sorry.

Mr. PATMAN. I understood you to say if \$2,000,000,000 were returned to the Treasury in currency that would increase excess reserves by \$2,000,000,000.

Secretary MORGENTHAU. My people here, who have technical information, say it would increase excess reserves by about \$1,600,000,000.

Mr. CRAWFORD. Going ahead with the thought I tried to express, personally, I feel it is very necessary, if we are to prevent further inflation, to take drastic action on the remaining excess reserves, or a very substantial part of it. Others may disagree with me. The Treasury may not have that view at all. I don't know. But if we take drastic steps with reference to reducing the present excess reserves, remaining after your increase of yesterday, would it, in your opinion, be necessary to peg the market of the Government?

Secretary MORGENTHAU. We never have pegged the market.

Mr. CRAWFORD. We never have yet, have we?

Secretary MORGENTHAU. We never tried to. And I do not think we would be successful.

Mr. CRAWFORD. That takes me back to the thought you expressed when Mr. Williams was interrogating you, something to this effect: In 1917 to 1919 we sold Liberties under high-pressure salesmanship, we will call it, and subsequently the price broke as low as 82 or 83. You said this morning something to the effect that you did not want to see that happen again. The price cannot break on these defense bonds, can it?

Mr. MORGENTHAU. No. But after 60 days you can turn them back and get a hundred cents on the dollar. We have been trying to learn a little bit from experience.

Mr. CRAWFORD. Insofar as these defense bonds are concerned, you have pegged the market, have you not?

Secretary MORGENTHAU. There is no market.

Mr. CRAWFORD. That's right; they are not negotiable.

Secretary MORGENTHAU. There is no market.

Mr. CRAWFORD. In other words, you put out the issue so there would be no market.

Secretary MORGENTHAU. That is right. There is no market. I am the only buyer.

Mr. CRAWFORD. I am reading Mr. Eccles' statement in *Fortune* magazine, and I think it is pertinent when someone gets the impression that there is a pegging process, or that it may become necessary to use some kind of a pegging approach, we will call it. When you appeared before the Ways and Means Committee in connection with amendments to the Liberty Bond Act, I think around January 29, as I recall it, to give greater discretion in setting up the defense-bond issues now on sale, you stressed the necessity of selling as many of the deficit Treasury certificates as possible to bona fide investors other than commercial banks. On this point, your opinion and that of the Federal Reserve Board, as I understand it, always appeared to be in agreement—namely, that we should not put any more into the commercial banks than is absolutely necessary and that we should sell as many to private investors as possible. Do you believe legislation increasing the reserve requirements will contribute toward the

Secretary MORGENTHAU. Would you mind repeating that? attainment of that objective?

Mr. CRAWFORD. If you desired—and I think all of us do—to sell as many to the private investors as possible and as little to the commercial banks, do you believe that increasing the reserve requirements say to the point of almost extinguishing, or extinguishing, 50 percent of that now remaining, will contribute to the sale of securities to individuals, and be a less pull on the banks? Do I make myself clear on that?

Secretary MORGENTHAU. Yes. Of course, if you insist, I will answer that, but it bears on the point whether we are going to ask for authority to increase reserves beyond this, and I answered, I believe, earlier in the morning, that all questions affecting bank credit are under study. As I say, if you insist, I shall try to answer.

Mr. CRAWFORD. I am not going to insist, because you have a load to carry there. You may want to comment on this. Do you not think that sales to banks in the future should be confined as nearly as possible to short term? I won't press that.

Secretary MORGENTHAU. You can't tell. It depends upon market conditions. I just don't know. Under this system of ours people have the right, thank God, to make up their own minds as to what they want to buy, and it is their mind, and sometimes they like to buy short, and sometimes they like to buy long.

Mr. CRAWFORD. In other words, it goes back to that \$3,000,000,000. Who is going to buy them?

I refer to your Boston speech again, where I find this quotation: "We may have to create controls over selected capital expenditures." I

think you referred to that very briefly in your statement this morning. My question is this: Can you tell us what you mean by that term? Does it imply additional steps to raise credit along the lines of the recent installment-credit regulations?

Secretary MORGENTHAU. Well, I answered it before. I will be glad to answer as I did. Those matters are under continuous study and as of today I have no recommendation to make.

Mr. CRAWFORD. Now does control over selected capital expenditures imply any direct control over the use of existing surpluses of corporations where no new capital is to be issued?

Secretary MORGENTHAU. I have not thought of it.

Mr. CRAWFORD. Let me explain it this way, because I do not think you understand it. Suppose company A has a surplus, say, of \$15,000,000, and an excess cash on hand, over and above working-balance requirements, of \$10,000,000, and they desire, on their own initiative, independent of Government influence, to expand their plant capacity to the extent of three or four million dollars cost, and they can do so without issuing any new capital. They would then enter the market for material, if they had some way of getting it, with which to build the plant. Did your statement have reference to new capital issues as well as corporation surpluses?

Secretary MORGENTHAU. If you don't mind, I want to be clear about what you say. If this corporation you describe wanted to go ahead and build a plant today, unless it had something to do with defense industry, it just could not get the material. I mean, a man couldn't go ahead today and get the steel to build a new plant.

Mr. CRAWFORD. All right. If you couldn't get the steel to build a new plant, and thus absorb your surplus, how could you get the material to build, as a result of disposing of new capital? And, therefore, why did the new capital question come up?

Secretary MORGENTHAU. I didn't bring it up.

Mr. CRAWFORD. I got it from your speech. Let me read it again. In your speech you say—

We may have to create control over selected capital expenditures.

Secretary MORGENTHAU. That is right.

Mr. CRAWFORD. Maybe I don't understand what you mean by capital expenditures.

Secretary MORGENTHAU. Well, we may have to do it through priorities; we may have to do it through additional legislation. We just do not know. But we put it into the statement to let the financial community know it was under study. I feel that if we can keep the financial community aware of the various steps we have in mind, then when we come along and take a step as we did yesterday in connection with fixing reserves, the market takes it in stride and there is no reaction whatsoever. I am simply pointing out that if, through priorities, or one way or another, new capital expenditures should be controlled, we may have to do something. But at the moment, so far as new capital expenditures are concerned, it is under good control.

Mr. CRAWFORD. I think you can clear me up on this. This is a personal matter I am interested in—

Secretary MORGENTHAU. Could you give me a case?

Mr. CRAWFORD. Your term "selected capital expenditures" refers to what?

Secretary MORGENTHAU. If you wouldn't mind—you say you have a case in mind. Would you give me the case?

Mr. CRAWFORD. Do you mean by that language it may be necessary for us to control the issuance of new capital for the purpose of extending productive capacity? Is that what you mean by that term?

Secretary MORGENTHAU. What I had in mind is in connection with national defense.

Mr. CRAWFORD. That is what I am speaking of.

Secretary MORGENTHAU. If you want an example, use a city. Supposing a city wanted to go ahead with a new bridge, and the War Department or public highways felt it was not necessary. But the city wanted that bridge.

Mr. CRAWFORD. Then it would be fair for me to say this: Your term "new capital expenditures" refers to all expenditures which involve work other than defense operations?

Secretary MORGENTHAU. That is right.

Mr. CRAWFORD. Then, of course, that would cover corporation surplus, new issues, private and public.

Secretary MORGENTHAU. That is right.

Mr. CRAWFORD. May I ask one other question on this: Would you propose controls other than priorities? I think you answered that a while ago when you enlarged on that.

Do you think restrictions, under present conditions, should be imposed on credit granted for residential building construction? That has been answered this morning, under F. H. A.

Secretary MORGENTHAU. I took care of that.

Mr. CRAWFORD. I notice that installment credit of this nature was excluded from the President's Executive order which furnished the basis for the legislation on installment credit.

In other words, should Congress pass legislation to curtail Government subsidized credits, such as F. H. A. at the present time? You do not need to answer that.

I understand that representatives of the Federal Reserve System, members of the Board and the Reserve staff, and representatives of the Federal Reserve banks, have been conferring continuously with the Treasury officials on many of these questions we have been discussing here this morning, and others. May I ask, therefore, whether your recommendations on this question we have before us this morning involve the Federal Reserve Board's present attitude? Or would you prefer we take that up with Mr. Eccles when he comes before us?

Secretary MORGENTHAU. Well, I have talked about our relationship, and if you want to go into it any further and hear Mr. Eccles' story—his side of the story, he will be here. I think I have expressed myself pretty fully on how well we have been working together, and the statement of last night, which is the result of these conferences, speaks for itself.

Mr. CRAWFORD. I had this question prepared here; whether you would like to give us a general viewpoint as to how and under what conditions the Federal Reserve Board will utilize any additional powers to increase reserve requirements Congress may approve, but I think you have covered that about as fully as can be.

Secretary MORGENTHAU. Yes.

Mr. CRAWFORD. Mr. Chairman, that is all the questions I have.

Mr. DEWEY. May I ask a question to clear up a point I brought out?

Mr. WILLIAMS. Yes, you may proceed.

Mr. DEWEY. Mr. Secretary, I wish to refer to your statement to Mr. Crawford, in which you said you favored taxation that would take all net revenue from business in excess of 6 percent of the paid-in capital. There are numerous companies which have elected for many years prior to the present emergency to keep their capitalization small, and have plowed back their earnings into surplus, thereby providing their working capital. Moreover, there are personal-service companies with little or no capital. My question is, Do I understand that you favor confiscation by taxation of all earnings in excess of 6 percent on the cash money invested in an undertaking, without regard to the average earnings during what may be termed normal business conditions?

Secretary MORGENTHAU. Well, Mr. Dewey, I think it was Mr. Williams who asked me the question, and I said I could either give him a very simple answer in a few words as to how I felt, or I could have one of our tax experts give him a more detailed answer. And what I was attempting to do was to tell you gentlemen how I felt, to give you a sort of rule of thumb. I realize that to avoid injustice some modifications would be required. If you don't mind, the words and language which you used, do not happen to fit my philosophy or attitude toward business. But I do think that in these times when we are asking the young men of this country to serve their Nation at \$1 a day, and go through what they are doing, and ask them to give up what they have given up, we are not asking business to do anything more than what is its share, if a way can be found, for them to give up excess profits over and above 6 percent of the money invested in the business to help pay for this national-defense program.

Mr. DEWEY. Mr. Secretary, I don't want to be put in a position by you or anyone else of recommending that business should prosper excessively at the expense of national defense. What I really wanted to clear up was the point that I believe there is some controversy as to invested capital and average earnings being the basis of taxation. And your statement made invested capital the base. I believe that taxation should be made on all excess profits, and that we should all make sacrifices and put our shoulders to the wheel. But I do not believe in a tax policy that will confiscate everything over 6 percent without regard to the past operations of a business or of a personal service company. That is what I wanted to direct my statement to. And I do not think Congressman Crawford—I am putting words into his mouth—meant much more than that. I think all the members of this committee, and I know all on the minority side, and all good Americans, are completely behind you, and completely behind any effort that will make your task easier and get you the tax money, but I do not want to see the goose that lays the golden egg killed, so that when these boys that are only getting a dollar a day come home, they won't find any jobs waiting for them, because business will have been destroyed.

Mr. CRAWFORD. Mr. Chairman, may I introduce this paper into the record?

Mr. WILLIAMS. Yes; that may be made a part of the record.
(The paper is as follows:)

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM—STATEMENT FOR THE PRESS
For release in morning newspapers of Wednesday, September 24, 1941.

SEPTEMBER 23, 1941.

As a further step in the Government's program for combating inflation, the Board of Governors of the Federal Reserve System, after consultation with the Secretary of the Treasury, has today increased reserve requirements for member banks to the present statutory limit, effective November 1. This action, unanimously agreed upon, increases reserve requirements by about one-seventh.

The requirements beginning on that date will be: For demand deposits, 26 percent at central reserve city banks, 20 percent at reserve city banks, and 14 percent at country banks; for time deposits, 6 percent at all classes of member banks. This action will result in a reduction of excess reserves from about 5.2 billion dollars to about 4 billion dollars for member banks taken as a whole. At central reserve city banks excess reserves will be reduced approximately from \$2,400,000,000 to \$1,700,000,000; at reserve city banks, from \$1,850,000,000 to \$1,500,000,000, and at country banks from nearly \$1,000,000,000 to \$800,000,000.

The action will leave the banks as a whole with ample funds to meet all bank credit needs of the defense program and all legitimate requirements of their customers. A survey made recently by the Board showed that a large majority of the member banks will be able to meet the increased requirements out of existing excess reserves and all but a few of the remainder by drawing upon a portion of their deposits with city correspondents.

The Board determined that penalties for deficient reserves prior to December 1, 1941, shall be based upon reserve requirements in effect October 31, 1941.

The following table compares the new requirements with present requirements which have been in effect since April 16, 1938.

Member Bank Reserve requirements

(Percent of deposits)

Class of deposits and banks	Present requirements	New requirements
On net demand deposits:		
Central Reserve city banks.....	20%	26
Reserve city banks.....	17½	20
"Country" banks.....	12	14
On time deposits, All member banks.....	5	6

Mr. SPENCE. I do not think I am capable of asking technical questions, but I would like to ask how much the income of the people of the United States has been increased owing to the emergency, the defense activities, over the normal that would have obtained.

Secretary MORGENTHAU. You will have to give me a minute. Could Mr. Haas of our Research Section answer that?

Mr. SPENCE. Yes; I just want the information.

Mr. HAAS (Director Research and Statistics), Mr. Congressman, I do not think it is possible by any type of analysis to estimate with any degree of accuracy how much of the increase in national income which has occurred during the course of the business expansion—since the national-defense program began—could be attributed directly to the defense program.

Mr. SPENCE. If it was not attributable to the emergency, our legislation would not be based upon anything, would it? We are basing this legislation on the fact that there is an emergency and that it has created conditions that did not exist when no emergency was here.

Mr. HAAS. There is no question but that the large increase in national income is to a great extent attributable to the national-defense

expenditures, but to make a definitive estimate and say just how much of this increase was due to that, would necessitate estimating what would have been the situation if there had been no defense program.

Mr. SPENCE. But the tendency, I think you can see, will be to constantly increase that income under present conditions; isn't that true?

Mr. HAAS. I think you are absolutely correct.

Mr. SPENCE. What proportion of the income do you think we can recover by taxation? How can we limit that? How can we reduce this swollen national income by taxation to get it back into normal channels? What effect will taxation have upon it?

Mr. HAAS. That is a general policy question. The Secretary may wish to answer that himself.

Secretary MORGENTHAU. It is very difficult to answer.

Mr. SPENCE. It is difficult, but don't you think that is fundamental? Don't you think it ought to be considered?

Secretary MORGENTHAU. Well, the situation changes so fast. I mean, the amount of money we are spending for national defense changes so fast that, as I said before the Ways and Means Committee, the recommendation I asked for, three and a half billion, looked old-fashioned or out of date before the committee had even finished the hearings. When I went up there and asked for three and a half billion I thought I was asking for the last drop in the bottle, but before I got through I made up my mind I would have to have another bottle.

Mr. SPENCE. Well, you will recapture a great deal of that by the sale of Government securities, will you not? Is there a limit to the sale of Government securities?

Secretary MORGENTHAU. Well, we haven't found that limit yet, and I hope we never will.

Mr. SPENCE. Price control alone, the machinery of arbitrarily setting prices would be entirely ineffective if it was not coordinated with fiscal management and monetary control.

Secretary MORGENTHAU. That is right.

Mr. SPENCE. Don't you think they are the greatest single agencies to maintain the price level?

Secretary MORGENTHAU. As I said earlier in the morning, we are in touch constantly on a very informal basis, not only with Mr. Henderson, but with Mr. Nelson, with the Federal Reserve Board, and with Mr. Jesse Jones. I mean we are in constant touch, by telephone and by meetings, to discuss this problem, because we are all aware of the gravity of the situation, and we are trying to cope with it to the best of our ability. There isn't a day that I do not talk with somebody, once or twice, ask their advice, ask their help. We have meetings going on all day in the Treasury and in some of these other agencies, discussing the very point that you mention.

Mr. SPENCE. Now, there are many people that have some standing in the financial world, economists, who believe a reasonable price level could be established and maintained by fiscal management and monetary control. What is your opinion about that?

Secretary MORGENTHAU. I think under existing conditions today that that is impossible.

Mr. SPENCE. I mean under normal conditions.

Secretary MORGENTHAU. I don't know. It has not been demonstrated to my satisfaction that it can be done.

Mr. SPENCE. As I understand the trouble results from an increased purchasing capacity of the American people and the fact that the production of consumers' goods does not keep pace with that purchasing power.

Secretary MORGENTHAU. You are quite right.

Mr. SPENCE. Isn't there going to be a possible tendency to reduce the production of consumers' goods as industry gradually goes into defense production?

Secretary MORGENTHAU. That is the present tendency, Mr. Spence, but what I was hoping, and what I have been advocating is that more attention will be given to the production of goods for civilians, so that this vast stored-up purchasing power, due to defense spending, will have some outlet to buy nondefense merchandise, and I think that is something that we all have to study very very carefully. There are plants which can be expanded, which could manufacture nondefense goods, and it is very important that we get expansion of production of nondefense goods to take care of the civilian population.

Mr. SPENCE. In order to do that, we will have to make the production of nondefense goods as attractive as the production of defense goods.

Secretary MORGENTHAU. Yes. That is right.

Mr. SPENCE. What do you suggest along that line?

Secretary MORGENTHAU. All I know is that the need is there, but I am not prepared to say how it should be done. Those people who are charged with that responsibility are studying the subject and I hope they will find an answer.

Mr. SPENCE. Do you think that a curtailment of installment buying will have a great effect in meeting the problem?

Secretary MORGENTHAU. Well, as I understand it, the curtailment of installment buying has two objects. One, as in the case of automobiles, to keep the people from manufacturing automobiles and using material which is so vitally needed for defense purposes. They can reduce the number of automobiles manufactured either by making it unattractive to buy them, by tightening up on the amount of money in the down payment, or by making it next to impossible for the automobile manufacturer to get materials to go into them. We are in a very, very difficult period and it needs the brain and the heart of everybody to work together to try to solve it.

Mr. SPENCE. We have already largely repealed the law of supply and demand. Priorities has done that, has it not?

Secretary MORGENTHAU. To an extent.

Mr. SPENCE. Of course, it would be absolutely necessary for you to work in conjunction with the Federal Reserve, because your operations are the sale of Government securities, and if the Federal Reserve would go into the market and buy the securities it would simply negative your activities, would it not?

Secretary MORGENTHAU. That could arise. We have a splendid working arrangement with the Federal Reserve. We are in constant touch with each other. Both agencies are fully aware of the gravity of the situation and we work from early morning to late at night trying to do the best job we can.

Mr. SPENCE. The whole situation resolves itself into this: You have to control absolutely the purchasing power or you have got to increase the production of consumers' goods. Isn't that the whole problem?

Secretary MORGENTHAU. I think we have to do both.

Mr. SPENCE. Yes.

Secretary MORGENTHAU. I think we have to do both.

Mr. SPENCE. I notice this release of the Federal Reserve illustrates the power, it seems to me, of the Federal Reserve. They have increased the central Reserve city banks from 22 $\frac{3}{4}$ to 26, the Reserve city banks from 17 $\frac{1}{2}$ to 20, the county banks from 12 to 14 percent, and on time deposits of member banks from 5 to 6 percent, and yet those small increases reduced the excess reserves \$1,200,000,000. So that is a powerful agency to control the money supply of the United States.

Secretary MORGENTHAU. That is correct.

Mr. CRAWFORD. Mr. Spence, may I ask a question?

Mr. SPENCE. Yes.

Mr. CRAWFORD. On this matter of increasing the consumer goods, if I understood the Secretary a moment ago, priorities are now operating in such a way that we must not and we cannot expect to expand the productive facilities for turning out more consumer goods—unless I misunderstood you.

Secretary MORGENTHAU. Would you repeat that, please? I am sorry.

Mr. CRAWFORD. I understood you to say a while ago that the priorities are operating in such a way that a corporation, for instance, cannot expand its productive capacity for the purpose of producing consumer goods, because it would directly compete with the defense effort.

Secretary MORGENTHAU. That is the objective, I understand, of the priority people, and I believe they are doing it to the best of their ability.

Mr. CRAWFORD. I raise that point because you brought up the question there of producing consumer goods so as to take care of the purchasing power and so that the tendency would remain down.

Mr. FORD. Mr. Secretary, if it were possible to absolutely balance production with the purchasing power, we wouldn't have any inflation, would we?

Secretary MORGENTHAU. I am sorry; I cannot hear.

Mr. FORD. If it were possible to increase the production of goods, so that it would meet the purchasing power that this new influx has brought about, there would be no danger of inflation, would there?

Secretary MORGENTHAU. That is right.

Mr. FORD. Now, then, there are just three things I want to ask. On the question of the 6-percent return on capital investment: Take a concern that probably has a capital structure, capital stock, of, say, \$20,000. By reason of this emergency they get orders that enable them to do \$200,000 of business, we will say, and their overall profit on that \$200,000 was 6 percent, or \$12,000. In the year they had that \$12,000 profit as against a capital investment of \$20,000, when the tax was levied, would you say they were only entitled to \$1,200 profit on the \$20,000, or that they were really entitled to 6 percent on the net amount of that business during the year?

Secretary MORGENTHAU. If those suggestions which I refer to were carried out literally they would have \$1,200 at the end of the year.

Mr. FORD. The other question was about the tax. I saw some figures the other day. The existing taxes in the new tax bill will make our total taxes about what?

Secretary MORGENTHAU. About \$18,000,000,000.

Mr. FORD. Then if our national income increased to \$108,000,000,000, which is the figure somebody has suggested, our tax structure would be about 12 percent of our gross national income; would it not?

Secretary MORGENTHAU. That is about right.

Mr. FORD. Do you consider that a stiff percentage of taxation on the national income?

Secretary MORGENTHAU. I don't think it is high enough.

Mr. FORD. Then, as a matter of fact, on \$108,000,000,000 national income for the year, a tax structure of approximately 25 percent would not be terribly out of line; would it?

I don't know how you would get it, but it would not be terribly out of line.

Secretary MORGENTHAU. I would like to study that a little bit before answering.

Mr. FORD. Fifteen or eighteen percent would not be too far off, anyhow?

Secretary MORGENTHAU. If you don't mind. I just want more; that's all.

Mr. FORD. Another question was raised touching on wages. I suppose it could be readily demonstrated by some definite research that the major raise has been within the defense industry.

Secretary MORGENTHAU. I wouldn't know.

Mr. FORD. Have you made any study of that?

Secretary MORGENTHAU. There are plenty of people in the country who study that, but I can't give you an offhand opinion.

Mr. FORD. It doesn't come within the purview of the Treasury?

Secretary MORGENTHAU. No; I wouldn't know.

Mr. WILLIAMS. The committee will stand in recess until 2:30.

(Whereupon at 12:20 p. m. the committee recessed until 2:30 p. m.)

AFTER RECESS

(The committee convened at 2:45 p. m., at the expiration of the recess.)

Members present were as follows: Steagall, Williams, Spence, Ford, Brown, Patman, Gore, Barry, Monroney, Crawford, Kean, Miss Sumner, Messrs. Smith, Kunkel, Rolph, and Dewey.

The CHAIRMAN. The committee will be in order.

Mr. CRAWFORD. Mr. Chairman, may I make one request at this time?

The CHAIRMAN. Yes.

Mr. CRAWFORD. In connection with my interrogating Mr. Barry with respect to what he meant by "parity price," I would like to submit for the record a new parity formula which has been handed to me by one of my constituents. I would like permission to have this inserted in the record for the information of the committee.

The CHAIRMAN. That will be inserted.

Mr. CRAWFORD. This is submitted by Mr. Edward E. Kennedy, vice president of the National Farmers Guild. He suggests that paragraph (1) of section 301 (a) of the Agricultural Adjustment Act of 1938, as amended, is amended to read as follows:

(1) "Parity" as applied to prices for any agricultural commodity shall be determined by multiplying the average price of each commodity for the most recent 10-year period, for which such prices are available by the percentage which the most recent annual total expenses and costs of all agricultural production is of the gross income of agriculture for the said most recent 10 years for which prices are available. The current monthly, quarterly, or annual cost of production of all farm commodities is based on monthly, quarterly, or annual cost indices shall be the aggregate sum obtained by adding the products obtained by multiplying each of the items of operating and other allowable farm costs on all farms in the United States for the most recent year for which statistics of the Department of Agriculture are available by the percentage which the current monthly, quarterly, or annual cost index of such items is of the cost index of such item during such year for which statistics are available. For the purpose of this paragraph, operating and other allowable farm costs shall be deemed to include all annual expenses or costs of farm supplies, seed, equipment, capital and wages including in part, interest paid on all farm and farming indebtedness, 4 percent on un-mortgaged equity in farm and farm operating values, hired and unpaid family farm wages, net annual insurance costs allowable on farm buildings, equipment, machinery, crops, ad valorem and sales taxes, payable on farm and farming capital, and earnings to the farm operator equal to the average wage paid currently to industrial workers of the United States in manufacturing, mining, and transportation excluding salaried employees.—(Prepared by Edward E. Kennedy, vice president, National Farmers Guild.)

COST-PARITY INCOME PRICES FOR FARM COMMODITIES

This statement and accompanying tables outlines a method or approach for ascertaining true cost-parity income prices for farm commodities. This method combines a true parity of income and cost prices.

This method is simple. All of the factual data is available in the Department of Agriculture and labor and currently published. Tables II and III demonstrate the flexibility of the method for computing the cost-parity income prices currently month by month reflecting any changes in the farmers current cost of production.

A further study and calculation should be made of items of paid out expenses of farm production such as insurance on farm buildings and equipment, interest on the value of personal property used in farm production, taxes on personal property used in farm production, and crop-insurance premiums. These items should be included.

The effect of including the above items and a further refinement of some of the items included would tend to slightly increase the cost-parity income prices shown in table III.

A specific statutory description of this method of computing necessary prices for farm commodities can be prepared. For the price and income base period I have used the 1920-29 period. It would be entirely proper with this method to use a movable most recent 10-year period. I have selected for the purpose of this illustration the 1920-29 period because the price relationships of one commodity with another are about as good in that period as in any period and for the further reason that the average prices for that year were readily available.

Respectfully submitted.

EDWARD E. KENNEDY,
Vice President, National Farmers Guild.

TABLE I.—Operating and other allocable farm costs, gross income excluding Government payments and cost-parity income, of agriculture in the United States 1909-40, inclusive
[All figures in millions of dollars]

Year	Production expenses and interest on mortgages ¹	Interest at 4 percent on un-mortgaged equity in farm ²	Farm wages paid to laborers on farms ³	Estimated unpaid family labor for the farm ⁴	Annual earnings allowed operators at wage rates of industrial wage earners for 48 weeks of work ⁵	Total allowable costs and earnings for agriculture	Gross income from agriculture excluding Government payments ⁶	Income as percentage of cost-parity income	Percentage increase of income needed to pay cost-parity prices
1909	2,471	1,304	531	206	3,292	7,824	6,792	87	15+
1910	2,599	1,284	546	273	3,292	8,044	7,593	93	7+
1911	2,669	1,301	547	278	3,260	8,002	7,614	97	15+
1912	2,906	1,335	668	284	3,879	8,779	7,857	87	12+
1913	3,045	1,365	575	287	4,915	9,183	7,847	85	17+
1914	3,119	1,395	572	286	3,760	9,133	8,004	88	13+
1915	3,181	1,384	577	288	3,852	9,302	8,041	86	16+
1916	3,431	1,387	554	307	4,844	10,000	9,286	84	19+
1917	3,610	1,481	597	398	3,396	12,582	12,088	100	None
1918	4,431	1,587	797	478	6,859	15,678	16,271	104	None
1919	5,530	1,734	947	530	7,401	17,278	17,290	100	None
1920	6,361	1,806	1,078	530	9,683	20,518	16,256	79	26+
1921	7,237	2,315	1,242	621	6,394	15,221	9,565	65	54+
1922	5,500	1,733	775	388	7,109	15,505	10,961	70	42+
1923	6,638	1,672	841	420	7,949	16,445	11,802	72	38+
1924	5,838	1,592	844	422	7,775	16,871	12,311	74	36+
1925	5,943	1,582	856	428	7,037	16,749	13,474	80	35+
1926	5,994	1,574	895	441	8,040	16,953	13,289	78	28+
1927	5,972	1,574	895	441	7,936	16,928	12,992	76	29+
1928	6,313	1,519	856	428	7,993	17,097	13,086	80	25+
1929	6,245	1,325	803	432	8,085	17,150	13,658	80	26+
1930	5,745	1,530	774	387	7,593	16,999	11,400	71	40+
1931	4,712	1,381	588	294	6,944	19,919	8,528	61	63+
1932	3,918	1,121	413	206	5,849	31,507	6,445	66	79+
1933	3,697	893	370	186	5,535	10,960	6,868	63	60+
1934	3,859	925	404	202	5,385	11,806	7,309	62	60+
1935	4,033	1,003	456	228	7,037	12,757	9,038	71	41+
1936	4,300	1,094	490	245	7,413	13,521	10,607	74	35+
1937	4,719	1,121	507	278	7,576	14,553	11,139	76	31+
1938	4,425	1,140	528	264	7,190	13,477	9,567	71	41+
1939	4,794	1,131	515	257	7,530	14,227	9,918	70	43+
1940	5,000	1,083	523	252	7,701	14,041	10,289	73	42+

¹ Based on testimony of H. R. Tolley before Senate Agricultural Subcommittee, July 29, 1941, table 2, column 4, of Mr. Tolley's data gives "Production expenses and payments of mortgage interest, wages, and rent to nonfarm persons." The later item has been furnished separately by Mr. Tolley's office and has been excluded from costs herein shown.

² Amount of mortgage on farm real estate as shown in table 712, p. 308, Agricultural Statistics, 1940 (U. S. Department of Agriculture). Figures for years 1909 and 1940 not given. Assumed to be same as adjacent year data. Farm values are given on p. 344 of same publication. The difference between these two series is designated as un-mortgaged farm equity.

³ See column 6 of table given by Mr. Tolley in reference (1) above.

⁴ Based on ratio of hired to all unpaid farm labor shown in returns to the U. S. Department of Agriculture from 1927-28 for 128,938 farm returns and assuming that one-fourth all unpaid labor is by the farmer's family. This basis indicates family labor to be about half as much as hired labor.

⁵ The weekly wage rate here used is based on the average weekly earnings of all wage workers in mining, manufacturing, and steam railroads including salaried workers. Data from Bureau of Labor Statistics, Wages, Hours and Productivity of Industrial Laborers (p. 16). For certain years missing in this series interpolation values were made on the basis of data on earnings of wage earners in manufacturing industries as given on p. 98 of U. S. Census Monograph No. 10, Earnings of Factory Workers, 1929-1937.

⁶ Gross receipts as given in table 2 presented by Mr. Tolley (referred to in footnote 1 above). They include sales of crop and livestock products, products consumed in the home, and rent for farm home, but exclude Government payments.

TABLE II.—Relative changes in the cost of farming from 1940 to June 1941 for the United States

	1940	Relative change in costs (index)			Costs as of June 15, 1941
		1940 index	June 15, 1941, index	June 1941 costs as a percentage of 1940 costs	
1. Production expenses, including mortgages, interest, and taxes.....	\$5,000,000,000				
(a) Total interest and taxes.....	709,000,000	128	130	101.6	\$715,000,000
(b) Production expenses only.....	4,294,000,000	(1) 124	(1) 135	(1) 109.8	4,528,000,000
2. Interest on un-mortgaged equity.....	1,003,000,000	(1) 125	(1) 135	(1) 108.5	1,083,000,000
3. Wages to hired labor.....	322,000,000	129	128	100.5	287,000,000
4. Unpaid family labor.....	7,701,000,000	95	123	129.5	10,085,000,000
5. Operators allowed earnings.....					
Total.....	14,041,000,000				17,000,000,000

¹ Assumed no change.

NOTE.—The above does not include the following items of cost in farm production: (a) Insurance on farm buildings and farm machinery and equipment; (b) interest on indebtedness on farm machinery and equipment and a return (4 percent) on the equity in same; (c) taxes on farm equipment and supplies and sales taxes on articles purchased in farm production, and (d) crop insurance premiums.

TABLE III.—Computation of cost-parity income prices for 1940 and June 1941 using 1920-29 as income and price base period

Commodity	Average farm prices 1920-29	New cost-parity income price for 1940 (column 1 X 114.2)	New cost-parity income price for June 1941 (column 1 X 133.0)	Current parity price, June 1941
	(1)	(2)	(3)	(4)
Cotton, cents per pound.....	18.44	22.20	25.80	18.12
Wheat, cents per bushel.....	118.70	135.30	157.80	114.90
Corn, cents per hundredweight.....	77.00	87.90	102.40	83.30
Hops, dollars per hundredweight.....	9.35	10.71	12.47	9.33
Red cattle, dollars per hundredweight.....	7.07	8.07	9.40	8.77
Butterfat, cents per pound.....	42.80	48.80	56.90	51.80
Eggs, cents per dozen.....	25.20	33.30	38.80	35.10
Wool, cents per pound.....	124.00	175.00	204.80	188.00
Florida grapefruit, cents per box.....	275.00	315.10	367.00	330.00
California oranges, cents per box.....	114.50	130.70	152.20	138.00
California dried prunes, dollars per ton.....				

Column 1: Average farm prices, crop years, 1920-29. H. R. Tolley exhibit presented before Senate Agricultural Subcommittee, July 29, 1941.

Column 2: Cost-parity income price for year 1940. Percentage 94 cost (\$14,041,000,000 see table 1) is of average 1920-29 gross income from agriculture (\$12,816,000,000 see column 5, table 1). Ex. \$14,041,000,000 ÷ \$12,816,000,000 = 114.2.

Column 3: Cost-parity income price for June 1941. Percentage June 1941 cost (\$17,000,000,000 see right hand column, table II) is of average 1920-29 gross income from agriculture (\$12,816,000,000 see column 5, table 1). Ex. \$17,000,000,000 ÷ \$12,816,000,000 = 133.0.

Column 4: Current parity prices as calculated and published by the U. S. Department of Agriculture. The method and approach of computing cost-parity income prices presented here combines a true parity of income and cost prices.

Mr. KEAN. Mr. Secretary, last year when you made your statement recommending lower nondefense expenditures, the administration paid no attention to your views. Several times in the past also you have made other recommendations to which the administration has paid no attention. What I would like to know is whether in your prepared statement you are expressing the views of the administration or only your own personal views. I am talking about your prepared statement.

Secretary MORGENTHAU. I think the conservative thing to say is that they are my own views.

Mr. KEAN. Then we cannot count on the full support of the administration for those policies.

Secretary MORGENTHAU. No. I don't believe you can jump to that conclusion. But I would rather say that they are my own views.

Mr. KEAN. I will say that I think they are very sound, and I approve of your views in nearly every case.

Secretary MORGENTHAU. Thank you.

Mr. KEAN. Mr. Secretary, Mr. Baruch indicated on page 772 of his testimony that the reason why the Treasury is hesitating to recommend to Congress the power to further increase the reserve requirements is that the Treasury is afraid of the influence such changes might have on the rates of the Government bonds that they are trying to sell.

Secretary MORGENTHAU. I don't know how Mr. Baruch could have said that, because he certainly was not in communication with anybody in the Treasury on that subject.

Mr. KEAN. He said that.

Secretary MORGENTHAU. I am not questioning your quotation.

Mr. KEAN. That is not true. Is that so?

Secretary MORGENTHAU. Mr. Baruch has not been in communication with me or with anybody in the Treasury.

Mr. KEAN. Is that true, what he said?

Secretary MORGENTHAU. That we are worried?

Mr. KEAN. That the reason that you do not wish to recommend to Congress legislation which will make possible an increase in the reserve rates is because you are afraid of what that might cause toward the increase rates on your bonds.

Secretary MORGENTHAU. Let me put it this way. Somebody must have misinformed Mr. Baruch.

The CHAIRMAN. Will you permit an interruption?

Mr. KEAN. Yes.

The CHAIRMAN. I know that you want to be accurate. Maybe you are. But I don't think that you are entirely accurate in quoting Mr. Baruch's opinion.

Mr. KEAN. I read it on page 772 of his testimony.

The CHAIRMAN. Perhaps so, but perhaps you didn't place the interpretation on it that I might have. He expressed the view that possibly that fear might arise. That is the substance of his statement as I remember it.

Mr. KEAN. Yes. I think that that probably is correct. I didn't mean to quote the Secretary or anybody else.

Secretary MORGENTHAU. That surprised me, because I think Mr. Baruch is a careful person, and I don't think that he would have wanted to leave the impression that he quoted me.

Mr. KEAN. I read it this morning.

The CHAIRMAN. Just for the record, would you read what he did say on that point? Then we will know what he said.

Mr. KEAN. Yes. I will read it.

Mr. Crawford first asked a question about whether Mr. Baruch wanted to get into a quarrel with the Government. Then Mr. Baruch said:

I do not mind quarrelling with them if I had any firm conviction on the question, but the Government itself has to borrow vast sums of money and if you cut down the reserves it might have to pay more for the money. Of course, to meet that I do not know that you need any more legislation.

Secretary MORGENTHAU. If you don't mind, that is pretty far removed from saying that that is what the Treasury thinks. That is what Mr. Baruch thinks.

Mr. KEAN. Mr. Baruch indicated that the reason that the Treasury were questioning it was that they might have to pay more for their money.

Secretary MORGENTHAU. If you don't mind, it is not in the statement which you have just read. That is his opinion.

Mr. KEAN. Yes.

Secretary MORGENTHAU. What you just said.

Mr. KEAN. Absolutely. That is his opinion.

Secretary MORGENTHAU. He is entitled to his opinion.

Mr. KEAN. Does the Treasury have the same opinion?

Secretary MORGENTHAU. No.

Mr. KEAN. You made a statement to Mr. Crawford in which you said that you did not think that the Government was pegging bonds. I want to disagree with that statement. In my opinion there certainly is pegging if there is a market at all times for the bonds.

It is a clever scheme. I think it is about as clever as a scheme for making the people pay 3 years' taxes in 1 year through the tax anticipation note.

Now, there is one thing about that. The chief objection to the tax-anticipation plan—and I approve of the plan, I think it is all right—as I see it, will be that the Government revenues will feel the effect in the next depression 1 year sooner than they would have otherwise. Isn't that right?

Secretary MORGENTHAU. May I answer your question?

Mr. KEAN. Yes. Go ahead.

Secretary MORGENTHAU. The first thing that I should like to say, if you don't mind my differing with you, is that we have never tried and never could peg the bond market. I mean, there have been big swings in the bond market—

Mr. KEAN. I am talking only about defense bonds.

Secretary MORGENTHAU. I am talking about the Government bond market. I have seen swings over a period of 18 months where the bond market has gone down, down, down. We could cushion that fall; but, as for pegging it, as I understand it, holding it at one price, not only have we never tried to do that, but we could not. We would not have enough money to do it.

Mr. KEAN. That is true on general market bonds, but not as far as defense bonds are concerned.

Secretary MORGENTHAU. I am talking about the regular Treasury issues on the market.

Mr. KEAN. Open-market stuff.

Secretary MORGENTHAU. There just isn't enough money. You agree with me on that, don't you?

Mr. KEAN. I agree with you on that.

Secretary MORGENTHAU. As to the Treasury defense bonds, there is no market. When we sell a man a savings bond, we offer to buy it back at any time from him at the price he paid plus accrued interest, if any. It is not a question of pegging in this case because we are the only buyer.

Mr. KEAN. You have an open bid in the market?

Secretary MORGENTHAU. The same way that you can always take a \$10 bill and take it to the Treasury and we will give you another \$10 bill or \$10 in silver if you want it.

Now, as to your compliment, that the tax anticipation is clever, I would like to accept it, but I cannot. It is not clever. It was not meant to be clever.

We are trying to do two things. The average person who today is paying taxes is paying taxes on last year's income out of his current income. What we are trying to bring to his attention is that the taxes are going to be greatly increased next year, and not only does he have to pay for the taxes, his 1940 taxes, but he also has to begin to save to pay for the increased taxes which are going to come next year.

The whole thought behind this thing is that we want to bring it not only to the attention of the present taxpayers, but also to the 5,000,000 new taxpayers who are going to be added to the rolls, and try to make them tax conscious; and not only will they help themselves by saving this money, but also through saving they will take it out of circulation and won't be buying an automobile or a victrola or a radio and adding that much purchasing power to the present spending.

Those are the two ideas behind it. It is not that we need the money or that we think it is a clever scheme to get money. But we have two objectives: First, to educate a man to save this year enough to pay next year the taxes accruing on his current income, and to let the vast number of people that have never paid any taxes become conscious that they are going to have to pay them. The other thing is to get them to withdraw that money now from buying and competing with other people in the consumer's markets. Those are the ideas behind it.

Mr. KEAN. You don't mean to say, Mr. Secretary, that you think that you will be keeping the corporations, from which you get the greater amount of this tax revenue which will be paid in the next tax year—what is the percentage that you are getting from corporations as compared to what you are getting from individuals? I mean, the A's and B's.

Secretary MORGENTHAU. It is overwhelmingly for the corporations.

Mr. KEAN. So, from what you said—

Secretary MORGENTHAU. It is only directed at the A's.

Mr. KEAN. They are a very small amount?

Secretary MORGENTHAU. Yes. But the B was designed to take the money out of the banks and reduce the idle funds in the banks. That was the so-called B note, which can be used in unlimited amounts.

Mr. KEAN. I think it is all right—

Secretary MORGENTHAU. May I finish?

Mr. KEAN. Yes.

Secretary MORGENTHAU. You have two distinct purposes. You have the A, which is limited to \$1,200, which is what I described. The B is to withdraw the idle funds out of the banks and to put them in the hands of the Government.

We are perfectly sincere about it.

Mr. KEAN. I think you are perfectly all right.

Secretary MORGENTHAU. But I would rather be given credit for being sincere than for being clever.

Mr. KEAN. I think that you are right, but I still think that it is clever. But you are going to run into the trouble, Mr. Secretary, that you are going to find the next time we have a depression that your revenues are going to be cut 1 year sooner than they would be otherwise. Isn't that right?

Secretary MORGENTHAU. I am not saying that. When that situation comes, the headache is going to be so bad anyway that you will have to think up ways of easing the situation. I would like to say that taxes will be less, will be cut down, but I cannot say so.

Mr. KEAN. According to the press—I cannot find it in the hearings—in answer to a question yesterday by Mr. Monroney, Mr. Henderson said:

Voluntary agreements to prevent wage increases are the next step in the administration's efforts to avert inflation.

Have you heard any talk about that?

Secretary MORGENTHAU. I think Mr. Henderson is here. He can explain what he meant better than I can.

Mr. KEAN. I understand what he meant, but I wondered whether you have heard talk about that.

Secretary MORGENTHAU. I have heard that we have a lot of voluntary agreements now with labor and industry. I imagine that what Mr. Henderson had in mind is the same thing that Mr. Sidney Hillman told me yesterday, that he hoped to extend these agreements. It is these collective-bargaining agreements, I suppose, that Mr. Henderson had in mind, and that is what Mr. Hillman was talking to me about yesterday.

Mr. KEAN. Of course, according to this press report, it states "to avert inflation," which is a little different reason for this than previously assigned.

Mr. FORD. I don't think his answer meant that. He meant to stabilize it at a reasonable base or time by area agreements in aircraft, shipbuilding, and several other heavy industries that go into making up the defense program. That has been going on for 2 or 3 months.

Mr. KEAN. I think stabilizing wages is a method to prevent inflation.

Mr. FORD. That is the purpose of it, and that was his answer.

Mr. KEAN. With reference to this statement, that I cannot find in the hearings, let me say this: You are a member of the President's staff, and you can reach his ear, which, of course, none of us, at least on this side of the table, can do. Don't you think that if we are to leave labor out of this bill, as the administration has recommended, that before this bill is passed the President ought to try to negotiate some of these voluntary agreements in order that all the people will realize that this is an all-out effort to prevent the hardships of

inflation, and that everybody is going to be asked to make sacrifices impartially without regard to politics? I look upon these voluntary agreements as a part of this same program.

Secretary MORSETHAU. I would rather not comment on that, if you don't mind.

Mr. KEAN. Isn't it true, Mr. Secretary, that if you do not get the confidence of the people, and they do not believe that this program is essential to the well-being of all the people of the United States, no matter what penalty is put in this bill for noncompliance with the program, the program cannot be successful?

Secretary MORSETHAU. That is right.

Mr. KEAN. And thus any change which you can make in the bill which will aid in achieving this confidence could be said to be more important than any difficulties which the change might cause in the administration of the law? That does not call for an answer.

Thank you. That is all.

Mr. BROWN. Mr. Secretary, you said this morning that the wholesale prices of farm products have risen 37 percent in the past year. Do you realize that farm products, the basic commodities, have gone up in about 10 years 50 percent in their taxes?

Secretary MORSETHAU. I don't exactly know it. I am willing to take your word for it.

Mr. BROWN. You stated that you wanted agriculture in this bill, but that you thought that agriculture ought to be receiving parity. You also stated that the cotton that the Government owns ought to be sold and put on the market.

Of course, fixing a ceiling on cotton would not amount to anything, because cotton would never attain the ceiling price if you put this cotton on the present market, because cotton would probably go down as low as 8 cents a pound.

We all realize that cotton is selling now far below the market. And the thing that has depressed the cotton price is the laws that have been passed by Congress recently. And one of the most important that we have that has helped to depress the cotton price was that the Government will not sell in 1 year more than a million and a half bales of cotton.

Now, if we undertake to dump all of this cotton on the market, cotton will go down several cents a pound. When the President delivered his message to Congress, the price on cotton went down to \$6 a bale. The chairman and other members of the committee were talking to a representative from Mr. Henderson's office, and finally we got the ceiling in this bill placed at 110 percent of parity. Cotton then went up.

You spoke about the importance of this bill in your judgment, and the necessity of passing it rapidly. You will realize that this bill probably would disrupt the people of this country more than anything that has been proposed for a long time. At the same time I think something should be done to control inflation.

But this bill carries with it more elements of change than any bill that has ever been introduced in Congress. I think we are doing right to take this time to consider it. This committee's responsibility and the responsibility of Congress certainly is such that we should have plenty of time to go into every phase of the bill.

I think everyone agrees that this bill has in it more elements of change in all kinds of investments, with all commodities affected, all classes; and it deserves careful consideration and plenty of time. That is my feeling about it, and I feel that we have not delayed unnecessarily.

This bill has been before this committee quite a long time; and I wish to say at this time that our chairman knows more about this subject than anybody that I know of, more than anybody that I have ever come in contact with in Congress, certainly. I don't agree with him in everything, but he is a very intelligent man on every phase of government and on every phase of life and on every problem dealing with every phase of life.

You have stated here that millions of dollars are being spent for employees of the Government and other employees; and that if the market keeps on rising, it will cost the Government an extravagant sum. I think that that is one proposition that we have lost sight of when we speak about agriculture. These people have been getting wages out of all proportion to the people that deal in agriculture.

I think we ought not to lose sight of the fact that we have got to help these people in agriculture more. They are in debt. As I say, they have been receiving for their products way below parity. They cannot wipe out their debt at parity prices. For that reason, I have been very doubtful about placing that provision in the bill.

Now, Mr. Henderson has fixed prices on many commodities. Do you know what the commodities are?

Secretary MORSETHAU. I know what some of them are. Yes.

Mr. BROWN. A very prominent man from my State came to me yesterday, a manufacturer. I think he was a little afraid of Mr. Henderson to begin with, but he is inclined to think that he has done a pretty good job. He is also inclined to think that if you take on a few more commodities there would not be any necessity of passing this bill, which has necessarily alarmed and disturbed all the people in the country.

Now, another thing is that we do not place any ceiling on rents, except just in the defense areas, which do not cover very much. What the consumer pays most for are clothing, food, and shelter; and the largest item in that is shelter. I pay three to four times more rent for my apartment than I pay for food each month. So there is quite an item in that.

I am of the opinion that what we have done in the way of limiting installment purchases and also the heavy tax bills that are coming before us will have a great effect on controlling inflation. I am afraid that we have become alarmed too much.

This increase of 37 percent in the past year for the farm market now does not amount to anything like parity; and I think that we had better be a little more deliberate and act very lowly on this bill, which covers everything, as it does.

Thank you, very much.

Mr. FORD. Might I ask Mr. Brown a question? If all of the 6,000,000 bales of cotton that we have in storage were left there and frozen, don't you think that after this emergency is over we would have to go in and support cotton a second time and this 6,000,000 bales might gradually rise up to something like 12,000,000 bales, and we would be in the middle of a very damn bad fix?

Mr. BROWN. I don't understand you fellows from the city when you talk about our rural problems. We can sell a million and a half bales per month. We will get rid of this surplus cotton in the next 2 or 3 years.

The census report shows that we are raising about 10½ million bales this year. Mr. Henderson testified that the military necessities would consume the 10½ million. So where is the surplus going to be? We will get rid of it. We need to have a ceiling fixed for cotton.

The CHAIRMAN. If I understand your statement, you are in favor of preserving any benefits either for agriculture or for labor that will come by reason of the legislative enactment of the measures that have been passed by Congress on their merits independent of their situation?

Secretary MORGENTHAU. That is right, Mr. Chairman.

The CHAIRMAN. That means that you would not advocate a ceiling that would be below the parity price for agricultural commodities established by act of Congress; that you want to extend to labor the benefits and the results of the legislation in behalf of labor?

Mr. MORGENTHAU. That is correct.

The CHAIRMAN. And if I remember correctly, your testimony is to the effect that you think that we can embody in this bill authority of the Government to adjust inequalities in relationships and values and fix price levels upon what seem to be the merits of the particular situation from time to time rather than undertake to establish an arbitrary freezing date upon which all prices should be fixed?

Secretary MORGENTHAU. That is correct, Mr. Chairman.

Mr. BROWN. I am sure, Mr. Secretary, that you believe in the theory that the farmer should have the same treatment as industry and labor; in other words, that he should have the same parity as labor and industry do.

Secretary MORGENTHAU. Well, Mr. BROWN, you most likely are not familiar with my record at Farm Credit. But I went through the most difficult years that the farmer, I hope, will ever see. I went through the days when the only way the farmer could keep his farm was with a shotgun. I think I helped a little bit in stopping the foreclosures which were sweeping the country from coast to coast.

So, I don't have to say that I am a friend of the farmer. I think I have demonstrated in the setting up of Farm Credit and as its head, that I really was interested in his troubles in those most difficult years.

Now, in all sincerity, having seen what the farmer went through in 1920 up through 1933, in which he suffered worse than any other class in this country, all I can do in my present position is to point out the dangers to you gentlemen, who are responsible, elected by the people, and remind you and the farmers of those 13 heart-breaking years that they went through, and that my only wish is to point out the dangers. It seems to me that we are on the eve of repeating the mistakes of 1920 and that we are about to go through a situation or a combination of factors which caused the farmer so much trouble in that tragic period.

Now, that is all that we can do. The rest is up to you gentlemen.

I have no selfish interest. The only possession that I have is my farm. And when I am through here, my rocking chair and my apple orchard are what look best to me. So the farmer is foremost in my mind.

Mr. BROWN. I would like to ask you one more thing. The CHAIRMAN. Just a minute. May I interrupt?

Mr. BROWN. Yes.

The CHAIRMAN. Let me supplement your statement. I may not agree with everything that you might express about the present legislation, but I have learned some history in which you played a big part. I have followed these matters. Maybe every member of this committee has. But I happen to know, because I have sat in on some of the conferences, that you were largely responsible for the form of these bills that were passed in 1933, which provided \$2,000,000,000 of Government funds for use in relieving the distressed condition under which the farmers of the Nation were suffering at that time. Since the President has been making you a part of that program, I think it would be well for that fact to be called to everybody's attention.

Secretary MORGENTHAU. I just want to say this, as one farmer to another: Before election many people say they are always the friend of the farmer. But I think I demonstrated that I really was his friend back in 1933.

Mr. BROWN. I want to bring out this: You spoke about the depression years. The present year is the most depressed year for the cotton farmers. There are many in my own section whose only crop is cotton. They don't grow peanuts and they don't grow tobacco.

Mr. Secretary, in many counties they won't make 10 percent. This is the most distressing year that they have had in many parts of the South, such as Georgia, South Carolina, and a half of Alabama.

I want to bring that to your attention. I don't know how you feel about it, but that is how I feel about it.

Mr. BARRY. Mr. Secretary, I believe that some legislative action should be taken to control inflation. So far we have been presented with two methods—this bill and Mr. Barnet's proposal. I think that the thing that is troubling a lot of us, especially me, is the proper method of approaching the problem with the fear that possibly the remedy might be worse than the disease.

I really believe that both of these bills are a long step in the direction of regulatory economic control which is the characteristic of the Fascist form of government. Now, maybe we will have to do that. I don't know.

Yesterday the thought occurred to me, and I would like to ask you a few questions this morning and get your opinion as to whether there is a possible compromise between these two proposals.

Now, when you use the term "selected commodities," do you have any list of commodities in mind?

Secretary MORGENTHAU. No.

Mr. BARRY. During the last war we did have some agencies to control the basic raw materials. We had them to control food and fuel. I think we had a slight degree of rent control.

To the average persons, the great mass of people who have a regular income, I mean an income that does not increase with the increases in wages, civil-service employees and most people, their problem is food, shelter, and clothing. They are the essentials of life that they have to have, which absorb most of their purchasing power. They don't care so very much whether luxuries go up or go down, because that does not affect them.

Of course, the war program is concerned about the basic war materials that go into making machine guns and so on. We want to control those factors.

Now, I believe there must be some list of commodities that could be compiled as a result of our experience during the last war which would reveal to us those essential things that went up, and which, if they were controlled, would be just as effective as the proposal contained in this bill or the complete ceiling proposed by Mr. Baruch. Don't you think it is possible to ascertain such a list?

Secretary MORGENTHAU. Yes. But if I am correct, the Laver Act, which was, I think, the only act, controlled only food and fuel, and rents in the District of Columbia. So it does not give us very much precedent to go by.

Mr. BARRY. There was also, I think, an act to control the prices of basic materials in addition to the food control and fuel control.

Well, let us say that we have the food control. Food is a basic item in most people's budgets. Rent is the next big item, and shelter and clothing. Then, in addition, we could compile a list of basic war materials or whatever list we have to control in order to keep prices down.

My suggestion, or the suggestion that I was thinking of making, was that we could compile such a list of commodities, and then, as suggested indirectly in this bill and as suggested by Mr. Baruch, we could have Congress freeze at a certain date, as suggested in this bill, July 29, 1941, prices of those commodities with the cooperation, of course, of Mr. Henderson and his staff; and then the commodities beyond that, to let them go over in a free flow without any interference; or, if you want to go beyond that, and the Administrator has the right to, as suggested in this bill, to also watch and control those markets.

In that way you would still reserve for Congress some of the control and get away from the aspect of dictatorship with complete control in the Executive branch of the Government. It seems to me that it is practical to get something that would bring about the same result. I would like to hear from you on that, Mr. Secretary.

Secretary MORGENTHAU. Mr. Barry, you are asking me a very important question. I don't have the list or the break-down, but I assume Mr. Henderson and his organization have and can furnish it to you. I would much rather you would ask Mr. Henderson that, if he doesn't mind my passing it on. He is coming on a little bit later, and I think that that is something which he would be much better able to answer than I am.

Mr. BARRY. I am not asking you to supply me with a list. I am simply asking you this: Don't you think that it is possible to compile such a list that would control the major portion of items, 90 percent of them at least, where we would have inflation? Doesn't it seem reasonable to do that?

Secretary MORGENTHAU. As I say, I don't know, and I don't feel that I am competent to answer that question, and I would much rather have Mr. Henderson answer that.

Mr. BARRY. I had the opportunity of questioning Mr. Henderson. It just occurred to me that yesterday I had been pressing him a little along that line and I don't like to bring him back except maybe to answer just one question.

Mr. Henderson, is it possible to compile a list of commodities like that? If you will answer it, I will appreciate it. If you will answer that one question, I will not bother you any more.

Mr. HENDERSON. It would be possible to compile a list of commodities; but to determine which are likely in the future to have a condition of supply and demand which would put them into an inflationary status is entirely impossible.

Mr. BARRY. Suppose that we gambled on that and froze them at a certain time, say, as suggested, July 1941. Then, if we discover that we have overlooked some commodities, I would go further and give you the power to add them to your list of commodities and to fix the prices on any that we may have overlooked.

I would prefer to have those commodities, unless we forget some essential ones, to have a free flow, because most of them will be non-essentials or luxuries; and I don't see any point in fixing the price on them.

Mr. HENDERSON. Of course, the suggestion in the bill is that when there is an inflationary trend actually occurring or threatening, a ceiling be imposed. That would leave for the free play about which you speak all commodities in which there was a normal relationship between supply and demand, and there would be no necessity for imposing a ceiling. The standard, it seems to me, of whether or not we are threatened with an inflationary price rise is a much better one than trying to select certain commodities.

Mr. BARRY. We must know by virtue of our experience in the last war and by virtue of what we know now what essential commodities are rising and those that are important to the everyday man of the street and come under the heading of food, clothing, and shelter, and under the heading of basic requirements for our national-defense program. I don't see why you couldn't compile that list.

Mr. HENDERSON. You can make a list, certainly, on any standard that you please. All I am suggesting is that for a price-control bill you need this flexibility, and you need the standard of whether or not there is likely to be a price rise, plus the fact that if you let a number of commodities fluctuate, since one man's price is another man's cost, you would affect the prices that you have frozen as of July 29 and would be unfair to those commodities.

Mr. BARRY. We could cure that by having a ceiling over, say, 90 percent of the basic commodities. Then, if we overlooked some, I would be willing to go a little further and give the Administrator the right, as asked for in this bill, to fix prices on those that we have overlooked.

In addition to that, of course, below the ceiling the prices could fluctuate anyway. Then, if they want to increase those prices above the ceiling that you set, then the Administrator would approach them the same way as he does in fixing the price.

But what it would do, the eventual thing that it would do, would be to retain in Congress the control of the entire set-up between the executive and legislative branches of the Government. I think that that is an important factor, because I cannot see much difference between control of the entire economic situation, as proposed under the bill, or the Baruch plan, which is far more drastic, and the system that exists in the dictatorship governments in Europe.

Mr. HENDERSON. If I may be permitted to make a distinction: This proposal here is a temporarily selected one. It is similar to that which was used in the last war. However, it does incorporate certain standards. It does make violators punishable directly for their offenses by certain penalties set forth in the law.

I don't regard it as a complete control of economy. I think the whole area of transportation and of utilities and of manufacture and fiscal policies, and of wages, among other things, are without the control. This is mainly commodity price control.

Mr. BARRY. I appreciate that Mr. Baruch proposed to control wages and your proposal does not.

Mr. HENDERSON. Mr. Baruch proposes control of all commodities.

Mr. BARRY. I think that all moving articles and all elements of our economic welfare come under the term of commodities. I think that that is a very embracing term. I think that you can control street-cars, that you can control almost anything.

Mr. HENDERSON. I want to make one more distinction.

You see a pretty clear similar contour between this and dictatorship. What it seems to me is that there is a recognition by a free and democratic community of a danger caused by another act that is preparing for defense, and they take the steps which a free people would take to go through all the processes by which they arrange their own affairs through properly made proposals for legislation and through voting and through executive administration with standards. To me that is not dictatorship.

Mr. BARRY. What you are practically saying is that we are bringing about a dictatorship through economic processes?

Mr. HENDERSON. Through democratic processes?

Mr. BARRY. I mean, through democratic processes.

Mr. HENDERSON. I am assuming that there is nothing in this act which is going to disband Congress.

Mr. BARRY. No.

Mr. HENDERSON. It is always subject to the will of the Congress.

Mr. BARRY. Of course, you may always repeal an act; but if you have ever tried to do it around here, you know that it is a pretty difficult thing to do.

Mr. HENDERSON. Would you say that it is dictatorship just because you cannot get the bill repealed?

Mr. BARRY. No. I would not say that. If I have given that impression, I want to change it. What I meant to say is that it is a long step in the way of dictatorship and in the form of economic dictatorship.

Mr. HENDERSON. Let me now go along with you and say that in my opinion—and this goes for other legislation as well as this bill—any time there can be with specificity any standards set out by the legislature for the guidance and the control of the Administrator, I think it is needed to be done. I mean, if anything could be set forth in this bill which would not be narrowing, a limitation, I would certainly be prepared to accept it. And that goes for a list of commodities.

Mr. BARRY. I have not talked this over with any of the members of this committee. This is my own suggestion. I am just trying to find the least drastic way of accomplishing what we want to do.

Mr. HENDERSON. I think it would be more drastic to take 80 percent of all commodities and freeze them than it would be to wait until one commodity or one group of commodities had shown by its price action that it was liable to cause danger to the community by an inflationary price rise.

Mr. BARRY. I mean, sort of an in-between proposal between Mr. Baruch's and yours, without his proposal going all the way down the line and controlling wages and everything else. I mean to let Congress, with your cooperation, I presume, freeze at any certain level, which you suggest here in the bill as July 1941 by taking into account the factors which you have to consider.

Mr. HENDERSON. I have July 29, 1941. That is a standard taken in connection with any commodity which has a ceiling fixed. It is not a freezing point for any commodities outside of the ceiling. You might conceivably have numerous commodities that are affected by the defense effort which would fluctuate up and down from their July 29 base without being touched at all by this legislation.

Mr. BARRY. As I just read the bill, it says that so far as practical in establishing any ceiling for any specific commodity the President shall ascertain and give due consideration to the prices prevailing for those commodities on or about July 29, 1941.

Now, I don't think there is any point to that date, because I did not previously have any date in mind. I am just taking that date.

I don't think I shall take up any more of your time. I appreciate your courtesy.

I have just one other question in mind. Is it your feeling that control of labor is not necessary, because, if we control prices, there will be no real need for labor to look for an increase in wages; that is, nothing outside of the normal?

Secretary MORGENTHAU. I don't think I have much to add to what I said in my statement.

Mr. BARRY. I can read that if you don't care to answer it.

Secretary MORGENTHAU. I covered it as fully as I could in my statement.

Mr. BARRY. That is all.

Miss SUMNER. Mr. Secretary, I got from your statement that you did not think that this price-control bill will in itself through the administration of it keep the prices at a level during the inflationary period; that you thought that the other steps are as much or more important than this bill.

Secretary MORGENTHAU. I agree with you, Miss Sumner. I think there are a lot of steps that have to be taken; but if this bill passed Congress, it would help a great deal in controlling prices.

Miss SUMNER. I was very glad to hear your statement, because during the recess a report came to me that the administration did not really want this bill passed at this time; that they wanted to have a bill in here which would attempt to right the wrong, and then, if prices rose, they could turn around and say, "I told you so."

As I read the account in the papers, the statement was that all that was keeping the prices from being held down was Congress not passing this bill, and I began to think that that statement was probably true; and I am very glad to have you, the Secretary of the Treasury and a member of the Cabinet, come in here and establish for us that this is not a cure-all for inflation.

Secretary MORGENTHAU. You are right. This alone cannot do it, but it would help a great deal.

Miss SUMNER. During the recess I heard your speech on September 9 at Boston. It was a very beautiful speech, and I enjoyed it very much.

Secretary MORGENTHAU. Thank you.

Miss SUMNER. Among other things you spoke about the importation of Canadian wheat. Your statement about that, I may tell you, made a great sensation in the State from which I come, Illinois.

Now, you have said that when you were a member of the Farm Board you disposed of considerable commodities then held by the Government through the Farm Board. Did that have the effect of lowering the prices?

Secretary MORGENTHAU. No. We were fortunate enough to be selling on a rising market. We sold carefully and in a way so as not to depress the market but to take advantage of the rising market.

Miss SUMNER. I cannot quote your words exactly in the copy that has been given to me of your speech in Massachusetts. It is not quoted directly on that point. But, as I remember, you said in effect that you thought that we should permit the entry of Canadian wheat in larger volume. Did you mean by that that the Government should buy Canadian wheat for the lend-lease program?

Secretary MORGENTHAU. May I just look at my speech to refresh my recollection?

Miss SUMNER. Oh, yes.

Secretary MORGENTHAU. What I said up in Boston, or down in Boston, whichever it is, was this:

It is true that only 3 months ago a rigid quota was applied to the importation of wheat from Canada, with the ultimate objective of keeping up the price of wheat in this country. But it is also true that only the other day the quota on sugar from Cuba was enlarged so substantially as to absorb most of the reserve stocks in that country. It seems to me desirable and necessary that we now follow the example set in the case of Cuban sugar to permit the entry of Canadian wheat in larger volume.

Miss SUMNER. Your intention in that would be to lower prices, would it not?

Secretary MORGENTHAU. If you don't mind, just so that I may keep my record fairly straight, what I said this morning was this:

The Government has in its warehouses vast quantities of cotton, wheat, and corn. Our granary doors should now be opened enough at least to prevent unreasonable price rises.

Miss SUMNER. What do you mean when you speak of unreasonable price rises in a farm commodity?

Secretary MORGENTHAU. I think that parity, if you start with that, is a reasonable price; and then as prices go above that, they would begin to become unreasonable, in my opinion.

Miss SUMNER. Do you know of anything in this bill or any existing law which would prevent the importation of Canadian wheat under the lend-lease program and lowering the price below 100 percent of parity even though this bill were passed?

Secretary MORGENTHAU. Miss Sumner, if you don't mind, would you give me one question at a time? I think you have about three there, and I can't quite follow you.

Miss SUMNER. You are a better analyzer than I am. I thought it was only one question.

Secretary MORGENTHAU. Would you be just a little charitable, then, and do it over again for me?

Miss SUMNER. Oh, yes; if I can.

Secretary MORGENTHAU. If I may hold up my hand when I think it is one question.

Miss SUMNER. I hear so many Congressmen talking in so many eloquent ways that I think that what I say is simple.

What I want to know is, if we passed this bill, which says that the price has to be 110 percent of parity, cannot the Government nevertheless import wheat from Canada under its lend-lease program or some other program and thus reduce the price of wheat below 110 percent of parity?

Mr. HENDERSON. May I respond to that?

Miss SUMNER. Yes.

Mr. HENDERSON. The 110 percent applies to a ceiling. If there is a ceiling applied to an agricultural commodity, then it cannot be applied until it gets below 110 percent of parity. If there is no ceiling applied, then, as I have said several times in the past few days, the prices would be the result of whatever the market demands are.

Miss SUMNER. Yes. I want to ask this: You may have the law on the books and you may set the ceiling by legislation, but the men in the lend-lease administration over here can import wheat from Canada, and they can import it in such volume that it will reduce the price of wheat on our market. Isn't that true?

Mr. HENDERSON. Not if there were a ceiling in effect, because it is provided—

Miss SUMNER. You haven't got a floor.

Mr. HENDERSON. No. But it is provided in the act.

Mr. BROWN. This \$7,000,000,000 has to be spent on American goods.

Mr. HENDERSON. But in the act it provides that if a ceiling is set, section 3 (c) provides that "the provisions of section 2 of this act shall not be construed to authorize any action contrary to the provision and purposes of this section."

That would mean that if there were a ceiling set, you could not buy in this country any agricultural commodity through a Government agency at a lower price if that price tended to set aside the distinct provision of the 110 percent of parity.

Miss SUMNER. I don't see that, because obviously it is an interpretation of law.

Mr. Morgenthau referred to unreasonable farm prices. Did I understand that you construe parity as a reasonable price and anything above parity as unreasonable or anything below as unreasonable?

Secretary MORGENTHAU. What I consider is this: Congress has set up by statute this standard of parity. It is there, and the President and the Secretary of Agriculture have recognized that parity is considered an objective as far as farm prices are concerned. It is not something that I have done.

Miss SUMNER. I am particularly interested in having your opinion, Mr. Secretary, not only because of your proximity to the President, but also because I consider you as a reasonable person before this committee, and I like to have you here.

Secretary MORGENTHAU. Thank you. I like to be here.

Miss SUMNER. But on the other hand, I think you as a farmer or a person interested in the farmers will appreciate that quite often the friends of the farmers are almost as effective as those who are hostile to farmers in creating a wrong impression of what the farmer needs or what has been done for the good of the farmer.

Secretary MORGENTHAU. I agree with you.

Miss SUMNER. For instance, on this question of parity, we have been talking about parity. I don't know when we will get it. But it seems to me that under one condition parity might be a fair price and under another condition it might not.

For instance, under this bill you are attempting to set a whole range of commodities raised all over the United States. We have talked a great deal about everything being the cost of production plus a certain profit. You yourself have said that you would like to see people get not more than 6 percent of their investment.

Now, I happen to have noticed that around 1926 or 1927 or 1928 farmers were getting, I suppose, around parity. Yet the cost of the things that they were buying, the retail cost, was so inflated that they did not make their cost of production, and they went back farther and farther and had to borrow money, which they have never been able to pay back; and they have never been able to make their cost of production.

It seems to me that we are going to do the same now. The retail prices are rising. There has been testimony here that they cannot keep the retail prices down.

So I ask you: Would you personally favor a provision of law which would permit farmers to get cost of production plus 6 percent of their invested capital?

Secretary MORGENTHAU. Miss Sumner, that used to be a headache for me when I was in Farm Credit; but fortunately as Secretary of the Treasury I don't have to pass on those problems any more.

Miss SUMNER. But you would advocate treating all kinds of industries the same?

Secretary MORGENTHAU. I believe in treating all people the same. But I went through that cost of production problem with the North and South Dakota people; and fortunately that is not my responsibility any more.

Miss SUMNER. Well, may I ask you this: Do you think it is consistent with our American way of doing things and consistent with the spirit of our Constitution to fix the prices for people in certain businesses because they are relatively easy to fix, relatively easy to fix and control, and not fix prices for other people in the same way because they are relatively difficult to control?

Secretary MORGENTHAU. Well, Miss Sumner, I said earlier, and I can only repeat my statement to satisfy you, that the Congress of the United States has fixed this present relationship called parity; and I accept it. It is the Congress of the United States, of which you are a member. Now, I accept that, and that is where I stop on the question of cost of production or any other basis for computing what the farmers should get. I carry that out, because I accept what the Congress of the United States has set in the form of a statute.

Miss SUMNER. I might say that I think your proposition is having the support of the committee, to reduce nondefense appropri-

tions. I presume that you would wish to reduce farm appropriations. Perhaps you will and perhaps you will not. I have noticed that as these agricultural bills came through, they involved two or three million dollars, some of them. They involved a great many things which did not in the least benefit the farmers generally. And, as far as I am concerned, when you have come in or the members of your committee have come in, with appropriations or suggestions for striking out those bills which do not directly affect the price of farm products and cause them to increase in price, I have gone along with you.

Now, I shall be very glad to cooperate with you. I think that I may be able to help you to cut down about a million dollars. And I think you will find that the reason that some of us representing farmers have not actively moved in cutting those down is that we were not sufficiently informed about them.

I wish also to say in regard to your tax problem that lawyers in my district and in the State of Illinois who have investigated the tax problem have told me that they are having some difficulty with it, first, because it is complicated, and secondly, that people are finding that it is diverting money from those with fixed incomes, people who have no larger income this year than they had last year and the year before last, and not taking any appreciable amount from the people who are having great excess profits in defense spending. Do you propose to bring in a bill which will remedy those conditions?

Secretary MORGENTHAU. I cannot bring a bill in.

Miss SUMNER. Or propose a bill?

Secretary MORGENTHAU. The position of myself and those associated with me in the Treasury on excess profits, I think, has been perfectly clear since last year, when we made certain recommendations, which were not followed. We repeated those same recommendations as to excess profits this year, and they were not followed.

I still think that we were right, and we will continue to advocate higher excess profits and a different way of computing them than in the present law.

Our position has been perfectly consistent for over a year, and was stated to the taxing committees on two bills. Now I doubt whether we will have another chance to present our views until next calendar year.

Miss SUMNER. It seems to me from the hearings that we have had so far, in view of the vast number of commodities selling and in view of the relative ease with which people can alter the quality and quantity of the commodities that they sell under a fixed-price ceiling, that it would be virtually impossible to so administer this bill without something that would amount to Gestapo or OGPU or some other tremendous police force, as to prevent any standard of living from lowering very greatly. And I do feel that when you bring in an excess-profits tax, you are really doing a big thing, because you are getting at the root of the inflation trouble rather than at the symptom when you can drain the money off.

I wonder if you would care to comment on this suggestion: That instead of having the taxes paid, that is, the excess-profits taxes paid in four installments, having them paid monthly. Wouldn't that

have a better effect on keeping money from getting into the stream of trade?

Secretary MORGENTHAU. I don't think it would make much difference.

Miss SUMNER. I should like to ask also your personal view on two more questions.

I had a complaint yesterday from an industry, or the head of an industry, who said that if their article were needed by the Ordnance Department, when you come to draw up machinery to make it, that is, to have one make one part and another make another, in the same way that the airplane industry makes their product, that is, one industry making one product and another making another, that none of them would be able to make the whole thing themselves, but that if that industry were permitted to combine together, they could manufacture this article that was badly needed.

They said that in trying to set up the legal machinery they found that that thing was just a flagrant violation of the monopoly law. This man told me that there had been other products that he knows of of a similar kind where, if the monopoly laws now being administered by the Department of Justice were relaxed a little for the purpose of manufacturing those defense articles, because of the efficiency the defense program could be greatly augmented. Would you favor relaxing the monopoly laws for defense purposes?

Secretary MORGENTHAU. That is something that I think the Attorney General should answer. I don't think it is up to me. I think that is up to the Attorney General.

Miss SUMNER. I think that is all, Mr. Chairman. Thank you.

Mr. GORE. Mr. Secretary, you have no objection to measuring this bill by the yardstick of your prepared statement, have you?

Secretary MORGENTHAU. My prepared statement?

Mr. GORE. Yes.

Secretary MORGENTHAU. I am not sure that I quite follow you.

Mr. GORE. I mean, you would have no objection if we examined you on the question of whether or not this bill met the standard set out in your statement?

Secretary MORGENTHAU. That is your privilege.

Mr. GORE. Thank you.

Now, you urge us to act promptly, and then you ask the question, "Are we again to wait until prices have risen 75 percent before we take bold and effective action?"

You think that if we take action, it must be effective action, do you not?

Secretary MORGENTHAU. I hope any action we take will be effective.

Mr. GORE. In the next paragraph you say, "All commodities have risen 18 percent in the last year and 2 percent in the last month alone."

Do you realize, Mr. Secretary, that during the entire last month for which you cite this increase and during several months of the last year when Mr. Henderson has been Price Administrator, that during that time he has actually lowered the price level of a majority of the basic materials?

Secretary MORGENTHAU. I will take your word. If you say it is a fact, I accept it.

Mr. GORE. Mr. Henderson says that the price level of the basic materials on which he announced a ceiling has been lowered. Yet you an-

nounce here that even during the last month there has been a 2-percent increase.

Mr. PATMAN. Are you sure that you have Mr. Henderson correct?

Mr. GORE. Yes.

I will ask Mr. Henderson if I have misquoted him.

Mr. HENDERSON. I said that in the months between the time that Congress adjourned and the time it resumed consideration of this bill the 12 commodities under control in their average had dropped from 136 to about 134, roughly; but that the whole price level had gone up. And I said that we had about 80 percent of the basic commodities under some kind of formal or informal control over the period. Those are only essential commodities that we were speaking of.

Mr. GORE. The point is, Mr. Secretary, that even though ceilings have been placed over a number of the basic commodities, their price level has actually been lowered during the 4-week period, if we must be specific, in the same specific period that the general price level has had a 2-percent increase, which is one point that I desire to take up with you.

Now, you refer to the fact that in 1917 the Lever Act empowered the President to fix prices.

Secretary MORGENTHAU. On food and fuel.

Mr. GORE. Yes. But weren't the prices fixed on other basic commodities?

Secretary MORGENTHAU. I believe not.

Mr. HENDERSON. There were other boards of control on other basic commodities.

Mr. GORE. We were not only under the Lever Act then. Upon the entire price-fixing experience in the World War the price level was lowered during this period which you discuss in your statement about selected commodities. Yet during that same identical period the general price level went up to an index of over 200. Would that indicate to you that the selective price approach was effective then, or has been effective thus far in this present period?

Secretary MORGENTHAU. Well, Mr. Gore, what I try to do when I appear before a committee is to answer any question a member insists on my answering. You are asking for certain specific answers which I don't feel I am as capable of giving as other people. But if you insist, I shall answer.

Mr. GORE. I don't want to be an insistent person, but you come here as an expert on fiscal affairs to make contribution to this committee.

Secretary MORGENTHAU. I come here as the Secretary of the Treasury. Whether I am an expert or not I will leave to you. But you are asking me about a specific commodity item and—

Mr. GORE. I will let you be your own judge as to how specifically you will answer this question. You set as a standard that we must have effective action?

Secretary MORGENTHAU. That is right.

Mr. GORE. How effective do you think this bill will be and how do you think it will be effective?

Secretary MORGENTHAU. It is based on my belief that if Congress promptly passes this bill, Mr. Henderson and his associates will grapple with this situation.

Mr. GORE. Upon what do you base that belief?

Secretary MORGENTHAU. It is based on results that he has attained from certain specific commodities that he has dealt with.

Let us take copper, for instance. He has been able to keep copper, I believe, at 12 cents. Take aluminum scrap. I believe he has been able to keep that within a fixed price. The same is true with steel, steel scrap, northern pine, and Douglas fir. There is a list of articles that I understand that he has dealt with.

Mr. GORE. Inflation, Mr. Secretary, if I may make a general statement, is not composed of specific price rises or specific price fluctuations. It is the product of a general runaway.

Now, at the same time that Mr. Henderson has had this successful experience with these specific commodities which you cite, you also set out in your prepared statement that the general price level has continued on the upward swing. Now, do you base your belief that this bill will be effective upon that theory?

Secretary MORGENTHAU. I believe if Mr. Henderson gets statutory power he can do a great deal with certain specific commodities. We in the Treasury have come to the conclusion that no country has been able to successfully stop inflation by merely attempting to freeze prices, and that the only other alternative left to us, particularly if we want to do it promptly, is to give Mr. Henderson the authority to select commodities requiring price control and go ahead and do it, and do it with the law behind him. And then we should help him with the other measures I've suggested. Up to now, the various agreements that he has reached have been more or less on a voluntary basis; and none of us would be here taking up your time if he had the statutory authority to do this.

Mr. GORE. I am not sure that you are correct in that, because if he had statutory authority to do what he has already done, it would probably be no more effective that it has been.

Mr. Henderson and I have had this out, Mr. Secretary.

Secretary MORGENTHAU. My lawyers tell me that I am right, that what he has done is on a voluntary basis, and that he has no statutory power; and that, I understand, is the whole purpose of the bill.

Mr. GORE. You referred to the experience of other countries. England has tried the selective method. Is it your information that their experience has been a successful one?

Secretary MORGENTHAU. In the past year England has been more successful than some other countries that have been trying to freeze them.

Mr. GORE. What other countries do you refer to?

Secretary MORGENTHAU. Japan, Italy, and to some extent, Germany.

Mr. GORE. Do you mean to say that England has been more successful in controlling the price structure than Germany?

Secretary MORGENTHAU. Without resorting to as much rationing prices have been remarkably stable in England in the past year.

Mr. GORE. You may be right. That is not my information, however.

Secretary MORGENTHAU. I hope that I am right.

We would be glad to submit our data to you, if you care to have it, to back up my assertion.

To repeat, I would like the privilege of backing it up with facts and figures, the assertion that I just made.

Mr. GORE. Since you are going to do that, I would be glad to inform you that according to the figures in the issue of the New Republic of

July 28, England's price index has gone up 43 points, and Germany's 4 points.

Secretary MORGENTHAU. Well, Germany has resorted to complete rationing. May I submit to the chairman, for the record, the information that we have in the Treasury?

Mr. GORE. Yes.

Mr. CRAWFORD. Would you mind requesting the Secretary to bring the Canadian experience also?

Mr. GORE. I think that you could request it, and I am sure that he would be glad to respond.

Mr. CRAWFORD. I got the impression from Mr. Henderson's testimony that England and Canada had particularly failed in this because they had tried to spread the situation too far, and that they did not take a selected number of commodities.

I am very much interested.

Secretary MORGENTHAU. Which would you like included?

Mr. CRAWFORD. Canada.

Secretary MORGENTHAU. We would be glad to give you what we have in the Treasury on that.

Mr. GORE. Mr. Secretary, I am trying to measure this bill by a standard of the all-effective action which you set out as necessary, and I have tried to show that selective-price control has been ineffective in every country in which it has been tried, and I will be glad to submit additional information on that later on in the consideration of this bill.

I would like to inquire of you what you think would be the administrative differences between selective control and a general control.

Secretary MORGENTHAU. Mr. Gore, I think that Mr. Henderson is better able to answer that, and I think that he has gone into all of it.

Mr. GORE. I want to go, then, to another standard which you set up in the act as a measurement which I think this bill must meet. You say on page 10 that—

Inflation is inevitable in times like these, unless all of us, Congress, the executive departments, and the people fight it on all fronts and with all of the strength and courage at our command.

What are the fronts on which we can fight inflation?

Secretary MORGENTHAU. Well, I tried to point those out in my statement.

Mr. GORE. Would you mind restating them for my benefit?

Secretary MORGENTHAU. My whole statement?

Mr. GORE. You included in that statement credit, you included profits, you included compensation for services, and you included revenue from the sale of commodities—did you include those?

Secretary MORGENTHAU. Part of them.

Mr. GORE. Those, then, are the four principal components of demand or purchasing power, would you say?

Secretary MORGENTHAU. No.

Mr. GORE. What is the essence of inflation, or what do you call inflation?

I would like to find out just where these fronts are which you say that we must fight inflation on.

Secretary MORGENTHAU. This question of inflation, as I see it, comes about through the present \$50,000,000,000 defense program. Through the spending of this money, we create a great deal of additional purchasing power, and at the present time this country has not the capacity to produce munitions of war in sufficient quantities and still manufacture goods for civilian consumption sufficient to satisfy the purchasing power in the hands of the civilian population.

Mr. GORE. I think that is a very good statement, Mr. Secretary. That is in line with what I understand is our difficulty.

Secretary MORGENTHAU. In other words, trying perhaps to oversimplify it, we have a surplus of purchasing power and a deficiency of civilian goods, and therefore there is a greater demand than there is a supply, and when that situation comes about prices rise.

Mr. GORE. Then the essence of our trouble is purchasing power in excess of our ability to supply?

Secretary MORGENTHAU. To produce, as I understand it.

Mr. GORE. Then our problem is either to increase the supply, or to lessen purchasing power? Is that true?

Secretary MORGENTHAU. Well, what I have been trying to explain is that I think that we should do both. I think that we can dampen down or lessen the purchasing power through a tax bill, through defense savings bonds and stamps, and through tax anticipation notes.

That is what we can do within the Treasury.

Mr. GORE. That applies to credit and profit?

Secretary MORGENTHAU. Yes. Then, jointly with the Federal Reserve Board, we can reduce the base for bank credit. We can through the Federal Reserve Board attack the problem of installment purchases, and we can do many other things.

Now, the other big job, as I pointed out this morning, is to attack the problem of creating more goods for our civilian population. That can be done within the borders of the United States, and it can also be done by importing goods from our neighbors.

Mr. GORE. You have seen that a guaranteed minimum price could be made very effective in augmenting the supply?

Secretary MORGENTHAU. I am not sure that I understand what you mean.

Mr. GORE. In the World War I understand that they fixed a guaranteed minimum on wheat, and that that caused a great increase in the production of wheat, which answered the need of supply.

Secretary MORGENTHAU. Well, that was a technique which was used. Mr. Wickard, I think, has attacked this problem very wisely. He has certainly increased hog production. He is attempting to increase production of certain other items as milk, cheese, butter, and eggs, and so forth.

Mr. GORE. And in so doing, he has announced that an increased production was needed, and that a minimum of 85 percent of parity would be supported?

Secretary MORGENTHAU. On loans.

Mr. GORE. Which, Mr. Secretary, came about by reason of a bill which came out of this committee.

Mr. BROWN. Will you yield there, Mr. Gore?

Mr. GORE. Yes.

Mr. BROWN. In regard to the increase of agricultural products, we have limited it by law; the acreage has been cut down, and I do not

see how you can increase it. The quantity of basic commodities produced is, as I said, limited by law.

Secretary MORGENTHAU. As I understand from reading the statement of the Secretary of Agriculture, in a number of cases the acreage has been increased for next year.

Mr. BROWN. We have a law providing now that it should be decreased.

Secretary MORGENTHAU. I think that I am correct in saying that he has increased the acreage in connection with a number of commodities.

Mr. GORE. Mr. Secretary, leaving for the moment the question of supply, I agree with you that Secretary Wickard has done a good job in that regard; but, leaving that for the moment, Mr. Henderson on day before yesterday said that the principal component of purchasing power was compensation for personal services, such as salaries, commissions, and wages. Do you agree with that?

Secretary MORGENTHAU. It is a statement of fact.

Mr. GORE. What do you think are the principal components of purchasing power?

Secretary MORGENTHAU. I suppose that Mr. Henderson's definition is as good as any that I could give.

Mr. GORE. I do not desire to press the question, but I would like to get into it a little further.

You, as Secretary of the Treasury, and the Federal Reserve Board have taken some very definite and commendable steps toward the control of credit, and I desire to add my commendation to that.

Secretary MORGENTHAU. Thank you.

Mr. GORE. You have made recommendations for the control of profits, which I think is also commendatory, but which, unfortunately, we are not accepting. [Laughter.]

I will propose to add to this bill authority for the Treasury Department and a direction to the Treasury Department to institute proceedings to recapture all exorbitant profits. The orthodox way to do it would be in a tax bill, but this whole procedure is unorthodox, and if we cannot do it in one way, I hope that we will be able to do it in another way.

I believe that you told Mr. Barry that you had dealt as fully as you desired to on the question of putting a ceiling on salaries and wages in your prepared statement. That was only three lines, Mr. Secretary, and you dismissed that with the statement that human beings are not property.

That would have been a great contribution if Abraham Lincoln had not said that in his emancipation proclamation.

Secretary MORGENTHAU. I think it is a well-established principle that will bear repetition.

I may add that I had a little more to say on the question.

Mr. GORE. Let us read it. It is on page 8.

Secretary MORGENTHAU. I devoted two pages to it, and that expressed my views on the subject.

Mr. GORE. We all feel the same way on the subject; everybody does, but I cannot see that salaries that you and I draw, or wages, are any more than compensation for our work and our services, and how do they differ from the price of a commodity which represents the price of the services and the work of another individual?

Secretary MORGENTHAU. Well, if you don't mind, I differ with you, I think that there is a great fundamental difference.

Mr. GORE. What is it?

Secretary MORGENTHAU. For one thing, when we talk about labor we are talking about human beings, about you and me; and when we talk about commodities we are talking about brick and mortar. I do not think they are comparable.

Mr. GORE. We are not talking about you and me but about the compensation for our services. I am in no way attempting to question the involuntary servitude section of our Constitution. I agree with that thoroughly.

Secretary MORGENTHAU. Well, it is just a feeling, and a rather deep feeling with me, that the two things are fundamentally different; that is all.

Mr. GORE. We have dealt with wages in the Fair Labor Standards Act, and we have set certain standards.

Secretary MORGENTHAU. Minimum standards.

Mr. GORE. Yes, of course; and we did not consider an individual in that legislation as property.

Secretary MORGENTHAU. No; but Congress has set up machinery to deal with wages, and there is nothing comparable in the law to deal with commodities, hence this bill. We have a whole set of laws to deal with wages.

Mr. GORE. You do not feel, as you said to the chairman, that anybody should lose any of the gains which have been made over a period of years?

Secretary MORGENTHAU. I feel that very strongly.

Mr. GORE. Then who is to make a sacrifice for this defense program, except the boys in the camps?

Secretary MORGENTHAU. That is the tragic part of this situation.

Mr. GORE. It is tragic; very tragic. And I think that to say that any group is not to carry its proportionate part of the burden of national defense is wholly indefensible.

Secretary MORGENTHAU. I agree with you on that.

Mr. GORE. Do you not think that it would be fair and right, if we enacted a bill to fix the compensation which a person can make for producing chickens, that it would be just as fair to put a ceiling on the compensation which a civil-service employee could draw?

Secretary MORGENTHAU. I believe that the laws which Congress has already passed are adequate to take care of the labor situation as it exists today.

Mr. GORE. How will we take care of it, Mr. Secretary?

Secretary MORGENTHAU. Well, I think that the way in which it is being done is fairly obvious from day to day.

Mr. GORE. The way that it is being done?

Secretary MORGENTHAU. Every day; yes; through the existing laws.

Mr. GORE. I do not desire to press you, Mr. Secretary, in a discussion of this. I certainly would dislike to vote for any bill which would put a limit to what a man can get for his work, but I put a day's work and what he can get for a day's work of the man who works in the field on the same basis as the man who works in the office, on an elevator, in the shop, or wherever he works.

If it is serious enough, and I think it is serious, I share with you a shudder in what may happen to this country, because I grew up in a

little community where within the range of 10 miles practically every bank that it had had failed, carrying those people into the very abyss of despair and failure. I share with you a fear of that, and, therefore, if we do this thing, I want to do something effective.

I want to go further, if you will pardon this intrusion of mine, and say that I think that this is a pretty terrible thing to do to a free people, but if the situation is serious enough to do it, it must be done adequately, and it is my firm conviction that a piecemeal selective stop-gap method will not do it, and if it is not going to be effective, I would rather have no bill than a weak, ineffective bill.

The CHAIRMAN. Mr. Patman, you are recognized.

Mr. PATMAN. Mr. Morgenthau, you stated that you were making an effort—

Secretary MORGENTHAU. Could I interrupt a minute? Could we have a 5-minute recess, to give me a chance to get a breath of air?

(At this point a brief recess was taken, after which the following proceedings were had:)

Mr. WILLIAMS. The committee will be in order.

Mr. PATMAN is recognized.

Mr. PATMAN. Mr. Morgenthau, you prefer to sell bonds to the public rather than to the commercial banks; do you not?

Secretary MORGENTHAU. I would much rather sell every bond that I can to the public.

Mr. PATMAN. You have a good reason for that, and, for the record, what is the reason?

Secretary MORGENTHAU. Can Mr. Bell take it?

Under Secretary BELL. The main reason is that when we sell bonds to the banks, that increases deposits.

Mr. PATMAN. You mean that it increases the supply of money?

Under Secretary BELL. Yes, sir.

Mr. PATMAN. In other words, when you sell a Government bond to a commercial bank, you allow the bank then to create the money?

Under Secretary BELL. That is right. We want to avoid that, as far as we can.

Mr. PATMAN. By a bookkeeping transaction?

Under Secretary BELL. Yes, sir.

Mr. PATMAN. And that increases the supply of money just as much as if the country issued greenbacks directly?

Under Secretary BELL. It increases the supply of money, but I would not say that it has the same effect.

Mr. PATMAN. It increases the supply of money to exactly the same amount as if the Government issued the credit directly?

Under Secretary BELL. That is probably right.

Mr. PATMAN. Suppose, instead of issuing a million dollars' worth of bonds and selling them directly to the commercial banks, thereby increasing the supply of money a million dollars, you issued a million dollars in non-interest-bearing bonds and deposited them with the Federal Reserve banks and received credit for a million dollars and gave checks on your balances with these banks, would that increase your supply of money any more than selling a bond directly to the banks?

Under Secretary BELL. Would you mind stating that again?

Mr. PATMAN. Instead of issuing a million dollars' worth of bonds and selling them to the banks, and paying the banks interest on the

bonds, and allowing the banks to create a million dollars of money by a bookkeeping transaction, if the Treasury should issue a million dollars in bonds and deposit those bonds with the Richmond Federal Reserve Bank, or any other bank or banks, and received credit for these non-interest-bearing bonds, and then issued checks on the balances that you have in the bank or banks, would that not have the same effect so far as the supply of money is concerned as selling the bonds to the banks?

Under Secretary BELL. Approximately the same. What you would be doing is that your Federal Reserve banks would be financing your expenditure program, instead of your commercial banks.

Mr. PATMAN. I know, but I am asking you about the supply of money, and not about the effect. Is it not a fact that exactly the same amount of money has been put into circulation?

Under Secretary BELL. I think so; yes; but I think that the psychological effect would be entirely different on the public mind.

Mr. PATMAN. I did not ask you about that.

Under Secretary BELL. But I think that that is important.

Mr. PATMAN. I just asked you about the supply of money. It would be exactly the same supply, would it not?

Under Secretary BELL. I think so; yes.

Mr. PATMAN. And the only difference would be the psychological effect, if any, and the cost to the Government in interest charges?

Under Secretary BELL. Well, do I understand that you are not going to pay the Federal Reserve banks, when you give them this bond, any interest?

Mr. PATMAN. No; we would not pay them, because we are keeping them today. We allow them to buy enough Government bonds to pay their operating expenses.

Under Secretary BELL. We have no control over their purchases.

Mr. PATMAN. We allow them to do it by law, do we not?

Under Secretary BELL. They are permitted to do that under their charter.

Mr. PATMAN. Mr. Eccles testified that he kept that in mind in purchasing bonds, that he wanted to keep enough on hand to pay their expenses. So that that is indirectly financing the Federal Reserve banks out of the Treasury.

Under Secretary BELL. Then the same is true with commercial banks.

Mr. PATMAN. How much stock do the people own in the commercial banks? We will say that there are about 14,000 commercial banks in the country.

Under Secretary BELL. That is right.

Mr. PATMAN. How much do the stockholders have invested in those 14,000 banks, approximately?

Under Secretary BELL. I think that it is about \$8,000,000,000.

Mr. PATMAN. You are way off on that.

Under Secretary BELL. About \$8,000,000,000, I am told, in capital investment.

Mr. PATMAN. Are you not including in that the undivided profits and the surplus?

Under Secretary BELL. Yes; that would be the invested capital.

Mr. PATMAN. Is it not a fact that they only have invested about \$3,000,000,000 in capital?

Under Secretary BELL. No. I think that it is about eight billion, in capital and surplus.

Mr. PATMAN. And in undivided profits?

Under Secretary BELL. Yes, sir.

Mr. PATMAN. Now, with the \$4,000,000,000 in reserves that the banks have after this increase of yesterday, how much money could they create, as you said a few minutes ago, on the basis of the \$4,000,000,000 in reserves?

Under Secretary BELL. I think that it would depend upon what base you take. If you take 5 to 1, it would be \$20,000,000,000.

Mr. PATMAN. It is about 7 to 1 now, is it not?

Under Secretary BELL. That is as good an average as any.

Mr. PATMAN. That is about \$28,000,000,000?

Under Secretary BELL. That is right, on the basis of 7 to 1; your mathematics are correct.

Mr. PATMAN. What is the aggregate value of the bonds that the commercial banks now hold, that they have obtained by creating the money, as you stated a few minutes ago?

Under Secretary BELL. The aggregate book value of Government securities that the banks hold is about \$20,000,000,000.

Mr. PATMAN. Between nineteen and twenty billion dollars of Government securities?

Under Secretary BELL. No; between twenty and twenty-one billion dollars.

Mr. PATMAN. On that \$8,000,000,000 of capitalization, they have loaned the Government \$20,000,000,000, have they not?

Under Secretary BELL. That is right, including the amount loaned from deposits.

Mr. PATMAN. And they can make loans aggregating about \$28,000,000,000 more; that is, \$48,000,000,000. In addition, how much in loans have they extended on that?

Under Secretary BELL. The total loans and investments at the end of December 1940 amounted to \$54,496,000,000, and that includes approximately \$20,000,000,000 of Government securities.

Mr. PATMAN. If they can make loans aggregating \$28,000,000,000, that would be about \$82,000,000,000, about 10 to 1?

Under Secretary BELL. That is right.

Mr. PATMAN. Now, Mr. Morgenthau, I would like to ask you this question: You stated a while ago that profits should be restricted to 6 percent during this emergency. Do you think that that should include banks, too?

Secretary MORGENTHAU. Surely.

Mr. PATMAN. Do you think that it should be on the invested capital?

Secretary MORGENTHAU. I think so, so far as it is possible to work it out.

Mr. PATMAN. So far as possible? Either one way or the other, Mr. Morgenthau.

Secretary MORGENTHAU. The answer is "Yes."

Mr. PATMAN. You think that they should be restricted to 6 percent on the \$8,000,000,000?

Secretary MORGENTHAU. I think that if you are going to do it, that we should apply the principle to all corporations.

Mr. PATMAN. How would you apply it to industries like the growing of cattle? As you know, in the State of Texas there is a lot of cattle raised. For a number of years, the cattle-raising industry did not make any money at all. They have lost each year, and it has only been in the last year or two that they have been able to break even and maybe now they are making money.

Would you apply it to a business or industry like cattle raising?

Secretary MORGENTHAU. Surely.

Mr. PATMAN. You would?

Secretary MORGENTHAU. Surely.

Mr. PATMAN. On their invested capital?

Secretary MORGENTHAU. If they are a corporation; yes.

Mr. PATMAN. Well, if an individual.

Secretary MORGENTHAU. Then on his income from invested capital.

Mr. PATMAN. You would take everything above 6 percent on his income?

Secretary MORGENTHAU. What I was talking about this morning was corporations.

Mr. PATMAN. What is the difference, so far as money is concerned, between a fellow who is raising cattle as a corporation and one who is raising cattle as an individual?

Secretary MORGENTHAU. In one case he has incorporated himself, and in the other case he has not.

Mr. PATMAN. Do you want to penalize a man because he is a corporation, or give him a premium?

Secretary MORGENTHAU. No.

Mr. PATMAN. Neither one?

Secretary MORGENTHAU. I do not want to penalize or give a premium.

Mr. PATMAN. But you would apply it to the growing of cotton, wheat, vegetables, dairy products, and everything else?

Secretary MORGENTHAU. During this emergency.

Mr. PATMAN. You would apply it to everybody?

Secretary MORGENTHAU. During this emergency.

Mr. PATMAN. And to the fellow selling peanuts on the street corner?

Secretary MORGENTHAU. Yes.

Mr. PATMAN. His peanut machine does not cost him a great deal, and, regardless of the cost of the machinery that he had to use, you would restrict his profits to 6 percent on his invested capital?

Secretary MORGENTHAU. Mr. Bell points out that he would have to have a salary out of it before we applied it to invested capital.

Mr. PATMAN. You would be willing to have him receive a reasonable amount for his personal services?

Secretary MORGENTHAU. Yes.

Mr. PATMAN. And after that you would apply the 6 percent to his invested capital, after making proper deductions in the form of taxes, interest, and things like that?

I am talking about net profit.

Secretary MORGENTHAU. May I state my own position?

Mr. PATMAN. Certainly.

Secretary MORGENTHAU. I was asked this morning about this question of excess profits, and I said that I could give a rule-of-thumb

answer, and that we had people in the room who could go into it from the standpoint of tax experts. I think that the gentleman, who I believe was Mr. Crawford, asked me if I would give a rule-of-thumb answer, and what I said was that, talking in generalities, in order to pay for the national-defense program, during this emergency, I thought that 6 percent on invested capital would be a fair return, in view of the sacrifices that we were asking other groups to make.

You are getting into technicalities. If you want a technical tax expert, we have one here, and I would be glad to have him answer any questions along that line.

Mr. PATMAN. I understand you thoroughly now.

Secretary MORGENTHAU. You can apply it to do just what you have done, to make it ridiculous, but I personally was very sincere about it, and I would be sorry—

Mr. PATMAN. Well, I am not questioning your sincerity at all.

Secretary MORGENTHAU. It is very easy to take what I say, and what everybody else says, and twist it to look ridiculous.

Mr. PATMAN. I commend you on your statement that we should take more of the excess profits, and I will ask you this in regard to it: How does the amount of money that one who makes a million dollars in excess profits pays now under the present tax bill, compared to the amount that he would have paid under the highest tax in the Wilson administration?

Secretary MORGENTHAU. If it can be answered, Mr. Blough can answer it.

Mr. PATMAN. In other words, in the Wilson administration, before the end of the war, when the highest taxes were on, how much would one pay on a million dollars of excess profits, compared to what he would pay under the present tax bill?

Mr. BLOUGH. I would have to know a little more than just the million dollars. Could you give me a little more data?

Mr. PATMAN. I am like Mr. Morgenthau; I do not have the technical terms, and I do not have the detailed information, but I would like to compare the Woodrow Wilson tax laws with the present law that we have just passed.

Mr. BLOUGH. I will be happy to do that, if you wish.

Mr. PATMAN. If you will do that, with excess profits—in other words, to corroborate Mr. Morgenthau's statement that the excess-profits taxes should be higher.

Mr. BLOUGH. Under the Wilson administration law, the Revenue Act of 1918, there was a corporate tax originally of 12 percent. In addition to that, there was an excess-profits tax and a war-profits tax. The excess-profits tax was based on all profits in excess of 8 percent of the invested capital, and amounted to a 30-percent rate on the excess profits, not exceeding 20 percent of the invested capital of the company, and a 65-percent rate on the balance of the excess profits of the company.

In addition, or rather as an alternative, the taxpayer paying the higher of the two, there was a tax of 80 percent on the increase of the profits during the taxable year over the average profits of the base period years, 1911, 1912, and 1913, with a minimum in that case allowed as a credit of 10 percent, and with certain other details which I do not think it is necessary to go into. In other words, the tax was

the higher of the two taxes, an 80-percent tax on the excess over the pre-war earnings, or a 65-percent tax on earnings in excess of 8 percent of the invested capital.

Under the law as it is on the tax books today, the corporate rate is 31 percent, including a 24 percent normal rate and a 7 percent corporate surtax rate. In addition to that, there is an excess-profits tax, so-called, which is on one of two bases at the alternative of the taxpayer, on the excess of the profits of the taxable year over the average profits of 1936, 1937, 1938, and 1939, or an excess of profits over 8 percent of the first \$5,000,000 of invested capital, and 7 percent on the balance of the invested capital, the rate beginning at 35 percent and running to 60 percent.

The result is that the corporation during the Wilson administration had to pay the higher of the two taxes, the 30 and the 65 percent rate on excess profits and 80 percent on war profits. At the same time we have either, you might say, an excess-profits tax or a war-profits tax, or defense-profits tax, at the option of the taxpayer.

With some taxpayers, the present rates are higher than they were during the Wilson administration, including both the corporate taxes and the excess-profits taxes. With many other corporations, the rates are very much lower now than then.

Mr. PATMAN. You say "on some." Does the size of the corporation have anything to do with it? Do the larger ones pay more or less?

Mr. BLOUGH. It is not primarily a question of size, although the present law is somewhat more tender on the smaller corporations, than the laws were during the Wilson administration.

Mr. PATMAN. Could you get up a typical case of a corporation and give the tax, and then analyze it with reference to the Wilson administration laws and the present law?

Mr. BLOUGH. There are no typical cases. I should be very glad to get up typical cases, to show how the two laws work.

Mr. PATMAN. Would you do that for the record, and for my information?

Mr. BLOUGH. We will be happy to do so.

Mr. PATMAN. And file it in connection with this testimony.

Secretary MORGENTHAU. Now, Mr. Patman, you can see why I never go very far without a tax expert. I suppose that there is only one other person in this room who understood it, and that is Mr. Stam behind you.

Mr. PATMAN. I know he does—I presume he does. I do not know that I understand enough of taxes to say that I do.

Now, when we increase the reserve requirements of the banks, it has a tendency—in fact, it has the direct effect of making money scarce, does it not?

Under Secretary BELL. It locks up that amount of reserves. They cannot be used.

Mr. PATMAN. In other words, it prevents them from creating that much more. It does not actually freeze the money, because it does not exist.

Under Secretary BELL. It prevents them from making loans out of those particular funds—

Mr. PATMAN. I see. In other words, it restricts the amount that may be created. That is right, is it not, Mr. Bell? It does not actu-

ally plow under any money, or lock up any money; it just prevents the commercial banks from creating that much additional money!

Under Secretary BELL. Through additional loans.

Mr. PATMAN. The direct effect is to make money scarcer or dearer, is it not?

Secretary MORGENTHAU. The effect is to make it dearer.

Mr. PATMAN. The fact is always when you make anything scarce, you make it dear, is that not true?

Secretary MORGENTHAU. Generally speaking, if you have a demand on the other side.

Mr. PATMAN. Now, Mr. Morgenthau, I ask you this question, since the object of this bill is to fix prices because certain commodities are becoming dearer, in view of the fact that there is more money than there are commodities for sale; therefore the theory is that we should restrict the prices of these commodities that have been made scarce.

Well, do you not think if our system is changed to where we make money scarce, and we make money more dear, that we should give consideration to putting a top on the price of the hire of money, interest rates?

Secretary MORGENTHAU. In view of the present situation I do not see any particular need for it now. If I had, I would not have agreed with the Federal Reserve Board to increasing of excess reserves which they did today.

Mr. PATMAN. Well, if money becomes scarce like it will, if the excess reserves are increased, you know the interest rates will go up, do you not?

Secretary MORGENTHAU. Well—

Mr. PATMAN. You expect them to?

Secretary MORGENTHAU. As I said this morning, it is awfully hard to forecast what will happen, and I think it would have been a pretty good bet to have said that the bond market would have gone down today after increasing the excess reserves but it did not.

Mr. PATMAN. The bond market went up?

Secretary MORGENTHAU. It did.

Mr. PATMAN. Why should it not go up if you are making money scarcer and there is less money to buy bonds?

Secretary MORGENTHAU. No, Mr. Patman, it is the other way, the bond prices go down and the interest return you get goes up.

Mr. PATMAN. That is correct, but the interest rate you expect to become higher, do you not, to the Government?

Secretary MORGENTHAU. Not necessarily. I am a little bit proud of the fact that right now with the debt \$50,000,000,000, the interest rates are the lowest they have ever been in the history of this Government, just a little under $2\frac{1}{2}$, as against $4\frac{1}{4}$ during a similar period under the Wilson administration. The action which the Board has taken today can be reversed, if necessary. It is awfully hard to forecast what will happen, but if I were a betting man I would have bet yesterday that interest rates would have gone up and bond prices would have gone down. Well, instead of that, just the opposite happened, so it is awfully hard to tell.

Mr. PATMAN. Well, Mr. Bell stated that it would require 7 or 8 billion dollars more new capital this year; I presume he means this fiscal year, ending next June 30, 7 or 8 billion dollars more.

Under Secretary BELL. Borrowing.

Mr. PATMAN. For the Treasury by the Government.

Now, how much of that do you expect to sell to the public, Mr. Morgenthau?

Secretary MORGENTHAU. It all will go to the public.

Mr. PATMAN. You expect it all to go to the public?

Secretary MORGENTHAU. I consider the banks a part of the public.

Mr. PATMAN. You consider the banks a part of the public?

Secretary MORGENTHAU. Yes.

Mr. PATMAN. As distinguished from the banks, how much do you expect the public to absorb?

Secretary MORGENTHAU. It would just be a guess and I do not like to guess.

Mr. PATMAN. Would you say 50-50—just a rough guess?

Secretary MORGENTHAU. I do not want to guess.

Mr. PATMAN. Well, I think it is a matter that you should give us an estimate, you are our Secretary of the Treasury, and you have all of this expert information and advice, and you have the experience of the past to go by.

Secretary MORGENTHAU. I like to answer questions, but I like to do it as intelligently as I know how. We do not know for sure how many defense savings bonds we will sell, and we do not know for sure how many tax anticipation notes we will sell and we do not know how big the private investors will be in their demands, and we do not know how much the insurance companies will take. There are so many uncertain factors, that your guess of 50-50 might be right, and I might say something else, and I might be wrong. If I could—

Mr. PATMAN. I was about to relieve you.

Secretary MORGENTHAU. From the embarrassment?

Mr. PATMAN. No; I do not consider it to be any embarrassment, because you have surrounded your statement with such safeguards that it would not amount to anything anyhow. I will say that respectfully, but I will just assume a case then.

Secretary MORGENTHAU. After 8 years, I have found it very wise not to try to forecast anything beyond sunset.

Mr. PATMAN. I appreciate that, Mr. Morgenthau, and I shall not urge the question, but let us assume that you have to borrow half of that from the commercial banks and absolutely free \$4,000,000,000.

Would you have any objection if Congress were to change the laws, so that instead of selling these \$4,000,000,000 in bonds to commercial banks, that we just authorize you to deliver \$4,000,000,000 of non-interest-bearing bonds to the Federal Reserve banks and authorize you to check on these funds the same way as you check on the commercial banks and save the interest on that \$4,000,000,000?

Secretary MORGENTHAU. Well, right or wrong, Mr. Patman, if that were done it would be considered distinctly an inflationary move. If you do not mind my saying it, and I am not saying it disrespectfully, it would be bad finance.

Mr. PATMAN. For the people who do not get the interest?

Secretary MORGENTHAU. What I am up here for today is to try to find ways to stop this inflationary tendency which is so largely a state of mind; it is a psychological thing. Now, you come along with that suggestion, and I am afraid that it would just scare people.

Mr. PATMAN. Is it not a fact, though, Mr. Morgenthau, that you would use exactly the same system that you are using now, that you would be issuing the same kind of checks, they would get the same kind of money, there would not be any change of any kind whatsoever, the quantity of money would not have been increased one penny more and the only difference is that the Government would not pay interest, is it not?

Secretary MORGENTHAU. I might answer that one; I happen to believe that the owners of the money are entitled to reasonable interest when we rent it.

Mr. PATMAN. The owners of money, keep that in mind.

Secretary MORGENTHAU. Now, when we are renting \$50,000,000,000 at a little less than 2½ percent, and I think that is reasonable—

Mr. PATMAN. Now, you rent \$20,000,000,000 of that from banks that only have \$8,000,000,000.

Secretary MORGENTHAU. I am still saying that I do not know any way to scare the people more than by passing the kind of law that you suggest.

Mr. PATMAN. Mr. Morgenthau, you admit that either the banks or the Government would be creating the money and why pay the banks to create it and pay them for the use of it, when they have not got it?

Secretary MORGENTHAU. I can say, with all due respect, that I have heard your theories on this, and right or wrong, it scares people to death.

Mr. PATMAN. I am sure it scares the folks who are getting this interest, you know.

Secretary MORGENTHAU. I do not own any of the bonds. I am not permitted to own any under the law.

Mr. PATMAN. I am not talking about you personally.

Secretary MORGENTHAU. I understand.

Mr. PATMAN. I personally deplore the fact that our Government which has the money-creating power will go out and hire the use of money from people who do not have the money at all; they do not own it and you cannot say that you have hired \$20,000,000,000 from the banks when they did not have \$20,000,000,000; they only had \$8,000,000,000 invested in all, and that on that they have got \$52,000,000,000 loaned, and now under our present system they could make loans aggregating \$28,000,000,000 more, so I just cannot agree with you when you say that you are hiring the other fellow's money, and he is entitled to reasonable compensation, except to the extent that he actually has the money and he has actually loaned it, and then he is entitled to the just compensation, I agree.

Mr. BROWN. What about the depositors in those banks, when a bank borrows or buys a million dollars worth of bonds, are they not buying it with the depositors' money?

Mr. PATMAN. Has the depositor got any actual money?

I know Mr. Morgenthau's views on that, and he knows mine, I believe, and I doubt if this particular bill is the place to explore it more fully, so I will not.

Miss SUMNER. I wish that you would have him put in the record the answer to the question, what are the total deposits?

Mr. PATMAN. I think Mr. Bell said \$46,000,000,000.

Under Secretary BELL. About \$46,000,000,000 of demand deposits today.

Miss SUMNER. That does not count savings?

Mr. PATMAN. No, that is just demand savings.

What are the total of demand and savings deposits?

Under Secretary BELL. That figure was wrong, Mr. Patman, that I had given you, as of December 31, 1940; that is the latest we have; the demand deposits were \$33,636,000,000, and time deposits were \$26,071,000,000, and then there were certain other deposits such as interbank deposits.

Mr. PATMAN. All right. Now, then, the other day Mr. Henderson stated that if a price should be fixed on a certain commodity, and the manufacturer of that commodity is forced to increase his wages to his employees, to the extent that he could not make any profit at all, that he believed that he should increase that price so that the manufacturer would make a fair profit. Do you share his views?

Secretary MORGENTHAU. Yes.

Mr. PATMAN. Although the wage increase was justified or not justified, you would still be willing to protect the manufacturer?

Secretary MORGENTHAU. Well, I think the manufacturer under our capitalistic system is entitled to a fair profit.

Mr. PATMAN. At the same time the wage earner is entitled to a fair wage?

Mr. MORGENTHAU. Yes.

Mr. PATMAN. All right, you are talking about these parity prices, that parity price, 1909 to 1914 was based upon a cost price, I believe that you will agree, will you not?

Secretary MORGENTHAU. Could I have 1 minute, please?

Mr. PATMAN. Certainly.

Secretary MORGENTHAU. Would you mind repeating the question? Mr. PATMAN. The parity price of 1909 and 1914 for farmers, was predicated upon that price being a cost price to the farmer. The price it cost the farmer, measured in other products that he commonly bought to produce those particular farm commodities, do you agree with that?

Secretary MORGENTHAU. That is a good explanation; yes.

Mr. PATMAN. It was cost to the farmer?

Secretary MORGENTHAU. It is the relationship between the price of goods the farmer raises and what he has to buy.

Mr. PATMAN. Now, then, since you are willing to pay the manufacturer at least 6-percent profit, why would you not be willing to give the farmer 6 percent above parity?

Secretary MORGENTHAU. With all due respect I do not think the two have any relationship, and as a farmer, I would take parity quickly and say nothing about it.

Mr. PATMAN. When the farmers were getting one-fourth percent of parity?

Secretary MORGENTHAU. I would take parity and be happy, as against the 6-percent rule.

Mr. PATMAN. As against 6 percent in addition to parity?

Secretary MORGENTHAU. I mean 6 percent on your invested capital.

Mr. PATMAN. I was not talking about that.

Secretary MORGENTHAU. I thought you were comparing the two.

Mr. PATMAN. Oh, no; the man's services are measured in this; the man's service is measured in this, and the parity price was based upon

a cost price, and if you are willing to give the manufacturer 6 percent in addition, why are you not willing to give the farmer 6 percent net?

Secretary MORGENTHAU. Mr. Patman, if you do not mind, my position is that Congress sets parity as the ultimate goal. Now, I am going to beg off if you are going to break down parity and everything that goes into it, because I do not think it is up to me, that is all.

Mr. PATMAN. I do not think that your answer is responsive to my question.

Secretary MORGENTHAU. Then I do not understand your question.

Mr. PATMAN. We will just pass it over, then.

Suppose that a manufacturing industry, that it is discovered that there are certain wage earners who are unorganized, who are making 20 cents an hour.

In other comparable places of business, where wage earners work and do similar work, they are making 60 cents an hour.

Would you be willing for the Price Administrator to fix a wage or a price that would raise these wages, from 20 cents an hour up to 60?

Secretary MORGENTHAU. Well, I would rather let him answer that. I mean, again, I am in another field.

Mr. PATMAN. It is price-fixing, Mr. Morgenthau.

Secretary MORGENTHAU. Well, I would much rather, Mr. Henderson has been on this, he is here, and he is going to testify after I am finished.

Mr. PATMAN. I will ask you this question; I know that you can answer, and would not mind answering.

Suppose it is discovered that in certain businesses, and industry and work, that it can be shown conclusively that people are working for 10 cents an hour.

Mr. MORGENTHAU. Well, you cannot under the minimum wage. We have got a minimum-wage standard.

Mr. PATMAN. That only applies to interstate, between the States, that does not apply within the State, and you are fixing prices within the State the same as you are interstate prices.

Now, suppose it is shown that they are working for 10 cents an hour, would you be willing for the Price Administrator to fix a price on that commodity that he is making with his labor that would enable him to make at least 40 cents an hour?

Secretary MORGENTHAU. Again we are on a subject on which he is going to testify.

Mr. PATMAN. But you are supporting his bill.

Secretary MORGENTHAU. Well, let him answer what he would do for himself.

Mr. PATMAN. Would you not be in favor of that? You are the Secretary of the Treasury, Mr. Morgenthau, and I value your opinion highly.

Secretary MORGENTHAU. You have the advantage of having heard Mr. Henderson testify.

Mr. PATMAN. That has no relationship. We will wipe out everything Mr. Henderson said and just leave it to the question of whether or not you are in favor of every person making at least 40 cents an hour?

Secretary MORGENTHAU. Well, unless the chairman of the committee requests me to do it, and if he does—

Could I finish my statement, Mr. Chairman?

If the chairman of the committee asks me to answer this question, I will be glad to do so; but my reason for not answering is that I feel it is a highly technical question, and Mr. Henderson is here, and I feel that he is much better able to answer than I am. But if the chairman asks me to do it, I will do it cheerfully to the best of my ability.

Mr. PATMAN. I want to explain my position; I think that you ought to hear both sides.

Mr. WILLIAMS. The chairman has no power to tell him to answer, and he is not going to ask the witness to answer a question that he does not want to.

Mr. PATMAN. Here is why I think it is so simple that he should answer it voluntarily and I do not appreciate the fact that you put me in the attitude, Mr. Morgenthau, of passing it on to the committee; I would not insist on it and I had not been insisting on it; when you asked me to pass a question I passed it.

This is so simple that I am going to insist that you answer it, and if the committee does not want to hear it, all right.

The point is that we have passed a Fair Labor Standards Act, and we have provided that 40 cents an hour should be the minimum wage; you understand that, do you not, Mr. Morgenthau?

Secretary MORGENTHAU. So far so good.

Mr. PATMAN. Forty cents; all right.

Now, then, that applies only to interstate transactions but this bill will apply to intrastate; it applies right down to the local community and will affect more than the Fair Labor Standards Act.

Now, in fixing these prices, are you willing to keep in mind a legislative policy, enforced by this administration, of giving at least 40 cents an hour for labor, in the fixing of these prices, and fixing them so that in the sale of commodities that labor produces, that they will be able to earn 40 cents an hour?

Secretary MORGENTHAU. That is a very simple question.

Mr. PATMAN. That is exactly what I asked.

Secretary MORGENTHAU. Now, let me see if I can answer, expressing my own feelings. If it were up to me and I had the authority, I would like to see every man and woman in this country earn a minimum of 40 cents an hour.

Mr. PATMAN. Well, if you were administrator of this act, would you fix the prices so that they would be enabled to earn 40 cents an hour?

Secretary MORGENTHAU. I can only tell you how I feel about the minimum wage, and I have given you a straight answer on that.

Mr. PATMAN. And you have recommended this bill, but do you also recommend that that principle be kept in mind in the fixing of these prices?

Secretary MORGENTHAU. Kept in mind; yes.

Mr. PATMAN. And considered for the purpose of giving each person 40 cents an hour for intrastate commodities produced intrastate?

Secretary MORGENTHAU. Wherever possible.

Mr. PATMAN. Wherever possible?

Secretary MORGENTHAU. Yes.

Mr. PATMAN. Of course, you would have the power, I presume. Secretary MORGENTHAU. Well, mind you, I am just Secretary of the Treasury, but you ask me how I feel about it.

Mr. PATMAN. You are here for this bill.

Secretary MORGENTHAU. And I have given you the answer.

Mr. PATMAN. If you were here to present one side, or just concerning any particular matter, I think that you ought to present them for others.

Secretary MORGENTHAU. If there is anything that will help the workingman and woman of this country to get a minimum of 40 cents an hour, I am for it.

Mr. PATMAN. I appreciate that fact, and I believe that you are sincere about it; there is no doubt in my mind about it, and I am glad that you say that for the record because I hope that the Price Administrator will keep that in mind because it is the first opportunity the Federal Government will have of seeing that these people who are making 5 and 10 and 15 cents an hour receive a minimum of 40 cents an hour.

Now, I have some other questions that I will not ask you because it is on the question of detail and statistical information and I will ask Mr. Henderson.

Do you not think that the question of parity, Mr. Morgenthau, is as much a question of relationship as it is price?

Secretary MORGENTHAU. Well, as I understand parity, and I think that I understand it in the way you have explained, it is the relationship between what the farmer sells and what he buys.

Mr. PATMAN. Yes, sir. All right, now, then as one other question and I think that I will be through. You mentioned awhile ago, this afternoon some time, or this morning, about releasing this cotton and wheat that is in storage. Is there any way under existing law that you can release that for the market?

Secretary MORGENTHAU. Yes.

Mr. PATMAN. How much of it?

Secretary MORGENTHAU. As I understand it, it is 350,000 bales a month.

Mr. PATMAN. That is on cotton, 300,000, is it not?

Secretary MORGENTHAU. 300,000; you are right; and a million and a half a year.

Mr. PATMAN. Wheat—do you know what that is?

Secretary MORGENTHAU. I do not know what the restrictions are on wheat.

Mr. PATMAN. Now, knowing that you would like to see people get fair prices, Mr. Morgenthau, you would not be in favor of releasing so much of that cotton or wheat that it would reduce the price below parity, would you?

Secretary MORGENTHAU. What I say, if I may quote from my statement, I say our granary doors should now be open enough to prevent unreasonable price rises.

Now, you take that, plus the fact that I agree to the administration's policy of trying to attain parity, and I think that gives you the answer that you want.

Mr. PATMAN. Well, Mr. Morgenthau, although I do not agree with you on everything, I appreciate the fact that you are making a good

Secretary of the Treasury, and I commend you for your efforts in keeping the prices of money down that the Government is paying, although I do not believe that the Government should pay a penny for the use of its own money.

Secretary MORGENTHAU. Thank you.

Mr. MONROE. May I ask you a question? Regarding this 40-cents-an-hour discussion, it is my opinion that, although the Price Administrator can fix the price of the commodity and make it possible for the employer to pay 40 cents an hour, he cannot compel the employer to pay 40 cents an hour.

Mr. PATMAN. Just to add one other point, that I think when we pay a billion and a half dollars interest for the use of our own money or for the Government's money, that we are just paying a bonus or subsidy of that amount, when it goes to \$2,000,000,000 we are just paying that much out unnecessarily extravagantly and wastefully. That is my own personal and private opinion, which I know that you disagree with.

Mr. WILLIAMS. The chairman is coming. I was going to ask you, Mr. Secretary, whether you want to resume this hearing tomorrow morning or whether you want to finish it this evening?

Secretary MORGENTHAU. Could I get an estimate of how long it will be?

Mr. WILLIAMS. We will try to get an estimate of how much longer it is going to take.

Secretary MORGENTHAU. If I could get an estimate.

Mr. WILLIAMS. That is always difficult to do with any degree of certainty. How many want to examine the Secretary further, and for about how long? Just give an informal understanding.

Mr. F. C. SMITH. I will request about 20 minutes.

Mr. DEWEY. I might ask one question, but I would not ask if it was going to delay the Secretary.

Mr. WILLIAMS. You understand so far as I am concerned, and I started in with this and the chairman has come in and there is no disposition on my part to cut anybody off, it is just a question if we can reach an agreement within a reasonable time whether we will continue now.

The CHAIRMAN. Would it be convenient for you to come back for an hour tomorrow? I think that we can finish with you in an hour, but I do not think that there is any question; the time indicated for questions does not mean more than half of the time required for questions and answers. I would assume you would not like to stay for another hour this afternoon.

Secretary MORGENTHAU. I would be glad to stay for another hour.

The CHAIRMAN. What do the members say? I do not mind.

Mr. F. C. SMITH. Mr. Secretary, like yourself, I, too, would rather not think about the gold-buying program. I know that there are things more pleasant to talk about and to think about, but like so many of the other emergencies that keep tormenting us, this one, too, is with us, and I suppose we are forced to deal with it.

What is the total amount of gold purchases up to the present time; around fifteen billion?

Secretary MORGENTHAU. Do you mind if Mr. White answers that, Mr. Smith?

Mr. WHITE. Since when, Dr. Smith?

Mr. F. C. SMITH. At \$35 an ounce!

Mr. WHITE. The amount that has been purchased at \$35 an ounce is in the neighborhood of \$14,000,000,000; that is, there was about 4 billion in the Treasury before it was revalued, and then there was a period at which varying prices were paid, and at the end of 1934 there was \$8,000,000,000, and now there is \$22,000,000,000.

I will insert the correct figure in the record for you, but it is approximately that.

Mr. F. C. SMITH. \$14,000,000,000?

Mr. WHITE. Yes; that has been purchased since the end of last fall, during 1934, there was almost a billion purchased in 1934, and then there was some purchased in 1933 at varying prices, from \$20.67 to \$34.

Mr. F. C. SMITH. I had a higher figure for that, around 15 billion.

Mr. WHITE. I said during 1934, during the year there was purchased approximately about \$900,000,000 but we will insert the correct figure.

Mr. F. C. SMITH. Now, what is the amount of gold imports caused by payments of trade balances, roundly?

Mr. WHITE. Well, Dr. Smith, it is impossible to tell. You see gold comes in as a balancing item of all of the transactions and you have a number of different types of transactions that cause out-payments and a number of different ones that cause in-payments, and the resultant difference is settled by gold, so it is impossible to say how much gold came in because of any one item.

Mr. F. C. SMITH. Well, you have some approximate figure, though, do you not?

Mr. WHITE. You can get a figure of the balance of trade. You can also get a figure of the capital that has moved here over that period. For example, since the end of 1934 it has been estimated that the amount of capital that has come into this country has been over \$6,000,000,000.

Mr. F. C. SMITH. What do you mean by "capital"?

Mr. WHITE. Let us suppose that a bank has money abroad, and wishes to withdraw that money from abroad, and put it into dollars here.

That would be an inward movement of capital.

Suppose a Frenchman or Englishman sent his funds here to be invested in some American industry, that would be an inward movement of capital.

Supposing a British bank wanted to increase its holdings here of dollars, that would be an inward movement.

Mr. F. C. SMITH. About \$6,000,000,000?

Mr. WHITE. Over 6 billion; that is the recorded amount; and then there is a substantial amount over that which is not recorded and is subject to a wide range of error in estimating.

Mr. F. C. SMITH. That might be in the form of simple deposits, unused deposits?

Mr. WHITE. Part of it is in the form of deposits, quite so.

Mr. F. C. SMITH. So you have no approximate figure even of the gold imports, resulting from payments of trade balances. I thought there was a figure given out about a year ago of about \$4,000,000,000 which was generally accepted.

Mr. WHITE. What you can get, you can get an accurate figure of what was the excess of our exports over imports but you cannot say that an equivalent amount of gold came in because of that export.

For example, you might have paid for that excess of exports by tourist expenditures, or you might have paid for it in part by certain other types of transactions, you see; you cannot allocate an inflow of gold to any one type of transaction. You can, if you like, get the total of the excess balance of trade over the period; we can give you that.

Mr. F. C. SMITH. I would like to have that.

Mr. WHITE. We will insert that figure in the record.

Mr. F. C. SMITH. The amount is considerably less than half of the total gold purchases?

Mr. WHITE. I should say so; yes.

Mr. F. C. SMITH. Mr. Secretary, this statement that is being made repeatedly, that these imports are the result of trade balances and that people bring their gold here because it is safer and we just have to take it, and so forth, needs examination.

Do you not leave out one of the principal or the principal reason why gold is being imported into this country? Does not the fixed price of gold and the premium of \$14.33 guaranteed by the United States Government have much to do with the importation of gold?

Secretary MORGENTHAU. Well, of course, you know I have expressed myself on that before. No; I do not think so.

Mr. F. C. SMITH. Well, Mr. Secretary, the producer of gold has the prospect of a certain market for his output, he knows he is going to get a good price for it, and he knows it is not likely that that price is going to be changed; do you not think that there is a tendency to stimulating him to produce more gold on that account?

Secretary MORGENTHAU. It might, but, what you are saying, if I understand it, if a man in Canada has a gold mine, he is going to send the gold down here and try to sell it because he can get \$35 an ounce for gold, then what is he going to do with his dollars? We have been over it with you; I have not been able to convince you that this is an administration policy that we think is right. We think that raising the price to \$35 an ounce at the time we did was the correct thing to do at that time. I said this morning I do not know any other way of settling international balances except through gold; until someone suggests a better way I am just going to stick to this way.

Mr. F. C. SMITH. But Mr. Secretary, you are only using the minor part of this gold for that particular purpose. The major portion of the gold imports have nothing to do with settling trade balances?

Secretary MORGENTHAU. Well, gold would not flow here if it were not for trade balances and balances for services.

Mr. F. C. SMITH. It is said that this gold is safer in this country than it is in other countries, owing to the war situation in Europe and other countries; that is true, but we ought to find out why it is safer, whether it is merely a matter of taking it out of a belligerent country into our country or whether there may be something else to explain why it is thought by foreigners that their gold is safer here than it is in their own countries.

Is not this a fact, that there is more than the mere physical safety of that gold in the United States? Does not the United States Government also guarantee the value of that gold? And is not that a factor to be considered?

Let me put it this way. The Government guarantees the content, the amount of that gold. We do not know what it is going to be worth in purchasing power later.

The Government does not guarantee him any value as far as purchasing power is concerned, but the Government does guarantee that he can receive back the same quantity of gold as he brought here in the first place.

Mr. WHITE. I think possibly you may be thinking of gold sent to be kept on earmark with the Federal Reserve bank.

Mr. F. C. SMITH. No; I am not talking about earmarked gold at all. Let me put it another way. Just a moment, I would rather ask the Secretary about this. He is the fiscal agent of the United States, and he is the man who carries out these gold transactions, and I think he is the man that should answer these questions. I do not mean every particular technical question.

Secretary MORGENTHAU. The Treasury engages in all kinds of transactions. You might ask me why I am paying so much for molasses alcohol for the lend-lease bill and I could not tell you; I would have to send for my Director of Procurement—or how much he pays for nails or copper wire, or tractors; I don't know what the answer is; that is his job.

Dr. White happens to be an expert on monetary affairs and a good one.

Mr. F. C. SMITH. I understand that there is being at the present time exported and has been for some time, a considerable amount of United States currency. I have some information from another department that a considerable amount of United States currency was shipped to a certain neutral country, where it was put into the names of nationals of that country with the hope and expectation of converting that currency into gold after the war. Do you know that there has been an exportation of United States currency?

Secretary MORGENTHAU. We know how much goes out every month. Mr. F. C. SMITH. Would it be out of place to ask you what that is? Secretary MORGENTHAU. No; I am glad to tell you what I know. Mr. F. C. SMITH. I am asking you; that is why I am asking you. Secretary MORGENTHAU. I can tell you how much currency leaves the country every month.

How much is it?

Under Secretary BELL. According to the Federal Reserve Bulletin during the year 1939, \$100,000,000 net left the country.

In 1940, \$17,000,000.

Since June 1940 and up to the end of December it has averaged from \$300,000 to \$500,000 a month; the figures are not available for recent months.

Mr. F. C. SMITH. Now, we will not pursue that line any further. I think that this gold-buying program is a very tormenting thing anyway, but I am afraid that we did miss another very important point this morning in connection with it and that is its relation to inflation, to inflationary deposits in the banking system.

As I understand the procedure, for every dollar of gold imported into this country there is set up in the banking system a dollar of credit or deposits, that is correct, is it not?

Secretary MORGENTHAU. Yes; unless the gold is sent to the Federal Reserve bank to be earmarked for some foreign central bank.

Mr. F. C. SMITH. Well, now, what do you use to pay for this gold? Secretary MORGENTHAU. Could Mr. Bell go through the operation of going to the bank and everything else?

Under Secretary BELL. If a country imports gold into the United States it is presented to the assay office, we will say in New York, and the New York assay office gives the importer or the bank or whoever it might be, a check on the Treasury, what we call a gold-fund check, and that check is cashed just like any other Government check. It is deposited by the recipient in his bank and creates a deposit.

Then, when that check goes around the circuit and comes into the Federal Reserve bank and it is charged to our account. It depletes the Government's balance with the Federal Reserve banks, and then in turn we issue gold certificates against that gold, and receive a credit for the gold certificates with the Federal Reserve banks, thereby replenishing our account.

Mr. F. C. SMITH. And you pay for the gold with gold certificates?

Under Secretary BELL. The gold pays for itself, it is money; it is just an exchange of one form of money for another.

Mr. F. C. SMITH. What does the law say on that? Section 8 of the Federal Reserve Act of 1934 reads:

With the approval of the President, the Secretary of the Treasury may purchase gold in any amount at home or abroad, with any direct obligations, coin, or currency of the United States, authorized by law.

That is what the law prescribes you shall use to pay for this gold. What do you use?

Under Secretary BELL. We use a Government check which is payable in any coin or currency. Anybody can present that check to the Treasurer of the United States or a Federal Reserve bank and he can get currency or silver coin.

Mr. F. C. SMITH. That is quite enigmatic. I am just wondering, is the cost of this gold reflected anywhere on the books of the Treasury? Does it enter into the debt?

Under Secretary BELL. The gold does not enter into the debt. It enters into the monetary system and is shown on the daily statement every day.

Mr. F. C. SMITH. Well, it does resolve itself into this, that you pay for it with a gold certificate.

Under Secretary BELL. We get a credit for the gold certificate that we issue to the Federal Reserve bank, which is backed by the gold.

Mr. F. C. SMITH. But in the end, that is all that the United States Treasury gives out for this gold, is that true or not? Has it anything else to show that it paid for this gold except the gold certificates?

Under Secretary BELL. That is all that we have to show, but the importer of gold has a bank credit to show, or bank deposit to show for it.

Mr. F. C. SMITH. But you have set up a deposit in the banks?

Under Secretary BELL. That is right; it increases the deposits. Gold earmarked in favor of a foreign government does not, of course, enter our monetary system.

Mr. F. C. SMITH. But you printed the gold certificate, so you paid for the gold with fiat, did you not?

Under Secretary BELL. No; a gold certificate backed by gold is not fiat currency, if I understand the word "fiat."

Mr. F. C. SMITH. But you bought the gold, purchased the gold, and now you set up a deposit in the banking system of this \$15,000,000,000?

Under Secretary BELL. In fact, that is what was done, you exchanged the gold for a deposit in the bank.

Mr. F. C. SMITH. Who exchanged the gold? The foreigner brought the gold in, and the Treasury issued a gold certificate and sent it to the Federal Reserve bank, which in turn set up a credit in some member bank in favor of the foreigner who sold the gold to the Treasury. Is not that the fact? It was given to the foreign merchant, or the foreign seller of the gold; that is the way the transaction operates?

Under Secretary BELL. Let us say the Chase National Bank brought the gold from abroad. Now, they own the gold, and they sell it to the Treasury and we give them either currency or a check and that is the payment for it.

If some foreign bank imports it, then they get a credit on the books of the Chase Bank which is their payment.

Mr. F. C. SMITH. When you issue currency that is a temporary proposition until you get the transaction adjusted, until you make your so-called gold certificate deposit, and then your check transaction is cancelled out. It is through the gold certificate that the credit in the bank is set up.

Under Secretary BELL. That replenishes our account and in fact the gold has paid for itself.

Mr. F. C. SMITH. Would you say, Mr. Secretary, that the United States Government is carrying the cost of this gold?

Secretary MORGENTHAU. If you mean, are we carrying it on our books at cost, yes; but there is no cost to carry it.

Mr. F. C. SMITH. Somebody paid for it, who is paying for it?

Secretary MORGENTHAU. Mr. Bell tried awfully hard to explain it.

Mr. F. C. SMITH. Let us get right down to the facts. Are not the bank depositors of the United States carrying the cost of the gold?

Secretary MORGENTHAU. If you had asked us that question in the first place we could have answered it, and the answer is "No."

Mr. F. C. SMITH. The bank depositors are not carrying the cost of this gold?

Secretary MORGENTHAU. No.

Mr. F. C. SMITH. In Boston, Mr. Secretary, you made a speech in which you said:

Our economy today resembles an overloaded steam boiler. The fire under the boiler is being fed by millions of additional purchasing power in the hands of the public. The fire is growing hotter and is generating more steam than the boiler can safely hold.

I am wondering if in your speech in Boston you were thinking about the \$15,000,000,000 of gold-credit deposits in the banks as being a part, and perhaps a very material part of the highly inflammable fuel under the inflation kettle?

Secretary MORGENTHAU. No; I was not.

Mr. F. C. SMITH. You were not?

Secretary MORGENTHAU. No, sir.

Mr. F. C. SMITH. Do you not think that these gold-credit deposits set up by the banks are inflationary?

Secretary MORGENTHAU. The amount of gold which is coming into this country now is the lowest it has been in years. It is one of the lesser worries that we have to deal with.

There was a time when there was a great deal of gold coming here. At this time it is one of the lesser worries.

Mr. F. C. SMITH. That is because there is less gold coming in?

Secretary MORGENTHAU. That is because there is very little gold coming in.

Mr. F. C. SMITH. So that proves that there is a real gold problem?

Secretary MORGENTHAU. Naturally, we study it to be sure that it is the best method; and, as I said this morning, I do not know of any better method and no one else has suggested a better method.

Mr. F. C. SMITH. Mr. Secretary, have not the Federal Reserve authorities right along considered the gold purchases as causing inflationary deposits in the banking system? They have referred to this matter numerous times in their bulletins and publications.

Secretary MORGENTHAU. Well, you can ask Mr. Eccles about that Monday. I am sure that he would be glad to answer it.

Mr. F. C. SMITH. This bill has a provision as follows:

To preserve the value of the national currency against the consequences of price inflation.

Now, that includes all currencies, does it?

Secretary MORGENTHAU. Yes.

Mr. F. C. SMITH. Does that include so-called gold certificates?

Secretary MORGENTHAU. There are no gold certificates in circulation, Doctor.

Mr. F. C. SMITH. That is true, but the Federal Reserve Act defines these so-called gold certificates as United States currency; it specifically defines them as such.

Secretary MORGENTHAU. But there are none in circulation, so they are not a problem.

Mr. F. C. SMITH. But nevertheless, it is written into the law, that it is a United States currency. What I am getting at is this: You are recommending a bill here to control prices, and I am just wondering whether this is going to affect ultimately the value of the gold. Are you controlling gold prices, that is the question I am asking you?

Secretary MORGENTHAU. I do not understand the question.

Mr. F. C. SMITH. Is not gold supposed to be the standard, the measuring stick, and is not all other currency supposed to pass at parity with gold?

Secretary MORGENTHAU. I just do not understand your questions.

Mr. F. C. SMITH. I am merely asking you, are you going to control gold prices; is that the purpose of this bill?

Secretary MORGENTHAU. No.

Mr. F. C. SMITH. Then you are going to control the prices as quoted in paper money; is that right?

Secretary MORGENTHAU. No; we are going to control prices in terms of United States currency.

Mr. F. C. SMITH. I include silver in that.

Secretary MORGENTHAU. In dollars.

Mr. F. C. SMITH. But not gold?

Secretary MORGENTHAU. In dollars.

Mr. F. C. SMITH. Now, we are fighting this monster inflation, and I am wondering, Mr. Secretary, what would happen if the immense pile of gold were recoined and put back into circulation; I am wondering whether you would need any price control.

Secretary MORGENTHAU. I am sorry, Doctor, I just do not understand your question.

Mr. F. C. SMITH. Looking back to history, what has been the one thing which the world has ultimately had to rely upon to do away with the many, many paper inflations that have taken place in the past? Has it not been the coining of gold and putting it into free circulation?

Secretary MORGENTHAU. If you mean that by simply coining gold and having free circulation of gold we would control inflation, I cannot agree with you.

Mr. F. C. SMITH. If you do not agree with me, I will ask several more questions anyway.

If our people were threatened with destruction by some terrible visiting disease, such as smallpox or the black death, and our Government had the cure for the disease which was attacking us locked in vaults, and refused to let our people use it, what would be thought of such officials?

Secretary MORGENTHAU. You do not expect me to answer that, do you?

Mr. F. C. SMITH. Yes, I do; because this is a very serious question. It is my judgment that our Nation is now threatened with destruction by inflation, and the officials of our Government hold locked in the strong vaults the remedy for this black scourge. That medicine is not merely a palliative, and in saying that I make reference to the history of gold, something that alleviates merely the symptoms, but it is a real cure for the disease itself. Yet our Government officials refuse to let our people have this medicine to save them from the economic and social black death that hovers over them.

You, of course, would not agree with that either, would you?

Secretary MORGENTHAU. I would rather not comment on it, if you do not mind.

Mr. F. C. SMITH. Mr. Secretary, I nevertheless want to thank you, and I do not want you to take it that I have tried to embarrass you. This is a very serious question, and the reason that I feel like I do about it is because I think the gold is the key to the solution of the problem of inflation. I think the gold prohibition law is what is destroying this Nation, and driving us into dictatorship. It is only for that reason that I raise these questions, and I hope the day will come when the Treasury and our public officials will see the need for putting the gold into use again.

Mr. MONROE. The hour is so late that I want to take just a few minutes to first compliment you on the bang-up job you are doing in selling these defense bonds. You are doing a great merchandising job, and I believe with the radio program and other enterprises, such as the Treasury Bond House in New York, in Rockefeller Center, and the one you ran down here, it is going to mean an awful lot in establishing a policy that instead of high pressuring your merchandise, you are merchandising it and putting that thing across in great shape.

I think the most important thing that has come out of your testimony today has been your statement that you felt the perhaps 6 per-

cent on invested capital should be the ceiling on profits from industry, on invested capital.

Now, the hour is so late I do not want to bore you with amplifying that, or trying to follow it off into its ultimate conclusion, but the point that I think is so encouraging to me is an adequate excess-profits tax is one of the keystones in blocking inflation. High profits encourage labor to seek higher wages, and if labor does not seek increased wages it leads to increased wages anyhow because the profit is there, and it causes Government costs on munitions to go up higher, and that is the thing that price ceilings can never touch excepting as to the very basic items that go into these munitions.

Therefore, I think that your statement gives us a rule of thumb, and I think the Congress and the committee should take that as it was given. I mean we cannot expect you to outline in a few words a tax bill, but we can take that 6 percent as a rule of thumb, and then above that we have the excess profits and a tax, as I got it, that would take all above the 6 percent figure, that is generally speaking.

Secretary MORGENTHAU. I made a sweeping statement, and you have it, Mr. Congressman; you understand what I mean.

Mr. MONRONEY. It is a ceiling of about 6 percent earning on invested capital; is that right?

Secretary MORGENTHAU. It is something that I thought we could shoot for and hope to get.

Mr. MONRONEY. This 6 percent, it is too late to get it in this year's tax bill; we have already passed that.

Secretary MORGENTHAU. The bill is passed, but we started last fall, or last July and June, advocating what we thought was a strong excess-profits bill. We presented our position, and we can only come before Congress and explain how the Treasury feels. I repeated the same explanation, bringing it up to date. In fact, the situation is so much more serious and so much more aggravated that we feel the need for a strong excess-profits bill is many times greater now than it was 12 months ago.

I simply feel that in this tremendous rearmament program which we are going through, that in order to make all the people feel the seriousness of it and make everybody feel that he is making his fair contribution, the tax is needed. As I said this morning, the soldier and the sailor who has given up his home and his life and his business for a dollar a day, what he is doing is not out of proportion to what the businessman would be doing if the tax on excessive profits is imposed. I feel the businessman ought to be willing in these times to be satisfied with the necessary exceptions, in the interest of justice, to 6 percent on his invested capital. I think as time goes on and we realize the seriousness of the situation, with this tremendous volume of expenditures, that something approaching that will have to be attempted.

Mr. MONRONEY. The point that I am trying to make is that time is of the essence of this thing. If we wait until next year's tax bill to put in this rule of thumb of 6 percent ceiling, then we will not begin taking it out of the spending channels until March 15, 1943.

Secretary MORGENTHAU. Mr. Monroney, I can only bring a suggestion of that nature to the attention of the committee, and the rest is up to the Congress. We could have two tax bills in the same year;

there is nothing on the statutes or in the Constitution that would keep us from having two bills. As a matter of fact, in the not too distant future we are starting another tax bill, the main purpose of which is to correct a number of technical defects in the law. But there is nothing in the Constitution to say that if somebody wanted to introduce another excess-profits-tax bill that it could not be done.

Mr. MONRONEY. It looks to me like neither this present tax bill, and with all due regard to your suggestions, made last year and this year, that you are still not getting at the excess profits that are going to work on this inflationary spiral.

Secretary MORGENTHAU. I think it is a very fair criticism.

Mr. MONRONEY. I think your suggestion was that you would not take more than 65 percent excess-profits tax on excess earnings of about 30 percent; was that not about right?

Mr. BLOUGH. I did not say anything about our suggestion in my previous discussion. We had, however, a suggestion presented to the Congress which would have gone up to 65 percent.

Mr. MONRONEY. That is above 30 percent?

Mr. BLOUGH. Yes, sir.

Mr. MONRONEY. The point is that there is a snow ball on this. Let us take the situation of the man with an important Government munitions contract—for instance, we will say landing gear for airplanes—with a patent protected right, and now in order to increase his profits he has to multiply the cost to the Government by several times because you are siphoning out a part of his income with the excess-profits tax. You are not putting a ceiling on it, and so industry naturally is going for more and more profits, so that their spread, or what they will have left, will be greater, and I do not think that you are ever going to get at the inflationary evil of excess profits by leaving open at the top those excess profits. I think that you are going to have to have a ceiling on them, such as the Secretary explained.

Secretary MORGENTHAU. I think that your criticism is a very fair one, and all I can say is that we study this thing daily, and we are bringing to the attention of this committee, and anybody else who will listen to us, what the dangers are, and what the Treasury would like to see done to correct it.

Mr. MONRONEY. I want to thank you for your time and your testimony.

Secretary MORGENTHAU. Thank you very much.

Mr. KUNKEL. You quoted the President of the United States in saying that today we stand as we did in the closing months of 1915, at the beginning of an upward sweep of the whole price structure. That is on the first page of your prepared statement, and you quoted the President there?

Secretary MORGENTHAU. Yes, sir.

Mr. KUNKEL. Do you find that statement strictly accurate?

Secretary MORGENTHAU. Do you mind if I ask you what you mean there? I really do not understand what you mean, and I am not trying to spar with you.

Mr. KUNKEL. I do not think that at that time we were at the beginning of an upward sweep, I think that we were well along in an upward sweep.

Secretary MORGENTHAU. I have tried not to use a chart today, but I guess that I am going to have to.

Mr. KUNKEL. If you will look at Mr. Henderson's charts that he presented to this committee, I think that you will agree as to the direction of it.

Secretary MORGENTHAU. All right; I have my chart now. Would you mind if I brought this over to you?

Mr. KUNKEL. Not at all, sir.

Secretary MORGENTHAU. These are the wholesale prices, and you see the beginning of 1915.

Mr. KUNKEL. But today we stand, as we did in the closing months of 1915, at the beginning, that is what you say. I think that today we are well past the beginning.

Secretary MORGENTHAU. I see what you mean.

Mr. KUNKEL. I think that Mr. Henderson's charts clearly show that.

Secretary MORGENTHAU. I think the thing has gone up some since the President's talk.

Mr. KUNKEL. I mean at the time he talked we had already had a substantial price rise.

Mr. HENDERSON. That is correct, Mr. Kunkel, but that was rather selective, and at the time of which the President wrote there was evidence in practically every group that was not under control of an upward price rise.

Mr. KUNKEL. What I am driving at is that we are getting started a little bit late on this bill, and especially the consideration by Congress. It was not requested until 3 months ago, and now we are coming in for criticism because we are not turning it out fast enough, and it is a very complicated bill.

My next question is along the same line, Mr. Secretary, that the present tax bill we all agree is not adequate, either from the revenue standpoint or from the standpoint of cutting the present purchasing power; is that not correct?

Secretary MORGENTHAU. I think that that is correct.

Mr. KUNKEL. So do you not think that we ought to get started on a new bill, a new tax bill? Of course, it is not this committee's business, but whether it is this year or next year, this is rather along the lines that Mr. Monroney was suggesting to you. If we are going to get after this 6 percent, why wait? We lost \$3,000,000 per day on the excise taxes this year; did we not?

Secretary MORGENTHAU. If I could answer it this way, it may not satisfy you, but if the Ways and Means Committee wants to take up another tax bill, we would be delighted.

Mr. KUNKEL. I think if you ask them they would, and of course these same Members of Congress will be here next year as this year, because there is no election this year.

Secretary MORGENTHAU. Maybe I will get up the courage and ask them.

Mr. KUNKEL. Now, how do you arrive at this 6-percent figure? Why should it not be 4, or 8, or 10, or is it just a rough figure that you picked out of thin air?

Secretary MORGENTHAU. No; I have been thinking about this for a long time, and I felt that 6 percent, if a man could get 6 percent on

his invested capital, why in these times I simply felt in my own personal opinion that that would be a fair return.

Mr. KUNKEL. It necessarily would have to be a purely arbitrary figure; would it not?

Secretary MORGENTHAU. That is right.

Mr. KUNKEL. Now, the one thing that troubles me in this is that it does not allow for the element of risk which increases or decreases in certain lines of business.

Secretary MORGENTHAU. Mr. Congressman, I quite agree with you. You can get into this whole question of risks, and you get into the question of salaries, and depletion, and amortization, and it would complicate our discussion. I think that you heard Mr. Blough describe the tax bill under Woodrow Wilson. It is a highly technical thing.

Mr. KUNKEL. I apologize for asking that question, because it has been completely covered before. It is repetition, and I should not have asked that question.

Mr. MONRONEY. Right there, for the purpose of the record, I think what the Secretary means is to take everything, not just 6 percent, and not just 65 percent of the excess earnings, but I believe all of the earnings above 6 percent as a rule of thumb.

Secretary MORGENTHAU. That is right.

Mr. MONRONEY. I wanted to be clear on that point.

Mr. KUNKEL. Do you believe that in curtailing credit, do you believe credit should be curtailed on Government agencies, Government loaning agencies, before it is curtailed on private loaning agencies and private business concerns with regard to installment purchases?

Secretary MORGENTHAU. I think it would be well to begin the practice under Government agencies first.

Mr. KUNKEL. Thank you, sir.

The CHAIRMAN. What was your answer, please, sir?

Secretary MORGENTHAU. I think it would be wise to practice on the Government agencies first.

Mr. KUNKEL. Practice makes perfect.

The CHAIRMAN. The Government agencies stand in a different category than normal financial institutions, they deal with distress conditions.

Secretary MORGENTHAU. What I had in mind, Mr. Chairman, was this: In the case of F. H. A., through administrative rulings, you could change the amount of money that a man has to put down for his house.

The CHAIRMAN. That is true, but if you deal with the matter directly under the installment regulation that will take care of it automatically and the F. H. A. would simply continue to insure approved institutions as they do now, I should think.

Secretary MORGENTHAU. I think that you are most likely right.

Mr. ROLPH. I wonder, if Mr. Secretary will bear with me just a minute while I ask some corrections be made in the record of yesterday?

The CHAIRMAN. Mr. Henderson, Mr. Rolph has a question.

Let me suggest that you let that correction come at the end of the day's hearing. I think it will read better to let this other come consecutively,

Mr. PATMAN. Is not Mr. Henderson going to be back tomorrow?
The CHAIRMAN. Yes; let us finish with this discussion for the moment.

Mr. ROLPH. I have a telegram here from people in San Francisco, the California Consumers League, against skyrocketing prices, commending you very highly for your speech in Boston, and unfortunately I did not hear the speech in Boston, and I wonder if I may have a copy of that because I would be very much interested.

Thank you very much.

Now, there is just one question that I would like to ask, in connection with this bill and naturally we are going to be asked questions over in the House when this bill is up for discussion and your prepared statement will no doubt be the subject of a very thorough interrogation and I think that we ought to be as well posted on it as possible and I am going to ask you if you would not in just a minute or so give me a sort of a brief answer to this part of your statement, and it appears on page 3 and I quote:

That is what the Congress is being asked to do today. Passage of this bill would be one additional step forward in the war against inflation, the war on our home front, the war that must be fought and won if we are to preserve our American heritage.

Now, what are, briefly, the forces on the other side that we are combating in this war?

Secretary MORGENTHAU. Well, you cannot buy anything today, whether it is clothing, or any food, or you want to rent a house, that you do not have to pay a great deal more money.

Now, those so-called white-collar workers, and Government workers, there is not much that they can do about it but if cost of living goes up as much as it did 25 years ago they would have to buy less food, lower their standards of living, be able to pay less doctors' bills, buy less medicine, two families going into one house the way they did, people lived here in Washington, women clerks, four and six women in a room, and there was a terrific epidemic, I believe, all through the District. People may lose confidence in their Government; they become susceptible to radical approach and the will to win may be impaired.

Mr. ROLPH. Profiteering, you mean.

Secretary MORGENTHAU. Yes; profiteering. I do not know any better way to undermine the morale and happiness and health of the people than to have this terrific price inflation which—with ensuing collapse which must follow, and in the years of tragedy, people out of work, people losing their homes.

Mr. ROLPH. I think that that is more to be feared than that increase, myself.

Secretary MORGENTHAU. It would go up quickly but it may come down twice as fast as it goes up and that is the thing that I see that we have to fight.

Mr. ROLPH. Thank you very much and I appreciate it.

Mr. BARRY. I had just a few questions that I wanted to ask the Secretary but in view of the lateness of the hour, I will hope to see him and talk to him some other time.

Mr. DEWEY. I am going to ask the Secretary if he will be kind enough to have introduced in the record the issue date and maturity

date of the five Liberty Loans during the last war, and their high price and their low price, between the years 1918 and 1922.

I only ask that with this thought in mind that these savings certificates may create a demand liability that would fall on us later on, after this emergency is over, and our debt has grown, and there is a similar range in the value of Government securities that existed in the period that I have asked.

That is all Mr. Chairman.

Under Secretary BELL. We shall be glad to do that.

The CHAIRMAN. Mr. Secretary, on behalf of the committee, I want to thank you for your very able and candid expressions, and it has been very helpful and informative.

Mr. ROLPH. If you will give me just a minute, I have a correction that I would like to make in the record. It is on page 900 of the hearings yesterday. There was an editorial from the San Francisco Bulletin that was omitted, and I would like to have that put in, if I may; and on page 906, in answering a question, I should say "Do you not establish a waste?" and the record has it "Do you not establish a base wage?" Do you remember that question, Mr. Henderson?

And then on page 915 in answering a question by Mr. Henderson, which I quote:

He is against fixing a price on what he is selling, but he is in favor of fixing a price on anything that he buys?

Mr. ROLPH. No; this is the California Packing Corporation, the largest canner of canned foods and canned vegetables in the world.

Well, now, that should be "canned fruits and canned vegetables" and not "canned foods and canned vegetables," because the California Packing Corporation is not by any means, I do not think, the largest packer of canned foods, but they were not asking for any ceiling, or they were not opposing any ceiling on anything but canned fish, and I want that very definitely stated that.

The letter bears it out, and it so states, and I want to state definitely that they were not asking for anything except canned fish.

The CHAIRMAN. We will recess until 10 o'clock tomorrow morning. (Thereupon, at 6:30 p. m., an adjournment was taken, to reconvene the following morning, September 25, 1941, at 10 a. m.).

x

Comments on Secretary's Statement Made Before the
Committee on Wednesday, September 24th

Benjamin Steiner, Philadelphia, Pa. All fair minded Americans - and that is the great majority of our citizens - agree with you. The vicious circle of profiteering and wage rising must stop. The millions of citizens of our armed forces are making their sacrifices. Let us in industry and commerce make our sacrifice. That will raise the morale not only here but throughout the world towards a speedy victory over the forces of darkness.

Henry L. Nunn, Washington, D.C. You are absolutely right. Let us have a moratorium on excessive profits for the duration. Big profits do not go well with blood, sweat and tears.

Joseph D. Goodman, Philadelphia, Pa. I read that you are again advocating your pet Fascistic plan to limit corporation earnings to 6% on invested capital. That would mean Coca Cola, for instance, could earn about 80 cents a share. On that basis, will you tell us what earthly reason would exist for the Coca Cola Company to increase its sales, building additional plants, provide employment for many people, and bring its product within reach of more people? (Other examples given.) The proposal you suggest is typical of the many Fascistic, as well as Communistic proposals made continually in recent years by the New Deal. You owe an apology to America for your latest outburst. Your proposal would wipe out the middle classes, cause a panic, and possibly civil war. Is that what you are trying to do?

Allison Wesley, Grantwood, N. J. The Secretary's idea of a ceiling on prices and profits comes none too soon. Those salaried folks like me who are going to without a winter coat in order to pay their taxes need some encouragement as well as help of a more substantial nature. Bravo, Mr. Secretary. See that your idea is translated into action. I write to you rather than to my New Jersey Congressman because they aren't interested in me.

August Brody, N. Y. C. I was dismayed to read about all above 6% being taxed 100%. This is not fair. Many corporations earned more before this emergency, and their stocks sold accordingly. If this goes through, these stocks will drop considerably, with little income for the stockholders. There are lots of small holders who in their older age, like myself, have saved a few dollars. Where do we come off, as well as others?

Harry M. Leet, N. Y. C. May I express my warm appreciation and sincere admiration for the way in which you have tackled the problem of war profits! Some drastic action was long overdue, and your position as to a 6% return on invested capital is quite correct, I believe.

M. E. Alison, Philadelphia, Pa. I have just read your remarks in the morning paper in opposition to a ceiling over wages, as well as everything else. To keep on taxing profits and allow wages to increase continually does not make sense or justice. Your remark about labor in free countries is not property and should not be treated as such is absurdly beside the point. Labor here gets excellent pay and is treated like a privileged class.

Rayson B. Lizars (Member New York Stock Exchange), Chicago, Ill. I was amazed and shocked by a statement attributed to you today, that all corporation profits should be limited to 6% on invested capital and that any excess would be taxed 100%. I have not the words to express what I believe this would do to the economy of the country, to the spirit of our citizens who are engaged in business, and to the wreckage of values, that such a move would cause. I am a member of the New York Stock Exchange, and am also in the banking business, but I have always considered myself a New Dealer and have consistently voted for Mr. Roosevelt.

D. E. Server, E. Orange, New Jersey. I am over the allotted three score years and ten; had a son, served in France in World War (volunteered). A headline in N. Y. paper today: "Morgenthau 6% Profit Limit - Ceiling on Prices" "Not on Wages"; both the above-mentioned were paid \$30 per month (mentions a grandson who has volunteered for Army training now), many are making up to \$15 per day, and strikes galore. Now labor's wages must not be touched, why? \$500,000 campaign funds never-to-be-forgotten gift to re-elect F.D.R. from Labor Unions. Non-essentials were to be passed up for defense, neither you, F.D.R. nor Congress can spell "Economy" - less practice it.

Hazel F. Norton, N.Y.C. Ask any man in the Army whether he thinks price-fixing without fixing labor costs is fair.

M. A. Watson, Evans, Stillman & Co., N.Y.C. (Members N. Y. Stock Exchange) It seems to me that if wages cannot be controlled because of human rights, that the farmers' property cannot be controlled for the same identical reason. In fact, the farmer has the stronger position. * * * The factory worker has put no money into the plant where he works, nor has he any responsibility for the upkeep of the plant, or for any of the taxes placed upon the plant.

Wm. MacDougall, W. Orange, N. J. You are right. 6% is plenty of profit on "War-Products" - no matter if it is wheat, eggs, bullets, planes or ships. Also be sure that British, via puppets, do not buy up U. S. products and then resell.

E. Kurt, Atlantic City, N. J. The American people expect some business ability from the man that handles the peoples' money. One wonders where you went to school? If you don't put a ceiling on wages and farm products, you can't put a ceiling on other products. Will your secretary give you this or does he hand you only the insincere flattering ones, as the truth hurts?

I. E. L. Fulner, Bronx, N.Y.C. What will happen to the President's Pen American good-will philosophy if only 6% of invested capital is permitted to remain for stockholders? Can't you see that all American mining companies in the Central and South American countries and in Mexico will close their mines?

Theodore Ellison, N.Y.C. Thank you for your declaration against control of wages -- particularly the statement that "labor is not to be considered property". It is indeed a lighting up of the road of the future. May you keep the vision you have shown!

E. H. Broodwell, N.Y.C. I don't suppose there's the slightest chance of your seeing this, but will you tell me why in the name of Heaven, if there is a ceiling on prices, why not on labor wages? If there was ever an Administration that was apparently playing politics for the Farmer and Labor vote, its this one. We are all willing to pay, but for God's Sake, make Labor do its part -- that situation is intollerable and disgusting to every real American. Also, if you want incomes to tax, you must have some business besides Defense.

John A. Adams, Pittsburgh, Pa. I was happy to learn of your ideas of 6% on capital investment. I believe it is a grand idea and should be put into effect.

John Lutz, Baltimore, Md. If that (6% profit) becomes a law, Uncle Sam will have to support the small stockholders as the Board of Directors vote large salaries to their officers, and will absorb all the profits and the little fellow will get nothing. What you ought to do is to curb such large salaries to officers. We little stockholders want to live too.

Roselle Maning, President, N. Y. Conference for Inalienable Rights, N.Y.C. (Telegram) Accept our heartiest congratulations on your statement on policy and recommendation for legislation before House Banking and Currency Committee. Your stand will receive the fullest endorsement and support from all patriotic Americans who are determined to bring every resource behind the vitally important national defense effort. And see in uncontrolled profits and exhorbitant prices one of the greatest threats to popular morale. Some weeks ago, with the cooperation of leaders in N. Y. State, we started plans for a statewide conference which we hope will aid your own and other Departments of the national Administration in efforts to halt profiteering and the horrors of inflation and thereby strengthen the national defense effort.

"A Disgusted American", N. Y. C. After reading your latest blast, these lines seem to run through my head, with apologies to Irving Berlin - * * *
But with Roosevelt at the wheel,
God Help America,
Wrecked by the New Deal
God Help America,
Wrecked by the New Deal.

Louis F. Armes, N.Y.C. Your statement of yesterday, as reported in the newspapers, seems unbelievable. The groups who have suffered tremendously through all this depression are the so-called middlemen, who were too proud to go on relief; and because of the constant whippings by the Government, of industry and capital, that middleman never was able to come back. The industries which you propose to limit to 6% profit are financed by the public through their stockholdings. The balance which the Government takes is definitely robbing one class only of their just due. The stockholders' returns for the last ten years have been pitiful. Widow and the aged, as well as thousands of others, are hopeful of a possible chance to make up a little of this. The minute they begin to hope for some relief, you slap on a limit of profit which will ruin the chances for this class to even get a fair dividend. It's not the management you are hurting, it is the millions of stockholders whom you are taxing in countless other ways.

Paul F. Nagle, N.Y.C. Your plan to allow only 6% return on invested capital would ruin many holders of the securities of companies with small invested capital. The person who purchased shares of a manufacturing company is as much entitled to a fair return on his investment as the holder of railroad shares. I support your claim that farm prices should be controlled, but think that wages should be likewise.

"A Pro American", N.Y.C. So your idea is 6% on investment! Well, is that what you are taking - and that \$2,000 a week job that Eleanor has - what is she going to keep and the rest of that Roosevelt tribe, etc.

Charles W. Whittemore, Glen Ridge, N. J. Today's papers bring the news that you intend to submit to Congress a bill for raising revenue which will shock the "complacency" of the business world. This, of course, is a twice-told tale. I am unable to discuss the merits of the project and will not protest even if I am hurt, but it seems to me that it is time the Administration did something to shock the complacency of labor which is so greatly increasing defense outlay, which increases my taxes unjustifiably, and which is the main cause of the fatal inflation now overwhelming us.

prices. Now is the time to draw on these supplies, both as an anti-inflationary measure and as a preparation for replenishing them if that should again become necessary.

Would Control Farm Prices.

The concept of an ever-normal granary, which calls for a control of falling farm prices, seems to me to call equally for control over rising farm prices. This bill, however, specifically restricts the authority of the Price Control Administration over farm prices. That is, I believe, the major defect of the bill. I strongly recommend that this inflexibility be removed—in the event of the attack upon inflation, in the interest of the standard of living of our people and in the long-run interests of farmers as well.

I am not disturbed by the general level of agricultural prices now prevailing, but I am deeply concerned about the danger that agricultural prices will continue to rise as they did in the World War.

Recalling that it had been suggested to the committee that the price-control bill include a "ceiling on wages," the proposal strongly recommended by Mr. Baruch as an essential part of the whole, Mr. Morgenthau said he had "strong feelings" on this question.

"I should like to go on record," continued Mr. Morgenthau, "as sharing this view. In free countries labor is not a commodity, human beings are not property; and I appreciate that wages affect the cost of production and the general level of prices. However, I feel very definitely that if we can on the one hand keep the cost of living from rising, and on the other hand impose adequate taxes on excessive profits, then we will have removed the major causes for demands for wage increases. Furthermore, it is worth noting that the major portion of our defense industries today is covered by collective bargaining contracts, and only a sharp rise in the cost of living is likely to upset those contracts."

Would Inster Wage Action.

If effective price control and adequate excess profits are provided, and the wage rates cannot be kept in bounds, Mr. Morgenthau insisted, there would be ample time to take additional measures.

"I noted you said that in a free country, labor is not a commodity and human beings cannot be treated as property," interposed Representative Opre. "That statement is all right, but it was made by Lincoln nearly eighty years ago and the issue decided. I cannot see the difference between fixing the compensation received by a man who makes his living raising chickens and the compensation received by a civil service appointee."

Secretary Morgenthau said that if Congress were to consider the bill the Price Administration, under Tom Henderson, would be given the statutory authority to deal with conditions it is now trying to control through voluntary agreements.

The "new money" financing indicated by Mr. Morgenthau is exclusive of refunding operations which the Treasury must undertake during the balance of the 1942 year. Unless it elects to repay these maturities in cash, the maturities are not available. The firm to be met will be \$204,000,000 principal amount of 1 1/2 per cent Series C notes, due Dec. 15, 1941; \$426,000,000 principal amount of 4 1/2 per cent Series A notes, due March 15 a total of \$630,000,000. The maturities are not available until then. Two new issues of \$342,000,000 and \$222,000,000 principal amount, but the last two fall due on Sept. 15 and Dec. 15, 1942, respectively, within the 1943 fiscal year. In addition there are some bill maturities. However, because of the good response Treasury has received in selling its new tax anticipation notes, it is likely that it will continue to pay off some of these bills as they mature, rather than refund them. The Treasury also will undertake some refunding operations on behalf of various government corporations, and possibly seek "new money" as in the case of the Reconstruction Finance Corporation.

September 24, 1941

Dear Mr. Rukeyser:

You will see from the enclosed text of my statement to the House Banking and Currency Committee that I used some of the excellent material you dictated Monday.

This note is just to tell you how greatly I appreciated your help and how much I liked the spirit and the substance of what you wrote.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Meryle S. Rukeyser,
80 Pryer Terrace,
New Rochelle, New York.

FK/hkb

9/24/41

Copies to Mr. Thomas

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS
Wednesday, September 24, 1941.
9/23/41

Press Service
No. 27-67

In connection with the action taken today by the Board of Governors of the Federal Reserve System to increase reserve requirements, the Secretary of the Treasury and the Chairman of the Board issued the following statement, in which the Board of Governors concurs:

"The Treasury and the Board of Governors will continue to watch the economic situation and to cooperate with other agencies of the Government in their efforts, through priorities, allocations, price regulation, and otherwise, to fight inflation. Recommendations on the question of what additional powers, if any, over bank reserves the Board should have during the present emergency and what form these powers should take will be made whenever the Treasury and the Board, after further consultation, determine that such action is necessary to help in combating inflationary developments."

-oCo-

September 24, 1941
12:55 a.m.

HMJr: Hello.

General
Watson: E.M.W.

HMJr: H.M.Jr.

W: Yeah. Look here, what I was trying to get
yesterday.....

HMJr: Yeah.

W: Paul McNutt has been asking for an appointment
with the President and he wanted you there,
over the expansion of this Social Security
Program.

HMJr: That's right.

W: And I tell you, Henry, the damn thing is so
touch and go on account of Hall Roosevelt that
I don't think it would be feasible to have that
until next week.

HMJr: I'm in no hurry.

W: All right. Suppose you just - I'll tell Paul
McNutt that I'll check up about you being here
and won't have it until you hear, and let's let
it go until next week.

HMJr: Suits me beautifully.

W: Does that suit you?

HMJr: Beautifully.

W: All right, sir.

HMJr: Thank you.

W: How you feeling - say, look here.

HMJr: Yeah.

- 2 -

W: I'm dancing up there now. I took one lesson, and they tell me you're up there, too.

HMJr: (Laughs)

W: Huh?

HMJr: I don't know where you go.

W: (Laughs) Well, I was afraid before to say anything about it.

HMJr: I have my dancing lessons in my home.

W: Do they come up there?

HMJr: Yeah.

W: They do? Well, I go down to the other place, maybe I get mine at a more reduced figure than you do.

HMJr: Well, your figure is bigger than mine.

W: (Laughs) Well, Frances made me go. I came in the other night, and I was dripping.

HMJr: Yeah.

W: I think it took five pounds off.

HMJr: Well, the trouble is, they're so new that I can't learn them.

W: Well, I told them just to let me go into the old waltz and one-step.

HMJr: That's what I like.

W: All right, sir.

HMJr: We'll have to do it together some time.

W: Yeah. Let's do that, with a couple of good, fine-looking girls. I'll look them over down there.

- 3 -

HMJr: If you look them over, it's good enough
for me.

W: (Laughs) All right.

HMJr: What they send me to the house.....

W: (Laughs)

HMJr:is no good-looking girl.

W: Yeah, I know. You'd better start going down
there with me.

HMJr: Okay.

W: (Laughs) All right.

HMJr: Righto.

W: Good-bye.

HMJr: Good-bye.

○ The Secretary had Miss Chauncey to tell Mr. Gaston that he wants to know what action, if any, the White House takes in regard to Mr. Parker.

September 24, 1941.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

We have found our first case in which a dollar-a-year man has been involved in serious tax troubles. William A. Parker, 42, President and General Manager of the Beck and Gregg Hardware Company, Atlanta, Georgia, has been designated by O.P.M. as Coordinator, Defense Contract Service, 6th District.

Revenue agents in 1937 discovered apparent irregularities in the return of the Beck and Gregg Hardware Company for the year 1935. Eventually Parker, who, with his mother, owns 2,487 shares out of 3,000 of the corporation, admitted falsification of his books, which resulted in an assertion of tax penalties and interest amounting to \$39,895.20. The Intelligence Unit recommended reference of the case to the Department of Justice for criminal prosecution, but this was not done. Instead, on the recommendation of Morris Shafroth, then General Counsel, an offer in compromise in the above amount was accepted.

I am sending to Rowe at the White House a copy of a Bureau memorandum which sets forth the above facts in greater detail. This memorandum is attached hereto. Mr. Foley advises me that we have proper legal authority to do this in view of the direction by the President to investigate the character and fitness of employees of the defense organizations.



Attachment.

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September 12, 1941.

MEMORANDUM FOR MR. IREY.

In re: William A. Parker

In connection with the attached memorandum addressed to Mr. Gaston by the Administrative Assistant to the President, the following is submitted with respect to the income tax case of the Beck and Gregg Hardware Company of Atlanta, Georgia, of which company Mr. Parker is president.

A revenue agent while examining the 1935 return of the corporation discovered a pencil memorandum indicating that the closing inventory for 1935 had been decreased by \$90,000.00. This memorandum admittedly was written by Vice President P. J. Smith who was requested to explain the matter. Smith asked for a few days to refresh his recollection and thereafter on October 20, 1936, submitted a statement in writing to the effect that the apparent discrepancy was due to an error of a comptometer operator employed from the outside. This explanation did not satisfy the agent and in order to avoid destruction or loss of records permission was obtained from Mr. Parker to remove the records to the Internal Revenue office. Mr. Parker was advised that it had been found that a number of erasures had been made on the corporation's records, that is, the inventory sheets as of April 30, 1935, and at that time he denied all knowledge of such erasures.

By the use of an electro lens magnifying glass and with the assistance of a copy of the pencil memorandum above referred to, the agents located many individual items on the inventory which had been altered and found that the total amounted to \$90,000.00, which was the figure used on the pencil memorandum. Attention was then given to the inventory for 1936 and many alterations were found on the records for that year. Vice President Smith was again interviewed and he specifically denied the existence of any data which might assist in checking the inventory and as a result information was requested from the office of a certain insurance company with respect to statements furnished by the taxpayer disclosing the value of inventories used for insurance purposes. The insurance company requested a subpoena and after

the agents left the office an insurance official apparently communicated with Mr. Parker who on the same day called on the agents offering to make available all statements submitted to the insurance company. Again Mr. Parker specifically denied any knowledge of changes in the inventories, adding that if such changes had been made he did not know who was responsible.

The same day J. T. Rose (former Collector) called on the agents stating he had been employed by Deek and Gregg to represent them in connection with the investigation then being made, and Mr. Rose stated that Mr. Parker had admitted to him that he and Vice President Smith had effected the alterations in the inventories for 1934, 1935 and 1936.

The contention of Mr. Parker and Mr. Smith was that at the close of the year ended April 30, 1934, there was an apparent increase in inventory from \$316,000.00 to \$552,000.00, on the basis of which the gross profit would be \$463,000.00. Mr. Parker stated that he did not believe it possible that the corporation had realized any such profit and in order to show a profit more in line with that of previous years the changes in the inventory figures were arbitrarily and deliberately made. This much was admitted by Mr. Parker in a sworn statement given the agents and at a hearing here in the Bureau.

If the matter had never been detected the net result would have been the building up of a surplus, the significance of which may be indicated when it is considered that of the 3,000 shares of stock of the corporation Mr. Parker and his mother owned 2,487 shares.

This case was given very careful consideration, as a result of which the then Chief Counsel, Mr. Shafer, on August 5, 1937, recommended acceptance of an offer in compromise in the amount of \$39,895.20, which represented the amount of tax and penalties determined by the examining officers, plus interest. The acceptance was approved by Acting Secretary of the Treasury Magill on the same date, August 5, 1937. The reason given for recommending acceptance was that it was not believed it could be proved beyond doubt that the motive in juggling the inventory was for the purpose of evading income taxes.

In a statement of Mr. Parker incorporated in his affidavit he concludes as follows: "I want to state further the Government can rest assured that never again will there be anything in any of the records of the Beck and Gregg Hardware Company to cause the slightest question."

When the revenue agent discovered the apparent irregularities request was made for the cooperation of a special agent, who thereafter made an exhaustive investigation and developed evidence which in the opinion of this office warranted reference of the case to the Chief Counsel with recommendation for prosecution. The recommendation was that Mr. Parker, Vice President Smith and C. J. Aldred be prosecuted for conspiracy to defeat and evade the payment of the corporation taxes. It may be stated that Aldred, although secretary of the corporation, played a comparatively minor part in the case.

An inspection of the available income tax returns filed by Mr. Parker since 1936 discloses nothing reflecting unfavorably on him.



0/24/41

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The Secretary had Miss Chauncey to tell Mr. Gaston that the President has a special, secret fund of several million dollars from which this expense can be met and that it is ridiculous for Treas to pay for it.

September 24, 1941.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

Secret Service has asked Coast Guard to supply a rather complete Coast Guard radio station for operation on the grounds at Hyde Park. It is to include both low power and high power sets for the lowest frequencies, used in communication with ships. These are for communication with Coast Guard cutters. In addition a high frequency set is to be installed for both voice and code. The total cost will be around \$15,000.

Waesche has run into some difficulty in finding the money and we have consulted Norman Thompson. It may be that a trade can be made with some Treasury fund, or it may be necessary to ask for a special Presidential allocation. At any rate the plant will be installed.

W.C.H.

HIGHLY CONFIDENTIAL

September 24, 1941.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

NH

(1) When our agents went to see Donovan about the survey of his telephone circuits, which you authorized, he made an additional request, which is that we supply him with an experienced agent to oversee measures for the security of their office communications and records. I thought it would be wise for us to comply with his request and authorized Irey and Wilson to do so. Wilson will endeavor to find one of the older and therefore less active Secret Service operatives and one who is well qualified for this assignment.

(2) Wallace Phillips, the civilian intelligence officer of O.N.I. who has been in charge of special intelligence abroad -- that is, information which comes from other sources than military and naval attaches -- told me yesterday that he had been assigned to Donovan's C.O.I. In the future, while he will retain his office in the Navy Department and his relations with O.N.I. and with Military Intelligence, he will make his principal office in Donovan's shop and will direct from that point the gathering of all special intelligence from abroad, other than that collected in Central and South America, which is at present under the jurisdiction of F.B.I. F.B.I. now has eleven men in Mexico and something like seventy-five in all in Central and South America. Phillips recently discussed with Hoover taking over Hoover's work in Mexico, since Army and Navy desire military information not being obtained by Hoover's men. Hoover professed to be agreeable to this but insisted on withdrawing all his men and permitting Phillips to build his own organization. Phillips did not desire to do this since it would break the continuity of political information. Consequently, he is sending about half a dozen of his own men into Mexico, who will be in addition to Hoover's force of eleven and will be

concerned for the present strictly with so-called military information, including of course activities and opportunities for Japanese as well as other Axis activity in the military line. Ultimately, Phillips told me, he expects to absorb the Hoover work in Mexico.

Phillips asked my assistance in clearing through Foreign Funds a transfer of money to a supervising agent in Zurich.

It appears from Phillips' statements that Donovan has been given control of espionage abroad and that Phillips, who has heretofore been in charge of it in behalf of the military services, will hereafter work under Donovan's direction.



TREASURY DEPARTMENT

56 2-

INTER OFFICE COMMUNICATION

DATE

September 24, 1941

TO Secretary Morgenthau
FROM Herbert Merillat

In accordance with your instructions, I attended the Albany and Buffalo meetings of the New York Bankers' Association, at which the foreign funds control and Regulation W on instalment credit were discussed.

I came from these two meetings with the definite impression that they have been considered very helpful by the bankers who attended them. There were large audiences at both meetings - about 250 at Albany, about 350 at Buffalo. Many bankers remarked that normal attendance at Association business meetings is not nearly so large. Many also remarked that much more can be accomplished by such discussions than by reams of correspondence and published documents.

Although the meetings were long and the subject-matter difficult, the bankers were attentive and apparently eager for instruction. There is little evidence of a truculent attitude, but there is some grumbling that the foreign funds control means just so much more paper work at the banks' expense.

Two complaints are fairly widespread among bankers regarding the administration of the foreign funds control: (1) that alien registration lists have not been made available to banks; and (2) that it is awkward, as a matter of public relations, for banks to check the status of their customers in the absence of a Treasury regulation specifically requiring them to do so.

Conduct of the Meetings: Treasury-Federal Reserve Bank Friction.

The Treasury representatives explaining foreign funds control at these meetings felt that they were not being treated quite fairly by the Federal Reserve Bank representatives. For one thing, the Reserve men in the first two meetings took two hours for the discussion of Regulation W. Moreover, Mr. Treiber, one of the Reserve Bank representatives, failed to discuss TFR-300 as he was supposed to do.

At Albany, the prepared statements of the Federal Reserve men took up almost an hour, questions on Regulation W another hour. The speeches and question-period of the Treasury representatives lasted almost as long. A considerable number of bankers remained to ask more questions on Regulation W.

In Buffalo, however, the two-hour schedule originally planned was carried out. The Federal Reserve men stopped the questions on Regulation W after they had held the platform one hour. The Treasury men then spent about 45 minutes on foreign

funds control. About 100 bankers remained for a further hour to ask more questions on Regulation W.

If the Buffalo meeting proves to be the model for future meetings, the Treasury men can have little grounds for complaint.

After the Albany meeting I sounded out several bankers on the desirability of holding in the future separate meetings on foreign funds control and Regulation W. They did not seem to think that the meeting had been unduly long and were agreed that it would be difficult to get such good attendance for two meetings in fairly quick succession.

It is, of course, impossible to estimate exactly to what extent Regulation W or foreign funds control was the chief drawing card at these meetings. The much larger number of questions on Regulation W than on foreign funds control indicates that the installment credit restrictions were the center of interest. The small bankers in particular are more interested in learning about Regulation W than in foreign funds control.

After the Buffalo meeting there were only two questions from the floor relating to foreign funds control. This was doubtless due in large measure to the 1½-hour meeting at a local bank in the afternoon, at which Messrs. Murphy and Treiber answered the questions of some 20 bankers who were particularly interested in problems arising under the foreign fund control regulations.

In reply refer
to No.

U. S. NAVAL RESERVE MIDSHIPMEN'S SCHOOL
NEW YORK, N. Y.

on board

U. S. S. PRAIRIE STATE

West 135th Street and North River

September 24, 1941

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

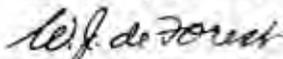
My dear Mr. Morgenthau:

Thank you very much for your gracious letter of September 17th, regarding a copy of the Side Boy. As you know your fine son was Editor-in-Chief and he and the committee did a splendid piece of work. It is particularly commendable because of the time at their disposal.

It was my good fortune to have rather an intimate contact with your son during his three months here and I also made the cruise with him on the U.S.S. WYOMING in the summer of 1940. You are to be congratulated upon a son who possesses so many sterling qualities.

With warm regards, believe me,

Sincerely yours,



W. J. deFOREST,
Lt. Comdr., CHC.

WJdeF/jfw

Supreme Court of the United States
Washington, D. C.

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CHAMBERS OF
JUSTICE FELIX FRANKFURTER

September 24, 1941

Dear Henry:

Many thanks for remembering to send me Allen Barth's summary of editorial opinion. You are one of those rare people who are dependable in large things as well as in small. And few experiences in life are as satisfying and as precious as such dependability.

With warm regards,

Very sincerely yours,

FF

M. I did not forget
"do something"

Hon. Henry Morgenthau, Jr.

about the
Newark election
during the holiday.

THE WHITE HOUSE
WASHINGTON

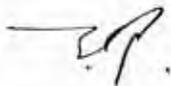
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September 24, 1941

Dear Henry:

I am deeply grateful to you for the expeditious way in which you handled the sewing machine situation in Los Angeles. I have written Mr. Mack a note of appreciation, although I feel full credit should go to you.

Affectionately,



September 24, 1941

Dear Colonel Donovan:

It is a pleasure for me to comply with the request in your letter of September 22.

I have instructed Alan Barth to help you along the lines you suggest, and I am sure that he will do all he can to cooperate in your work.

Sincerely,

(Signed) H. Morgenthau, Jr.

Colonel William J. Donovan,
Coordinator of Information,
Washington, D. C.

FK/hkb

9/24/41

by messenger 3:20 pm

Delivered to Mr. Thompson

File M.M.C.

COORDINATOR OF INFORMATION

WASHINGTON, D. C.

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September 23, 1941

The Secretary of the Treasury
Washington, D. C.

My dear Mr. Secretary:

Mr. Allen Barth, one of your Special Assistants, is engaged in reviewing the American Press for the purpose of furnishing you with a weekly analysis of editorial trends. I am informed that Mr. Barth would find it possible to furnish us with his notations culled from numerous American newspapers. These notes would be of great value to us in preparing summaries of editorial comment for short-wave broadcasters.

We have told Mr. Barth that we are interested solely in textual material, not in opinion or analysis. He has informed us that he will furnish us with this material whenever it is available in the normal course of his duties.

We will appreciate this cooperation as it will avoid duplication of effort within the government.

Cordially yours,

William C. Donovan

William C. Donovan

UNITED STATES SAVINGS BONDS

Comparative Statement of Sales During
First Nineteen Business Days of July, August, and September, 1941
(July 1-23, August 1-22, September 1-23)
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
				August	July	August	July
Series E - Post Offices	\$ 29,682	\$ 30,899	\$ 38,700	-\$ 1,217	-\$ 7,801	- 3.9%	- 20.2%
Series E - Banks	<u>50,832</u>	<u>59,200</u>	<u>70,155</u>	- <u>8,368</u>	- <u>10,955</u>	- <u>14.1</u>	- <u>15.6</u>
Series E - Total	80,515	90,099	108,855	- 9,584	- 18,756	- 10.6	- 17.2
Series F - Banks	12,888	15,808	19,131	- 2,920	- 3,323	- 18.5	- 17.4
Series G - Banks	<u>80,325</u>	<u>97,699</u>	<u>122,136</u>	- <u>17,374</u>	- <u>24,437</u>	- <u>17.8</u>	- <u>20.0</u>
Total	<u>\$173,727</u>	<u>\$203,606</u>	<u>\$250,123</u>	- <u>\$29,879</u>	- <u>\$46,517</u>	- <u>14.7%</u>	- <u>18.6%</u>

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

September 24, 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.

Daily Sales - September 1941
On Basis of Issue Price

CONFIDENTIAL

(In thousands of dollars)

Date	Post Office Bond Sales Series E	Bank Bond Sales				All Bond Sales			
		Series E	Series F	Series G	Total	Series E	Series F	Series G	Total
September 1941									
2	\$ 3,021	\$ 3,385	\$ 1,182	\$ 5,510	\$ 10,077	\$ 6,406	\$ 1,182	\$ 5,510	\$ 13,098
3	972	1,933	585	5,790	8,308	2,905	585	5,790	9,280
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
17	1,225	2,902	536	3,018	6,495	4,127	536	3,018	7,680
18	1,458	2,593	568	3,862	7,024	4,051	568	3,862	8,481
19	1,555	3,169	794	4,148	8,111	4,724	794	4,148	9,666
20	1,085	1,742	466	2,228	4,436	2,828	466	2,228	5,522
22	2,396	3,435	927	5,394	9,757	5,832	927	5,394	12,153
23	1,149	2,132	607	3,412	6,152	3,281	607	3,412	7,300
Total	\$ 29,682	\$ 50,832	\$ 12,888	\$ 80,325	\$144,045	\$ 80,515	\$ 12,888	\$ 80,325	\$173,727

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

September 24, 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.

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Wednesday, September 24, 1941.

Press Service
No. 27-39

Secretary Morgenthau today announced the award of a contract for the Government's stencil paper needs for the six-month period beginning December 1, 1941, that will effect an estimated annual saving of \$300,000.

The contract, awarded by the Treasury's Procurement Division to the A. B. Dick Company of Chicago, called for purchase of the mimeograph stencils in a price range of \$0.81 to \$2.64 per quire. Previous prices per quire had ranged from \$1.07 to \$5.05.

The savings was accomplished, according to Director of Procurement Clifton E. Mack, as a result of a protracted performance survey which made possible revision of specifications to eliminate segregation of cellulose and non-cellulose stencils and thus increased competition. Director Mack said that similar surveys are now being made of other commodities purchased in large quantities.

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September 23, 1941.

MEMORANDUM FOR MR. MAGK.

Thank you very much for your memorandum of September 19th, informing me of the economies effected in the purchase of stencil paper.

I want to congratulate you upon this substantial saving and upon the manner in which it was worked out. I shall be interested to hear of the progress of the other studies you mention in your memorandum.

H. M. G.

By Messenger 20100



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

September 18, 1941.

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MEMORANDUM TO THE SECRETARY.

I recently mentioned to you the effort being made to obtain better prices on stencil paper, also the possible substantial savings, and you requested that a memorandum be submitted when the work was completed.

Bids opened today were at greatly reduced prices and an estimated annual saving of approximately \$300,000 is indicated.

Heretofore purchases were made on the basis of descriptive specifications which called for cellulose and non-cellulose stencils. The A. B. Dick Company has a patent on cellulose stencils and is the only concern which can produce them, hence, no competition and stiff prices. Specifications were revised based upon performance and doing away with the cellulose and non-cellulose segregation with the result that A. B. Dick was forced to compete with all other manufacturers. While the A. B. Dick Company was the low bidder, the price range was from \$0.81 to \$2.64 per quire as compared to \$1.07 to \$6.05 per quire heretofore due to the fact that the revised specifications made keen competition necessary.

Similar studies of other commodities purchased in large quantities are being undertaken.

Clifton E. Mack
Clifton E. Mack,
Director of Procurement.

September 22, 1941.

MEMORANDUM FOR MR. MAGE.

Thank you very much for your memorandum of September 19th, informing me of the economies effected in the purchase of stencil paper.

I want to congratulate you upon this substantial saving and upon the manner in which it was worked out. I shall be interested to hear of the progress of the other studies you mention in your memorandum.

H.M.G.

GEF/dbs

By Messenger /D:CO

SEP 21 1941

Mr. H. Hoyle Godman,
Technical Assistant to the
Secretary of the Treasury,
Washington, D. C.

Sir:

You are hereby authorized and directed to proceed on or about September 26, 1941, from Washington, D. C. to Hong Kong, China, and such other parts of China as may be necessary on official business of the Exchange Stabilization Fund.

In view of the nature of this mission, you are authorized to travel, if the circumstances warrant, by airplane from Washington, D. C. to the Pacific Coast and thence by either airplane or foreign steamship lines, to China. You are also authorized to use any available mode of transportation within the limits of China or any other country as may be necessary. This authorization is also applicable as to means of transportation and routes to be traveled on your return from China to Washington, D. C.

You will be reimbursed for travel and an allowance of eight dollars (\$8.00) per diem in lieu of subsistence and other expenses incident to the transaction of official business, payable from the Exchange Stabilization Fund. You will also be entitled to reimbursement for loss sustained from appreciation of foreign currencies in their relation to the American dollar as authorized by the act approved March 26, 1934. A copy of this travel authorization should accompany each voucher making claim for expenses incurred thereunder.

Advances of funds will be made to you to cover cost of travel, subsistence and other expenses, upon filing a bond of indemnity to cover such advances.

In Hong Kong Walter F. Press, Special Disbursing Agent, Disburses funds of the Exchange Stabilization Fund. In Shanghai Mr. H. W. Nicholson is also a Special Disbursing Agent of the Exchange

Stabilization Fund. In case you desire additional advances you are authorized to request those men to advance you any additional funds required. Your presentation of this letter to them will be their authority to advance you the funds needed. Upon cable advice from you additional funds will be placed to their credit to cover any advances made to you.

Very truly yours,

(Signed) D. W. BELL

Secretary of the Treasury.

Cable by Naval Radio

To: American Embassy, Chungking
American Consul, Hong Kong
American Consul, Shanghai

H. Merle Cochran, Foreign Service Officer on detail in the Treasury Department as Technical Assistant to the Secretary of the Treasury is proceeding by clipper, leaving San Francisco September 28, to Hong Kong and China on official business for the Treasury Department. He is scheduled to arrive at Hong Kong October 7 in company with Sir Otto Niemeyer of the Bank of England. After sojourning in Hong Kong he will visit Chungking and Shanghai. He bears diplomatic passport designating him as "Foreign Service Officer on Special Mission".

The Department requests that the Embassy and the Consulates General at Hong Kong and Shanghai afford Mr. Cochran all appropriate facilities. Please inform Fox.

(Received by telephone by Mr. Cochran at 5:20 p.m., Sept. 24, 1941, from Mr. George Atcheson, Far Eastern Division, Department of State.)

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(Handed by Mr. Bewley of the British Treasury to Mr. Cochran
in the U. S. Treasury at 6 p.m., September 24, 1941.)

Governor Hong Kong

Sir R. Campbell

11.00 a.m. September 23, 1941.

12.45 a.m. September 23, 1941.

Sent to Type - September 23, 1941.

Addressed to Washington, repeated to Secretary of State
for the Colonies telegram No.1083 for Treasury and Saving to
Chungking.

Following for Sir O. Niemeyer from Rogers.

Begins.

It is rumoured in American official circles here that
Currie may be coming to Hong Kong.

Ends.

copy:kma 9/24/41

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(Handed by Mr. Bewley of the British Treasury to Mr. Cochran
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Currie may be coming to Hong Kong.

Ends.

copy:kms 9/24/41

COPY

GRAY

74

Shanghai via N.R.

Dated September 24, 1941

Rec'd. 2:10 p.m. 26th.

Secretary of State,
Washington.

September 24, noon.

Old established Shanghai-American leaf tobacco importing house who have long supplied the Chinese cigarette factories, in past carrying considerable stocks here for their convenience but under present conditions doing mainly indent business are concerned over allotment by Stabilization Board of United States dollars 750,000 monthly for leaf tobacco, in that United States dollars 650,000 of the total is reported to have been allotted to Yee Tsong Tobacco Company (British-American Tobacco Company subsidiary), the balance being designated for Chinese cigarette factories. The American concerns are without cover for actual sales to Chinese factories and for small stock lots en route which may be sold shortly and are threatened thus with having their ability to trade cut off or are forced to resort to black market. It is the feeling of this Consulate General that

these firms which have over a long period financed and promoted American leaf tobacco sales in this market should be given consideration as they have a distinct value in holding present and promoting future American leaf tobacco sales. Representatives of two leading American leaf tobacco concerns are proceeding to Hong Kong to interview American member of Stabilization Board on behalf of American leaf tobacco importers here and will indicate their individual requirements. Other firms may report requirements later.

Sent to Hong Kong. Repeated to the Department and to Chungking.

LOCKHART

JRL

Copy:dtg:9-30-41

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(Handed by Mr. Bewley of the British Treasury to Mr. Cochran at the United States Treasury at 6 p.m., September 24, 1941.)

24th September, 1941.

MEMORANDUM.

The financial arrangements which we have provisionally set on foot regarding the finance of supplies to Russia are as follows:-

CIVILIAN SUPPLIES.

Our deliveries to Russia (rubber, tin, wool, etc.) will largely exceed Russian deliveries to us. A balance will be struck every three months and the net amount then due to us will be paid:

as to 60% in sterling which we shall provide as an advance to the Soviet Government;

as to 40% in gold or its equivalent.

(The reason for expecting 40% to be paid in gold or its equivalent is that a substantial part of the materials with which we are providing Russia, especially rubber & tin, would otherwise be available to earn us dollars).

MILITARY SUPPLIES.

(A) Sterling Area Supplies

We shall not ask for payment for military supplies from the sterling area. Some arrangement analogous to Lend-Lease may perhaps be made for return of any intact supplies after the war.

(B) Sterling Area Supplies which include dollar raw materials.

In view of the difficulty of disentangling the precise dollar content it is proposed to ignore this, and to treat these supplies in the same manner as purely sterling supplies ((A) above).

(C) Lend-Lease Supplies.

If it were desired to transfer to Russia any goods received by us under Lend-Lease and a re-transfer directive were received from the U.S., no payment would be asked by us from Russia, and the transfer would be subject only to such conditions as the U.S. authorities might require.

- 2 -

(D) Dollar Supplies.

As regards military supplies which we have bought for dollars in the U.S., under pre-Lend-Lease contracts, etc., and which we may pass on to Russia in the same form in which we have received them, we should expect Russia to reimburse us in gold or its equivalent. We do not wish to make ourselves responsible for direct dollar outgoings on behalf of Russia, and Russian gold reserves are believed to be substantial.

We should be prepared to take gold anywhere outside Russia. It might be sent, as occasion arises, either to the United Kingdom or else via Vladivostok to the United States. We should be glad to know that there is no objection if gold is sent from Russia to the United States and placed at our disposal in this country.

We must reserve the right to re-open at a more convenient occasion the question of the possibility of receiving payment in dollars from Russia for dollar goods supplied to her.

(Signed) T. K. Bewley

COPY - dm - 9/24/41

EJ

PLAIN

London

Dated September 24, 1941

Rec'd 2:20 p.m.

Secretary of State,
Washington.

4504, Twenty-fourth.

FOR TREASURY FROM CASADAY.

Urgent requests from Ministry of Economic Warfare and other British Government offices for copies of forms connected with freezing orders cannot be met in London because of absence of any copy of any of these forms. Six copies by air mail would be appreciated.

WINLNT

DD

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Budapest, Hungary

DATE: September 24, 1941, 5 p.m.

NO. 1 542

I should appreciate receiving by telegraph information as to whether the Treasury Department would be prepared to unblock sufficient funds of the Hungarian Government or nationals in order to permit the Hungarians to meet both short and long term obligations agreements; the date of termination being October 15, 1941. This information is requested in order that I may intelligently discuss matters with competent Hungarian authorities as well as for the interests of American creditors.

Have renewals of debt service agreements been made by Germany, Italy, and Japan?

PELL

EA:PAK

840.51 Frozen Credits/3899

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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

80

Week ended September 27, 1941

	JAPAN	RUSSIA	SPAIN	GREAT BRITAIN
PETROLEUM PRODUCTS				
Fuel and Gas Oil (including Diesel Oil)	--	--	--	587,000 Bbls.
Crude -				
Blended or California High Octane Crude*	--	--	--	--
All Other Crude	--	--	--	--
Gasoline -				
Gasoline A**	--	--	--	520,000 Bbls.
Gasoline B*	--	--	65,000 Bbls.	826,428 Bbls.
All Other Gasoline	--	--	--	--
Lubricating Oil -				
Aviation Lubricating Oil***	--	--	450 Bbls.	70 Bbls.
All Other Lubricating Oil	--	--	--	514 Bbls.
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 29, 1941.

Source: Office of Merchant Ship Control, Treasury Department.

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

** Aviation Gasoline.

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

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

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DATE September 24, 1941.

TO Secretary Morgenthau
FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£27,000
Purchased from commercial concerns	£44,000

Open market sterling remained at 4.03-1/2, and there were no reported transactions.

The Canadian dollar, which has shown a weak tendency of late, recovered to close at 11-5/8% discount today. Yesterday's final rate was 11-7/8%.

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

Argentine peso (free)	.2363
Brazilian milreis (free)	.0505
Colombian peso	.5775
Mexican peso	.2070
Venezuelan bolivar	.2735
Uruguayan peso (free)	.4400
Cuban peso	3/8% discount

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

The Federal Reserve Bank of New York reported that the Bank of Canada shipped \$2,363,000 in gold from Canada to the Federal for account of the Government of Canada, for sale to the New York Assay Office.

In London, spot and forward silver were unchanged 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.

The report of September 17, received from the Federal Reserve Bank of New York, giving foreign exchange positions of banks and bankers in its district, revealed that the total position of all countries was short the equivalent of \$3,533,000, a decrease of \$371,000 in the short position since September 10. Net changes were as follows:

<u>Country</u>	<u>Short Position</u> <u>September 10</u>	<u>Short Position</u> <u>September 17</u>	<u>Change in</u> <u>Short Position*</u>
England**	\$1,309,000 (Long)	\$1,342,000 (Long)	- \$ 33,000
Europe	2,653,000	2,683,000	+ 30,000
Canada	25,000	170,000 (Long)	- 195,000
Latin America	75,000 (Long)	6,000 (Long)	+ 69,000
Japan	246,000	274,000	+ 28,000
Other Asia	2,378,000	2,196,000	- 182,000
All others	<u>14,000 (Long)</u>	<u>102,000 (Long)</u>	- 88,000
Total	\$3,904,000	\$3,533,000	- \$371,000

*Plus sign (+) indicates increase in short position, or decrease in long position.
Minus sign(-) indicates decrease in short position, or increase in long position.

**Combined position in registered and open market sterling.



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BRITISH EMBASSY,
WASHINGTON, D.C.

PERSONAL AND
SECRET

September 24th, 1941

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

R. J. Campbell

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,
Washington, D.C.

TELEGRAM RECEIVED FROM LONDON
DATED SEPTEMBER 22nd, 1941

British submarine torpedoed and sank 2,000 ton merchant ship a.m. 13th in Rolvsøy Sound near the North Cape. On 17th she attacked 3,000 ton merchant ship in the same area, 1 hit estimated.

British tanker 5,729 tons in convoy mined p.m. 21st near Holland light was blown in half by mine, after part sank.

P.M. 19th, Elenheim despatched and attacked liner reported leaving Tripoli failed to locate her but attacked and scored four hits on flotilla leader outside harbour.

Night of 21st/22nd, owing to weather no bombing operations by Royal Air Force.

Yesterday during operations over France 24 enemy aircraft shot down certain, 8 probably, 13 damaged. We lost 14 fighters 11 pilots saved.

GERMAN AIR FOR E. 21st/22nd.

About 50 enemy aircraft mostly engaged in sea-mining and anti-shipping operations off East Coast.

Little doubt Germans obtained foothold several islands of Oesel. German's claim to one hundred and fifty thousand prisoners in Kiev area may well be true but encircled Russia troops east of city still resisting vigorously. Germans have cut rail and road communications between Dniepropetrovsk and split Crimea.

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MILITARY INTELLIGENCE DIVISION
WAR DEPARTMENT
Washington, September 24, 1941

TENTATIVE LESSONS BULLETIN
No. 162
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.

OPERATIONS IN GREECE
APRIL 21, 1941 - APRIL 30, 1941

SOURCE

This bulletin, which is the third and last of a series on these operations, is based upon a report submitted on May 14, 1941, by an American official observer in Athens.

CONTENTS

1. FORCES
2. OPERATIONS
3. LOSSES
4. COMMENTS OF OFFICIAL OBSERVER

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- 1 -

OPERATIONS IN GREECE*
APRIL 21, 1941 - APRIL 30, 1941

1. FORCES

During this last phase of this campaign, since the Greek troops in Albania and in Northern Greece had already capitulated, the allied troops consisted of some Greek units still intact in the Athens area and in the Peloponnesus and of the British Expeditionary Force - less whatever auxiliary forces and materiel of the rear installations, including the Air Force and its ground personnel, that had already been evacuated.

The number and composition of the forces utilized by the Germans in this phase is not known, but it is believed that a great part, if not all, of the German armored, motorized, and mountain troops which were exerting pressure on the British along the high ground north of Larissa continued their pursuit down to the Thermopylae Line at least. How much of this force continued the subsequent pursuit down into the Peloponnesus is not clear. And it is known that motorized, and possibly armored, elements of the German force which had branched off via Grevena, subsequently penetrated to Missolonghi, and they are believed to have crossed the Gulf of Corinth to the Peloponnesus and assisted in the mopping up of that region.

Except for the action on April 21, there were no British planes to support or protect their troops during this last period, and the numerous German planes operated entirely unopposed in the air.

2. OPERATIONS

a. April 21

On April 21, Yanina was reached by German troops. The British forces on the Thermopylae Line were temporarily out of contact with the Germans, who were evidently moving up men and materiel.

German planes in great numbers bombed and machine-gunned shipping and many towns, villages, ports, and airdromes, particularly in Attica and at Piraeus, Eleusis, Megara, Loutraki, Thebes, Agrinion, Atalanti, and Missolonghi, but the bombings were light. An Italian bomber attacked Kalamata. Five German planes were shot down by Greek antiaircraft fire and the British claimed that 20 more were shot down by British fighters; seven of these fighters were lost.

*Attached to this bulletin is a map which shows the location of all places mentioned in this series of reports on the Greek campaign.

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The British evacuated by air to Crete, five Blenheims and five Hurricanes, the last of their serviceable planes in Greece, and continued the previously begun evacuation by boat of their air service ground personnel and stranded flying personnel.

Demolitions were prepared by the British on the road running east from Missolonghi and on the road running east via Patras. In order to delay any attempt on the part of the Germans to penetrate in rear of the British forces holding the Thermopylae Line, detachments of Greek troops were posted in the vicinity of Missolonghi and Greek and British detachments were posted near Patras.

b. April 22 - 26

Detailed information as to the operations from April 22 to April 25 is not available. It is known, however, that Australian and New Zealand units were holding the Thermopylae Line, while the evacuation of personnel, continually harassed by German aviation, proceeded. As far as could be ascertained, the ports and beaches in the vicinity of Chalcis, Piraeus, Rafina, Porto Rafti, Nauplia, Monemvassia, Kalamata, and possibly other places, were used by the British as embarkation points. As late as the afternoon and evening of April 26, troops poured through Athens in trucks which were evidently headed for Rafina or Porto Rafti. German planes, in great numbers, continued their unrelenting attacks along the coasts on towns, villages, shipping, and even small boats.

The British Headquarters in Athens left the city on April 24, and it is believed that General Wilson, and at least some of the personnel of his immediate staff, were evacuated by plane that night. German troops, pushing south along the west coast, penetrated to the vicinity of Missolonghi.

On April 26, it was subsequently learned, German parachutists were dropped in the vicinity of Corinth, followed by air infantry which landed on the partially completed airfield in that area. The bridge over the Corinth Canal was blown up by the defending detachment of British troops, and reports indicate that the casualties among the German parachute troops were rather heavy. The estimates on the number of parachutists dropped in this region vary from 800 to several thousand. The parachutists blocked the southward passage of some British motor detachments which were attempting to reach the Peloponnese, and dispersed the British anti-aircraft units in the vicinity. The arrival of the parachutists and air infantry was closely protected by low-flying German bombers and fighters.

c. April 27

At 8:35 A.M., April 27, advanced parties of motorcyclists raised

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the German flag on the Acropolis in Athens. At about 9:30 A.M. the first large units of motorized German troops entered the city. The occupation was effected systematically and without incident. Some days prior to this, the King and most of the members of the Government had departed by plane for Crete, leaving only a military Governor in command at Athens.

d. April 30

The Germans announced on April 30 that all British troops in the Peloponnese had been completely vanquished. The City of Athens was never bombed by the Germans, but it and Salonike were the only two, practically, among the cities, towns, and even villages of Greece which had not received some damage at least from the Germans, principally from the air.

I. LOSSESa. British

There is no information available as to the number of British killed and wounded, but that number is not believed to have been high in operations against ground forces, since the action of the British troops from the very beginning was a withdrawal action. In most cases the desired delay of the German advance was effected principally by demolitions and road blocks and in few instances, apparently, did the British find it necessary to put up a determined defense for any length of time, except possibly on the Thermopylae Line. The British evacuated some wounded and left about 150 seriously wounded in two hospitals in the suburbs of Athens. The number of British wounded in the retreat and evacuation of a portion of their forces in the Peloponnese is not yet known. There, also, it is believed, however, that the number was not great, as in most cases the troops escaped or surrendered after a brief resistance. According to a reliable report the Germans have the following prisoners concentrated at Corinth:

- 298 British officers - including one General;
- 6,000 British soldiers - Australian, New Zealand, and British;
- 3,523 Non-British - Cypriotes, Maltese, Hindus, Egyptians, Arabs, etc.;
- 1,400 Palestinians - Jews;
- 386 Yugoslav officers - including four Generals;
- 743 Yugoslav soldiers.

These figures do not include 200 British prisoners known to be at Megara, and at least 60 stragglers known to have surrendered at Athens after the occupation. It is thought that there are a good many British soldiers still at large, principally in the Isthmus of Corinth area - where they were admitted by parachutists - and on the island of Euboea.

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The exact number of these men, who must eventually surrender, is not known, but it may run into several hundreds, all told. Nor is it known how many British troops were lost by reason of German air attacks after they had succeeded in embarking. Most of the embarkation was effected at night, but in many instances the ships, in their flight from Greece, were still within reach of German bombers when dawn came.

It is believed that the British lost the greater part of their motor vehicles in Greece. As an indication of their losses, it might be pointed out that about 900 motor vehicles were counted in the Rafina-Forto Rafti area, abandoned and more or less destroyed, intentionally. On the road between Athens and Eleusis about 200 more were seen. And these two areas constituted only a small part of the territory involved. According to statements of British soldiers and of other travelers through the area of the action north of Athens, there are British motor vehicles scattered all along the line of retreat; and evidently a great many were abandoned in the Peloponnese. In most instances, since evacuation was made from beaches, it was impossible to evacuate heavy materiel. There is no information as to the number of British field and anti-aircraft guns abandoned. British soldiers say that most of the armored vehicles were lost in northern Greece, as much from mechanical difficulties as from enemy action.

b. German

It is not believed that the German losses in men or materiel were heavy during their campaign in Greece. There may have been damage in spots from British air action, but the British were not able to bring enough mass and weight to bear to constitute a serious factor against the overpowering German numbers of men and materiel. In most cases, the German air force paved the way, so that the ground forces had mainly to contend with natural obstacles and demolitions, rather than with actual fighting. When British Headquarters left Athens on or about April 24, it is known that the British had only 200 German prisoners, whom they took away by boat.

c. Greek

Whether or not Greek troops were actually engaged during this phase is not definitely known, though it is believed that Greek detachments offered resistance in the form of delaying actions in the region of Missolonghi and possibly in the Peloponnese, particularly in the vicinity of Patras. There is reason to think, however, that casualties were not high in any case, as reliance for delay, as elsewhere, was placed primarily on demolitions. The principal loss to Greek personnel - including the civilian population - and materiel, was caused by attacks by the German Air Force. All shipping in Greek waters suffered heavily from air attacks. Little information concerning the Greek Navy is available.

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but it is known that the old, obsolete cruiser Averoff - formerly the U.S.S. Mississippi - escaped to Alexandria, and it is thought that about half of the destroyers, and perhaps a larger percentage of the submarines, also escaped to Crete or to Egypt. Unconfirmed reports indicate that, during the temporary debacle about April 18, when high officers of the Army, Air Force, and Navy told their men in many instances to go home, there were several incidents resulting in mutinies in which the younger officers and crews took possession of the ships and got away.

4. COMMENTS OF OFFICIAL OBSERVER

There is reason to believe that there was a certain amount of defeatism and disaffection among the higher officers of the Greek Army in respect to resistance against the Germans, and this undoubtedly had an unfavorable effect on the morale of certain Greek units, particularly those stationed in northern Greece at the commencement of the German attack. On the other hand, the Greek troops holding the defensive line east of the Vardar River fought well against the Germans. And the Greek army in Albania, even after having fought a heartbreaking campaign through the terrible winter conditions, fell back in good order when ordered to do so, repulsing Italian attacks and bringing back practically all of its equipment at the same time; they even continued to take prisoners repeatedly.

In addition to the overwhelming German superiority in numbers and in materiel of all kinds, notably aviation, armored vehicles, and modern weapons, the outstanding characteristics of the German forces are their extreme mobility, the completeness of their equipment, their doctrine of offensive and aggressive action, with its consequent maintenance of the initiative, and the coordination and team-work between their armored and motorized forces and between their land forces and their aviation.

The morale of the German troops appears to be good; but the Germans do not appear to be happy. This may be partially explained by their natural undemonstrativeness, but there is reason to believe that many of the rank and file are growing somewhat weary of the continual strain, the restrictions and privations to which they have been subjected for a long period of time, and the fact that the series of victorious aggressions and the subjugation of practically the entire continent of Europe have not brought peace. It therefore remains to be seen whether the German morale will withstand military reverses.

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G-2/2657-220; No. 501 M.I.D., W.D. 11:00 A.M., September 24, 1941

SITUATION REPORT

I. Eastern Theater.

Ground: German forces continue their attacks around Leningrad.

Germans report that the actions east of Kiev continue and the Russians are now compressed into two smaller areas.

There is no further information from the Smolensk front (inclusive) to the Black Sea.

Russians claim counterattacks at many places along the front. Probable actions northeast of Poltava. Russians report success at Novgorod-Seversky. Fortifications of Kharkov are being extended to the west.

Air: Main German air effort was directed against shipping in the Baltic and Black Seas and in the Gulf of Finland, with considerable success reported by the Germans.

II. Western Theater.

Air: No reports have been received of action by either side in this theater.

III. Middle Eastern Theater.

Ground: No activity of importance was reported today in the Middle East.

Air: British planes raided Benghazi, while Axis forces again attacked Tobruk on the 21st.

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September 25, 1941

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Draft A discussed with the Secretary by
Mr. Kuhn at 9 a.m. today

DRAFT OF
SECRETARY MORGENTHAU'S SPEECH
to the
AMERICAN BANCER'S ASSOCIATION
AT CHICAGO
OCTOBER 2, 1941.

Three weeks ago I warned the American people that we were in the early stages of a serious price inflation, and that we must deal with the danger at once. I warned the American people then, and I should like to repeat the warning at the very start of this talk today, that if we do not check the spiral of rising prices, and check it now, the consequences may haunt us and our children for years to come.

I outlined then a twin program for fighting inflation, firstly by reducing excess purchasing power in the hands of the public, and simultaneously, by increasing the supply of goods, like farm products, which do not compete with the over-riding needs of our national defense effort.

I said then, and I meant it as earnestly as I have ever meant anything in public life, that it was "sheer folly" for the farmer to seek higher prices for his crops at this time, for labor leaders to seek continual new increases in wages, or for any group to exploit the present emergency for selfish gain. And I asked for the understanding and support of 130 million Americans in fighting the evil of inflation by every means in the Administration's power.

That appeal has brought an overwhelmingly favorable response. I have never known anything like it since I came to the Treasury eight years ago. Yet the prices of many staples are still on the upgrade, on the apparent assumption of some commodity dealers that a responsible

member of this Administration does not mean what he says and does not have the power to implement his words.

To such false interpreters of the Administration's mind, I should like to say only this: that the Government at Washington is united in a determination to fight and beat inflation. It already has powerful weapons of control in its hands. If the Administration needs more power, it will ask Congress for whatever it needs. It is just as determined to beat down the forces of inflationary folly as it is to defeat, at whatever cost, the forces of military conquest that are running rampant across the earth.

You have seen, no doubt, the joint statement issued last week by the Federal Reserve System and the Treasury, raising bank reserve requirements to the limit of the law,

and pledging full cooperation with the Office of Price Administration and the new Supply and Priorities Allocations Board. That joint statement should be a signal to any doubters of the Administration's determination and unity of purpose. Those who ignore the signal will do so at their own cost.

There is no need for me to tell this audience of bankers of the need of common effort, on the part of every group and every individual in the community, if inflation is to be averted. You have shown abundantly in the past year that you are conscious of your duties and your responsibilities to the country. You have given magnificent help, and given it unselfishly and cheerfully, in the selling of

Defense Savings Bonds and Stamps. You have given further help in the sale of tax anticipation notes which will enable every taxpayer to meet next year's heavy tax bill more easily. You have cooperated willingly with the Treasury's control of foreign funds, although I know that it interferes with the free handling of your business affairs and subjects you to many complicated regulations and questionnaires.

In all these and other ways you have been such real partners of the Government that I am genuinely glad to be with you this morning, to thank you personally for all that you have done.

But the most important task of American bankers lies ahead, in the critical months to come, and it is a broader

and bigger task than any you have yet been called upon to perform. That is the task of doing everything in your power, not only as bankers but as influential and respected leaders in your communities, to fight this evil of inflation wherever it rears its ~~ugly~~ head.

Many of you will remember, from your own experience, that inflation is just as damaging to bankers as to farmers, wage earners or businessmen. We had a price inflation twenty-five years ago; and while there were sins of commission in those days which we have not repeated and will not repeat, the present course of prices is following the old pattern with remarkable precision.

We know now that the great increase in bank loans and investments from 1916 to 1920, an increase from 17.4 to 36.4 billion dollars in five years, and the resulting

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increase in deposits, from 14.9 to 30.5 billion dollars, made possible the great increase in prices which brought such hardship to American consumers and such disastrous after-effects to American farmers.

We know now that far too much of that increase, an amount between five and six billion dollars, represented an increase in Government debt held by commercial banks, and loans on the security of such debt.

We know now that the inflation of a quarter-century ago, with all of its injustices and dislocations, could have been avoided if the Government of those days had acted more promptly, if it had taxed more heavily and borrowed more widely from genuine savings.

When the inevitable collapse came, no fewer than 2,910 banks with 790 million dollars of deposits were compelled to suspend operations in the five-year period from 1921 to 1925. Humpty Dumpty had climbed to the top of a very high wall, and many years of effort were needed to pick up the pieces. It is my job as Secretary of the Treasury, and yours as custodians of the people's money, to make sure that any present-day descendants of Humpty Dumpty shall not go climbing up that wall of expanded credit and higher prices again.

*number
of
deposits*

That is why my first plea to you as bankers is that you look minutely over your own lists of applications for loans. Those lists contain within them much of the ammunition of inflation. You have within your power, therefore,

one of the most effective weapons for checking inflation at its source. You are sure to find, on looking over your lists, many applications for money for non-defense projects that would involve competition for steel or copper or lumber or any of the thousand and one materials now needed so desperately for our defense effort. If you can postpone all such unnecessary loans until a later day, without waiting for the priorities to become broader, you will be doing a real and lasting service to your country.

D-A

As the priority system spreads and becomes more effective, we probably shall find that the supply of all raw materials for all purposes will have to be controlled ^{at the source} in the interests of national defense; and that will mean that there simply will not be enough materials for any unnecessary civilian projects. But until that day comes, I hope that you will constitute yourselves the sentinels of the nation, in your own bank and your own community, in guarding against any private encroachment upon the national effort.

*File under
T-1
P-1*

*I hope it will be
difficult for
most people
to remember for
themselves etc.*

Another essential service which you can perform is quite simply to teach the people of your communities the facts about inflation and defense financing, and about the situation in which this free country stands.

You see in your daily work men and women from many walks of life. You are in a ^{favorable} position to advise them, and your advice often carries as much weight as that of a doctor to his patient or a lawyer to his client. I know that in these serious times you will give the

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right kind of advice, and that your influence collectively and individually, will be thrown onto the side of ^{your} the Government in its efforts to keep inflation in check.

I think there is a real need of convincing the average citizen, right now, that he will have to accept far heavier burdens of taxation. There is a real need of preparing him to do without many luxuries which he had come to regard as necessities in his daily life. Above all, there is a real need of persuading him that this war can not be won quickly or cheaply or easily.

It will require all-out effort on our part to tip the scales in this war. It will require every ounce of strength that our giant industrial system can give. It will demand sweat and sacrifice on the part of producers, workers, managers and consumers alike. And it will mean the greatest Government expenditure that has ever been pumped into the arteries of our economic system.

Defense expenditures have now risen slowly to a billion and a quarter dollars a month; they will soon be a billion and a half, but even then they will be

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utterly inadequate compared to the need. Yet our comparatively modest defense expenditures up to now have put millions of dollars more into the pockets of our workers in August this year than in August a year ago. We have only made a start in spending for defense, yet our national income has increased by ten billion dollars in a year, and we are feeling all the preliminary symptoms of a serious price inflation. What will the inflationary forces be six months from now, when we shall be spending much faster and when the supplies of materials for civilian use will be smaller than they are today? Where will prices be then, if we do not act courageously to check them now?

Only 11,000,000
of more or defense
to be paid by
the public.

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It is imperative that we take a great part of that national income, and especially the increase in the national income, right out of circulation at this time if we are to put an effective brake upon inflation.

One indispensable method is "all-out" taxation, a method that has not yet been tried in spite of the huge tax bill just signed by the President. That tax bill will yield almost fourteen billion dollars in revenue, from _____ million individual taxpayers, but in my opinion it still contains many inequalities and many omissions which

will have to be corrected next year.

It does not even make a start toward ending the exemption of State and municipal securities from Federal taxation. It does not deal fairly or adequately with the rich profits of huge corporations which now escape excess profits taxation merely because they have earned those rich profits steadily year after year. It enables many wealthy taxpayers to escape their fair share of contribution by preserving the separate return for husband and wife. It does not deal directly enough with many luxuries that would produce a rich harvest of revenue, and it does not bear down hard enough on durable goods for consumer use which cause competition with the defense industries for raw materials.

*1 - To make a start
2 - To remove any
doubt as to
the fact =*

-A

The next tax bill will have to be a genuinely "all-out" bill, a genuine levy upon all in accordance with their ability to pay, if it is to be an effective weapon in the fight against inflation.

The second indispensable method of drawing off excess consumer purchases is by borrowing as much as possible from the genuine savings of individuals throughout the country. We could always go to the banks for the bulk of our financing; I have said repeatedly that this would be the easy way. We proved that early in the summer when the Treasury sought 600 million dollars in notes and received no less than eight billion dollars in subscriptions in two days.

But we should be repeating the errors of the last price inflation if we made it possible for bankers to stuff their

Handwritten note:
A. All right we'll
through in 1941
I think you
The confidence
when I see the
people

vaults with Government securities. The way to proceed is to finance our needs without adding unnecessarily to bank deposits, to borrow instead from small investors, and thus to reduce the inflationary pressure of our swiftly rising national income.

The Defense Savings program has now been in progress for five months. It has yielded us a billion and a half dollars from million individual investors. The result so far is certainly not below our expectations, but it certainly falls short of our needs. It falls short especially in that it has only begun to reach workers' payrolls. Every one of the great national labor organizations has given its endorsement to systematic saving, and payroll allotment plans are now in operation in more than five

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thousand factories employing million workers.

Our strongest efforts must now be made in our great industrial centers, and must be directed at the good sense and patriotism of the workers themselves.

I am not interested in the old Liberty Loan method of fixing money quotas for communities, trades, labor unions, school classes or individuals in this Defense Savings program. The only kind of quota that

D-A

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would interest us at the Treasury now would be a quota in terms of the number of individuals in each community who are gainfully employed, and who are earning more than they did. I can see no value, either in terms of economics or of morale, in high-pressuring people to take money out of the savings banks. But I do see a great benefit, financial and moral, in persuading spenders to save for their own good and their country's good. The time for free-and-easy spending is past. It is time for all of us to realize that the party's over now.

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The kind of spending that I am most anxious to divert into Defense Savings Bonds is the spending produced by bonuses and pay increases. I am thinking particularly of the bonuses which your member banks and thousands of other business houses intend to pay at Christmas-time.

I should like to see every Christmas bonus in the United States paid in Defense Savings Bonds or Stamps this year.

The banks of America can start the fashion so that it will sweep the country. There could be no finer example to the public than this, no more striking exhibition of the spirit of these times, no better safeguard for the days of economic strain that are sure to follow the war.

D-A

In spite of much that has been written to the contrary, I am convinced that we are on the right track in our voluntary method of spreading the Defense Savings habit among the American people. There are vast reserves of willingness and patriotism among our people if they but understand the issues. The other day I attended a union meeting in an automobile factory town in Michigan, and I came away convinced that patriotism runs deep and strong in the blood of American workers. We at the Treasury believe that the Defense Savings program has already awakened a greater sense of pride in America and a greater sense of participation in the national effort. We shall continue along that road, and I am perfectly confident that we shall reach vast numbers who have never before owned a Government security.

In this effort the Treasury will continue to depend greatly upon the bankers of America, not only as its agents in selling Defense Bonds but also as missionaries in spreading the gospel of savings. There are no commissions for bankers in this work, there should be none, and you have asked for none. But there also should be no unnecessary burdens or inconveniences to you in performing this work of national service.

I am happy to announce to you this morning that it will no longer be necessary for you to put up collateral for the Series E bonds which you may keep in stock for customers. I hope that this will relieve the banks, especially the small banks, of a real burden, and I hope that you will not hesitate to tell me of any similar burdens which you feel may be hampering you in the sale of these bonds.

Wider savings and heavier taxes will not, of course, be enough in themselves to cope with the inflation that now confronts us. I have already suggested an extension of the Social Security program as a possible method of absorbing several billion dollars of next year's national income and thus building a further reserve

for the future. I have already suggested, not once but repeatedly, that the Government cut down immediately on non-defense expenditure, not only as sound financial policy but as sound anti-inflationary practice. The price control bill is about to be reported to Congress, and it may be a stronger and sounder bill than when it was first introduced.

I hear it said from time to time that the combination of emergency taxes, priorities, savings and price-control will cause some inconvenience, some hardship, some sacrifice. Of course it will. We are now engaged in a world struggle that will call for all our energies and all the qualities that have made America great. How can we possibly win that struggle without sweat and strain? How can we hope to win it unless we first throw onto the rubbish heap all ideas of business as usual, pleasures as usual and comforts as usual? In my opinion complacency is more dangerous to us today than Hitler's panzer divisions, for it saps

our will and clouds our minds, and blinds us to the stupendous size of the job that confronts us.

I know that we can conquer inflation on the home front if we act now, just as I know that we can ensure the defeat of foreign tyranny if we rouse ourselves in time. Most Americans, I think, are beginning to see that they have a personal stake in the fight against inflation, just as most of them began long ago to see their individual stake in the destruction of the Axis war machine. I am confident about the outcome on both fronts, because I believe deeply in the common sense of the American people. I believe that if the people are shown the light, they will see; if the people are shown the way, they will respond.

September 25, 1941
9:45 a.m.

GROUP MEETING

Present:

Mr. Morris
Miss Chauncey
Mr. Johnson
Mr. Gaston
Mr. Thompson
Mr. Bell
Mr. Cochran
Mr. Haas
Mr. Graves
Mr. Odegard
Mr. Schwarz
Mr. Kuhn
Mr. White

H.M. Jr:

Herbert, I have Johnson over here because I just want to handle this one thing with him, you see, because I am in complete disagreement and I am rather disappointed. What the hell, Johnson, do you expect this man to do before you fire him? Do you want him to shoot somebody?

Johnson:

Well, it is merely the method of firing him that I am recommending on.

H.M. Jr:

You are asking to let a man resign, a Customs agent, who is helping somebody to smuggle a hundred and fifty thousand dollars worth of merchandise into this country?

Johnson:

No, sir.

Gaston: Oh, no.

H.M.Jr: How do you mean, "No, sir"? You don't know that he wouldn't have done it.

Johnson: I am fully satisfied on all the records we have got --

H.M.Jr: How can you take a man like that - take his word? He puts his labels on a smuggler's work and you take his word that he is going to take those labels off when he comes in.

Johnson: In the first place, I don't believe that Coty, the firm, would participate in any smuggling into this country.

H.M.Jr: But the fact remains, Johnson, the fact remains that a Customs Agent permitted his name to go on a smuggler's box with a hundred and fifty thousand dollars worth of stuff.

(Mr. White entered the conference).

Johnson: Not a smuggling into the United States, I am convinced of that. If I were not, my recommendation certainly would not --

H.M.Jr: How do you know he wouldn't have let it come into the United States? Supposing he hadn't got caught at Bermuda? Supposing he hadn't - what basis have you got to believe that this fellow - if he wasn't caught at Bermuda that Butler wouldn't have smuggled this stuff in? Give me any basis.

Johnson: In the first place, his record with us is one of honesty so far as his Government activities are concerned.

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H.M.Jr:

Oh, for God's sake, look here. Don't - I am no kid. On September 11th this man was told to discharge his man, September 11th, 1940, and he writes on September 11th, 1940, because Mr. Wait has no choice in the matter and cannot leave until it is settled, "D.A. has left my service." On September 11th, 1940.

Johnson:

That is right.

H.M.Jr:

"nd when he comes back this man is still in the service and you take that fellow's word. I don't know what has happened to you. I am shocked. I am really shocked. Now, I didn't say a word, not one word, to this man (Thompson), you see, did I?

Thompson:

No, sir.

H.V.Jr:

I just sent the thing in cold. Let me tell you what he wrote. I said, "Please review this." I made no comment of any kind.

This is what Thompson said, "In view of the seriousness of the case against Treasury Attache, J. Horner Butler, I feel his dismissal would be warranted. It seems to me inexcusable for a Customs official, of all people, to be guilty of any deception such as he is guilty of, particularly where a friendly nation is involved."

Gaston:

Don't you think it would be well for him actually to review the papers in the case? Has he had any of the papers in the case to review?

H.M.Jr:

Yes.

Thompson: Just the memorandum.

Gaston: I gave you yesterday this big thick envelope on the case and you didn't take it with you. I don't think you have reviewed the case.

Thompson: No.

H.M.Jr: Well, Herbert, I am really shocked to think that a fellow like this should be allowed to be resigning. He is a liar. He writes in his own letter - the fellow says on September 11, 1940, he lets his man go and he is still there.

Gaston: Well, of course he may not have been holding that man over there. We don't know whether he has or not. The man may have been just at loose ends in Paris --

H.M.Jr: But why give the man all the breaks?

Gaston: I think we ought to look into that.

H.M.Jr: Why give a man all the breaks? What does a fellow have to do in the Customs Service before you fire him?

Johnson: I definitely think this man should be separated immediately from the Service. There is no question about that. It is merely the question of the method of getting him out.

H.M.Jr: But why let a fellow - here this man - you take it for granted that if he hadn't got caught in Bermuda he would have come in here and taken those labels off.

Gaston: Well, the thing was so crudely done there

would be no question about their discovery.

H.M.Jr:

And Herbert, you say you recall that some months ago we ordered Butler - well, some months ago is just a year ago.

Gaston:

Yes.

H.M.Jr:

I am going to ask to have this thing - please review this thing. Herbert, if you don't mind my saying it, I think you are letting him off too easily.

Gaston:

There is no question the man ought to leave the Service instantly. The question is whether we do it with the least fuss and feathers or do it through the process of a trial.

H.M.Jr:

I mean when you say - I don't know who told you it was some months ago. Some months ago was just twelve months ago.

Gaston:

That is right. I didn't remember just how long ago. It was a year ago.

H.M.Jr:

I frankly am shocked and I am going to ask you please to review this thing. Will you?

Gaston:

Well, it is just a choice - a question of whether we want to try him and prolong the thing and subject yourself to the bombardment of letters from prominent people that you will have or just tell the man, "Let us have your resignation and go."

H.M.Jr:

I would try him.

Johnson:

There is no question but what we have complete grounds for filing charges.

H.M.Jr:

What do I care if Bernie Baruch is a friend

of this fellow?

- Gaston: And Francis Biddle and three or four - half a dozen Senators.
- H.M.Jr: I don't care.
- Gaston: Our only idea was just to get rid of him as quickly as possible.
- H.M.Jr: Since when do we care where the chips fall? That is something new.
- Johnson: Let's file charges right away, then.
- H.M.Jr: That is something new.
- Gaston: There is no question of our having ample basis for charges.
- H.M.Jr: That is something new, Herbert, caring where the chips fall.
- Johnson: I won't offer any argument at all against filing charges immediately.
- H.M.Jr: But the whole Service, I - after eight years under me I can't understand it.
- Gaston: It isn't a question of forgiving the man and doing anything for him except telling him to get out. Whether you take the quickest way of getting him out or take the more complicated and troublesome and long-drawn out way of charges.
- Johnson: The punishment is the same to him either way.
- H.M.Jr: But as far as the rest of the Government is concerned, here another agency wants him.

We let him resign and the first thing you know he shows up in the War Department or the State Department.

- Gaston: Well, we won't publish the results of charges. It will all be in our files just the same. The files will be practically the same thing.
- Johnson: Oh, yes.
- H.M.Jr: Well, if you don't mind, I would like to have Norman Thompson, in view of the position you take, I would like Norman to go into the whole thing for me thoroughly.
- Gaston: You understand that I am perfectly agreeable to having charges filed.
- Johnson: So am I.
- Gaston: I think it is just a more complicated procedure, that is all.
- Thompson: I think it is a clear cut case of flagrant violation.
- Gaston: I think we ought to get rid of the man as quickly as possible, there is no question about that.
- Johnson: That is my recommendation.
- Thompson: I think we ought to file charges immediately against him.
- H.M.Jr: Have you read the whole record on the thing?
- Thompson: No, I just read the memorandum.
- H.M.Jr: Well, will you go into it? And then with Mr. Gaston and Mr. Johnson talk it over and I

would like a new recommendation.

Johnson: All right, sir.

H.M.Jr: Now, if you people think I am wrong, all right.

Johnson: We are all recommending the same result, the same punishment.

H.M.Jr: But Johnson, the reason I got you in here, I want you to look inside of my brain and when a Customs man charged with the responsibility of enforcing the Customs law lends his name and his identification to a smuggler, I say there is something wrong. Now, another thing, how did the British happen to look into a Treasury agent's luggage?

Gaston: They had word, evidently, that Robert was carrying these essential oils and they found baggage - the thing was very crudely done. He just pasted a label - Robert did. He pasted a label with Butler's name on it right over his own label and they very readily identified Robert's baggage.

H.M.Jr: Well, Herbert, please review the thing once more and I am doing this thing to give Johnson a lesson.

Johnson: All right, sir. I have got it.

H.M.Jr: Good, I thought you would, and with Mr. Thompson sitting in, please. And if, after reviewing it, you think I am wrong, O.K., but I would like the thing reviewed.

Frankly, on what I see of the thing, I am shocked. I mean, a man who says a month

ago that he is going to get rid of these Chinese servants and then twelve months later he appears with them. I don't see why you should believe him. And for the English to have to check up on a Treasury agent - have you no pride? I should think you would be terrifically humiliated. It throws a doubt on the whole Service.

Johnson: Well, I think the principal difference is that I was satisfied that there was no intention to smuggle into this country.

H.M.Jr: Well, I don't know. Supposing Coe comes back.

Johnson: That is my only justification.

H.M.Jr: Supposing Coe comes back. I am sure with a Treasury man when he comes back from England he will be subjected to the same thing and I will put my money on Coe that he is all right.

And every Treasury man from now on is under suspicion. And then you just say, "Awfully glad to have met you, Mr. Butler, but good-afternoon."

Gaston: Well, there is no penalty we can impose other than dismissing him.

H.M.Jr: But under charges.

Gaston: Yes, under charges.

H.M.Jr: Sure. O.K.

Johnson: Is that all, sir?

H.M.Jr: I think it is enough, don't you?

Johnson: That is enough for me. (Laughter) There is the case, Mr. Thompson.

H.M.Jr: All right. And the three of you, please, could I have an answer by Monday?

Johnson: Yes, sir.

(Mr. Johnson left the conference.)

H.M.Jr: One other thing, Norman, as long as I am on you, frankly, the men most likely know it, but I don't have a chance to go over all these various study projects of White's, Haas', and Foley's, you see. So in the future if they start a new one, would you ask them please to give you a memo on it and a description of any new studies and let it come to me for my O.K. before they start it, you see.

White: I am not sure whether I understand what you mean. Would you want to give one illustration of what you mean by a study project?

H.M.Jr: Yes. The food situation in Germany which you just completed, that kind of thing, new projects.

- White: I will be glad to let you know every one we are doing. I will be delighted. We do scores of them.
- H.M.Jr: No, before you start anything new.
- White: Well, I still don't understand--
- Foley: On our own initiative or when you request us to do it.
- H.M.Jr: When I request you, it is wonderful, but on your own initiative.
- White: I would like to pursue this a bit further, because I am not sure I get the full implications of what you are asking for. Are you suggesting that every time we make a memorandum of any significant length that we are to let you know what the subject is, or do you mean something that appears to be outside the routine? I want to give you what you want.
- H.M.Jr: I know you do. You might get an idea tomorrow you will study the oil situation in North Africa.
- White: That is right.
- H.M.Jr: It might be your own idea. Well now, before you assign a couple of people or one person to study something like that, to make an exhaustive study on that situation, or the minerals of the Philippines, you see, something new - I mean, I can't catch up with you on the things already under way, but before you start something - what I have in mind--
- White: What have you in mind?

R.R.Jr:

What I have in mind, Harry, is this. It isn't directed at you. Up to now I have been interested in a lot of things over the two or three years in connection with the work that I did for the President on - let's say on the war side. Well, now, that is sort of wound up and I am more interested in what I call the home front.

White:

I get you.

R.R.Jr:

See what I mean? And therefore, before we spend more time on the things that I have been so slightly interested in in the last two or three years, I don't want to start any of those - those are the things which you have been doing at my request. I want more things on the home front and only very special things on the foreign front.

White:

But that food situation was a continuation of something you asked.

R.R.Jr:

I am not criticizing anything you are doing. I changed because the President has changed, as far as I am concerned, you see.

White:

I get it.

R.R.Jr:

Do you get it?

Foley:

Yes.

R.R.Jr:

George?

Rans:

I think I get it. On problems, say, in connection with the finance or bond market, it may take a day to make those type of things, and I take it you are not interested in them except when it is something of a major aspect?

R.R.Jr:

That is right.

Foley might - Blough isn't here - they might start a study of the tax situation of Siam.
(Laughter)

Foley: Why not?

W.C.Jr: It would only take a couple of minutes to simply say, "Boss, are you interested in the taxes in Siam?" I am not. I mean, it is not criticism. The only thing is, the President has changed, so I want to change.

Sell: I have had this in mind, Mr. Secretary, in that connection. Of the three research agencies, I haven't talked to George and Harry about it, but I have talked to Roy Blough, who fully agrees--

W.C.Jr: Excuse me, you (Thompson) pass that on to Blough, too. There are four research agencies because Foley has got a lot of research people.

Sell: I hadn't thought of the legal section, but I thought we ought to have, say, a meeting once a week of the three research agencies in my office--

R.W.Jr: Four.

Sell:to see what they are doing, see whether or not there is any overlapping, and see whether or not the other agencies can help the one that is studying it.

W.C.Jr: I think it is all to the good.

Sell: I haven't talked to Harry and George about it, but I have talked to Roy.

W.C.Jr: I just don't get the time. I just haven't got the time. I am so busy figuring out taxes and everything else.

Thompson: Are the reports too long that are coming in sometimes? It seems to me they are pretty lengthy.

H.M.Jr: To be very honest, I haven't read them. I am being honest. Therefore, rather than say to discontinue this, I want to go - before they start a thing, you see, and the boys now know anyway what I have in mind. Before they start it, you see. If we get a thing like the German food thing, excellent. I enjoy reading it. It is very helpful. But you see since we - we used to do these things when nobody else in town was doing them. Now Wallace has a staff, Donovan has a staff, LaGuardia has a staff, you see, and Nelson Rockefeller has one. In other words, the things that we used to do single-handed are now being done by a half dozen different agencies, that is the whole thing. Nobody used to do those things.

Kuhn: Mr. Secretary, you know that Donovan wrote you asking for Allen Barth's help on his foreign stuff.

H.M.Jr: Did he?

Chauncey: I have it.

H.M.Jr: Miss Chauncey says when she has time she will show it to me. (Laughter) And don't let Allen Barth get so diluted, though - I know how to bribe you. Just offer you United Press service all over the country. Do you know how they bribed Ferdie? They offered United Press service on an hourly analysis of editorials and newspapers all over the country on foreign affairs and it was just such a nice carrot in front of Ferdie's nose that he fell for it.

- Kahn: What they wanted was simply to get from Barth occasionally little quotations from editorials that he reads anyway which they could put on the shortwave broadcasts to Europe showing American opinion.
- H.M.Jr: And then, Herbert, you and I are columnists. We would say, "Well, how did Donovan ever hear about Barth?" The news behind the news behind the news is that Peter Odegard did a job on it, you see.
- Odegard: I didn't do a job on it.
- Boston: They are going to have the whole Treasury over there pretty soon.
- Odegard: I can explain everything. (Laughter)
- H.M.Jr: You did. That is the only way I would have found it out. You are very honest.
- Herbert? Have you got anything?
- Boston: No. In that connection I might mention that I think perhaps I wrote you a note asking for a Secret Service man over there. Then the other thing is that--
- H.M.Jr: You said you had done it.
- Boston: That is right. The other thing is that they want us to fix up some codes for them, and I think probably what they want will mean full time services of somebody running their code system; but, at any rate, we are going to find out exactly what they do want.
- H.M.Jr: I told Donovan originally that I would be glad to help him any way that I could.
- Schwarz: We are giving him about a story a day, making

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two or three paragraphs which they boil down.

Gaston: Of course for an organization like that, it can't be just a question of giving them a code. It has got to be - somebody has got to work out a system for it.

H.M.Jr: Mrs. Freeman?

Gaston: Yes, Mrs. Freeman. I have something here that I have been holding a while, this Denmark thing. The word somehow came from Copenhagen about the proposition to take over this Danish training ship, Danmark, and the indication that they would like an offer from us on it. So we had originally suggested an attempt to purchase this vessel at three hundred thousand dollars, and you remember the President questioned whether that price wasn't too high. They want an offer, and the Coast Guard people are proposing to offer two hundred and ninety thousand dollars in place of three hundred thousand dollars. Of course, it isn't a guaranteed offer, but I think that we would be obliged, if they accepted it, to go through with it. I don't think they will accept it. But it seems all right to me. The vessel cost, in dollar equivalent in 1934, about a hundred and eighty thousand dollars, built in Denmark. She would cost to build in this country today upward of seven hundred thousand dollars, certainly not less than seven hundred thousand.

H.M.Jr: Whatever your judgment is.

Gaston: All right. I think that is all right.

H.M.Jr: I have no opinion, Herbert. But one thing I do want to talk about, somewhere along the line there came to me a week or ten days

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ago a memo that annoyed me terrifically, signed by Philip Young and General Burns, turning us down on fifty thousand dollars more or less to repair this Russian icebreaker. Where is that around the shop?

White: I have it. I was going to report on it this morning.

Gaston: Harry talked to me about it.

White: I spoke to Herbert about it. Young's hands are definitely tied on that. They have a directive from the President that they are not to utilize any of the Lend-Lease funds for Russia.

H.M.Jr: Well, I have got a suggestion.

(The Secretary held an unrecorded telephone conversation.)

H.M.Jr: Where were we?

Gaston: We were talking about that Russian icebreaker and that Lend-Lease thing. You were annoyed at their turning it down?

H.M.Jr: They can't do it?

Gaston: I don't think they can under the present law and the present situation.

H.M.Jr: This is what they can do. Certainly the United States Coast Guard can ask the Navy to repair a ship for them.

Gaston: That is what we have done, yes.

H.M.Jr: Is it going to be done?

Gaston: Yes.

H.H.Jr: All right.

White: In the interim we said that the directive may change at any time; and, if it does change, then they can take it over.

Gaston: Navy is going to send the Coast Guard a bill and this is just a shot in the dark to try to take care of it.

H.H.Jr: But it is being taken care of?

Gaston: Yes.

H.H.Jr: Wonderful. Let's just take the high points. We are going to have to stop in five minutes.

Have you got anything?

Foley: Nothing important.

H.H.Jr: Did you get my Russian letter?

Cochran: I have that and the man you want is out of town and won't be back until tomorrow afternoon, but the next ranking one will be here at ten forty-five.

H.H.Jr: In answer to my letter to the President last night I got a telephone call asking me to take up the Russian affair. So I am getting the ranking man in the Russian Embassy.

Cochran: They said they could get the Amtorg man if you wanted him and I told them not to send him over.

H.H.Jr: So if you would both be here. Does this give me what I wanted?

Cochran: Yes, it gives you what you wanted.

H.M.Jr: Does it mention Jones by name?

Cochran: No, sir, it does not.

H.M.Jr: Do you have a memorandum of that conversation between Bewley and me? Did you write that up?

Cochran: No, I didn't write it up.

H.M.Jr: Have you still got it in the old bean?

Cochran: Yes.

H.M.Jr: Will you write it up?

Cochran: Yes.

H.M.Jr: I want to bring out what he said about Jones.

Cochran: That is in the final paragraph, but it doesn't mention his name.

H.M.Jr: Give me a memorandum on that conversation so I can send it to the President.

The President said Jones has no business telling the English what they should or shouldn't do.

Cochran: Yes, sir.

H.M.Jr: You have still got that--

Cochran: I can write it up.

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H.M.Jr: Any time you come to me without a stenographer, will you write it up? You always have in the past.

Cochran: Well, he was to give the memo to follow it up, and this does give exactly what he said.

H.M.Jr: But I want it written up, what he said about Jones.

Cochran: All right. Because he read from a memo, and this is just the words.

H.M.Jr: Morris?

Morris: I have nothing.

H.M.Jr: I am seeing you at eleven and at one, Peter.

Odegard: Yes.

H.M.Jr: George?

Haas: Here is this report. You haven't seen it for a few days.

H.M.Jr: Is it good for me to see it?

Haas: It is not a high point.

H.M.Jr: It is all right.

Haas: It has improved some, you see. It is only off ten now. It was thirteen the other day.

H.M.Jr: All right. Chick, would you arrange with B.M. Edwards that he could meet me at my hotel room when I get there, because I am not planning to take anybody with me from Washington?

- Schwarz: He will be there at the hotel room?
- H.M.Jr: I am not planning to take anybody from Washington, you see.
- Schwarz: They are to let me know today by wire the number of the hotel room, and I will see that you get it.
- H.M.Jr: If he could meet me there and you can tell him I will be coming in on the B. & O. --
- Schwarz: You want him to meet you at the train?
- H.M.Jr: No, not at the train. Give me a half hour.
- Schwarz: The Wall Street boys have planted a number of questions for the press conference, following the six per cent.
- H.M.Jr: If they have, they might ask me one question, just why did I do that yesterday? Why yesterday. I have got an answer. Where do these pictures come from?
- Schwarz: The New York Journal American. I have already thanked them.
- Bell: I wondered where this opposition to an excess profits tax comes from. That Committee seemed to be pretty well satisfied yesterday with your six per cent, except Dewey. So many of them were in favor of it, even on the Republican side.
- H.M.Jr: The most amazing thing is, first you take a paper like the New York Times, absolutely a straight story, the New York Tribune, a straight story, not a thing I can criticize in either one.

Schwarz: Even the Chicago Tribune service had difficulty. They talked about penalizing corporations as compared with their present situation, but it was very much strained.

H.M.Jr: And in the family here, after the President got through talking to me about Russia last night, I said, "How do you like my six per cent story, taxes?" "Swell," he said, "I thought of that two or three months ago." (Laughter). So then I said to him, "Well, then you get behind it now," and he says, "I will."

Gaston: That means it is good.

H.M.Jr: He said he thought of it two or months ago. So I said, "You get behind it now."

Schwarz: Well, this is grand. There are just four of these pictures, what?

H.M.Jr: Would you like some more?

Schwarz: I think so. I would send one --

H.M.Jr: I will get another half dozen.

Gaston: Could you? I will send two to Bob because that is an awfully nice picture, and one to my father, and I will keep one for Mrs. Morgenthau. Isn't that a nice picture, Herbert?

H.M.Jr: That is a dandy.

Gaston: Harry, anything important?

H.M.Jr: If you are going to have a staff meeting tomorrow - most of this can go --

Schwarz: I will. I promise.

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White: There is only one thing that needs to be settled today. They have been pushing me on it. The State Department has wanted some men to go down to Cuba.

H.M.Jr: I said "Yes".

White: Yes, but they wanted me to go down to head the mission. I said that I might be able to go for a few days to begin and keep in charge of it.

H.M.Jr: And you said, "Stop pushing me, boys." (Laughter). Is that what you said?

White: No, that isn't such a plum. (Laughter).

H.M.Jr: Oh, boy, stop pushing me.

Foley: Not as good as Acapulco, is it, Harry.

White: That is the situation as it would be if I went the way I would like to go. I would like to go down by boat. It takes about three days, and I would like to spend four or five days there and come back.

H.M.Jr: When, Harry?

White: A week from Saturday.

H.M.Jr: How long will you be gone?

White: Well, I can come back by plane, which means I can go probably ten days at the most. Leave on a Friday night and come back - I can figure it out. Probably - I can cut it off at the other end, anyway you like.

H.M.Jr: Well, Harry, I will let you go on two conditions. One, I can't say "yes" until the night before.

White: Well, that is always true.

H.M.Jr: And two, I may call you back any day.

White: It wouldn't interfere with my plans if the very night before you told me not to go.

H.M.Jr: If you go on those conditions, one, I can't tell you until the night before and two, when you get down there I might call you back the day you get there.

White: That will be perfectly all right. You see, if I don't go they will put somebody in the Federal Reserve Board in charge of the mission, and I think that is their understanding.

H.M.Jr: Well, I mean the Federal Reserve Board, according to Congress, can't say anything without first asking my permission.

White: Well, I think this is the sort of thing that the Treasury ought to take the lead on, so if I can't go the night before, then one of my assistants can go.

H.M.Jr: O.K. Is that agreeable?

White: That is fine.

H.M.Jr: With the understanding --

White: It doesn't matter. You can call it off the night before, or call me back the day I get there.

H.M.Jr: I will try to see that you get the boat ride, anyway. Are they nice boats going down?

White: I understand they are. I have never been on that boat. But I have been on the Fall River Line. (Laughter).

H.M.Jr: With your family?

White: That is still under discussion.

H.M.Jr: I mean on the Fall River Line.

White: No, that was before I was married.

H.M.Jr: Harold?

Graves: I got your message about Mr. Iseby at one o'clock. You will remember that you invited to come here today with Mr. Iseby the head of the Musicians' Union.

H.M.Jr: The head of the who?

Graves: Musicians' Union of the CIO.

H.M.Jr: I don't want him for lunch.

Graves: What would you like me to do with him?

H.M.Jr: Let him play "Blue Champagne". Did you hear about that? We go around and the - they say, "Have we got 'Any Bonds' on the thing?" And I say, "What is the most popular song on the juke boxes, I am curious to know," and they say, "Blue Champagne" so I sent and bought it and I wish you could hear it. It is some competition. Why not two o'clock. We will do "Blue Champagne". Two o'clock.

Graves: That is, you would like to see him because we will of course want to discuss with him his whole program, and I will turn him over to the right people to do that, but I just wondered if you wanted to see him.

H.M.Jr: Two o'clock. Sure, he is a swell guy.

Graves: All right.

- H. V. Jr: Did you ever hear a greater comedy of errors than that song? I finally got the song, the right one.
- Graves: Oh, you mean the song that we heard was not the right one downstairs?
- H. V. Jr: I told them. Didn't Mrs. McHugh tell you that?
- Graves: No.
- H. V. Jr: The song that we heard down there wasn't the right song. That was Mayor LaGuardia's song and the song I have been trying to get for three weeks we finally located this morning, and we will hear that at ten tomorrow morning. The only relation was, this man who wrote the other song, his middle name is Caesar.
- Graves: That is, the song you wanted?
- H. V. Jr: Yes. The other fellow's last name was Caesar.
- Graves: I am going to turn that over to Mr. Kuhn's department.
- H. V. Jr: I want a director of music, and if I can get the fellow from the - Mr. Stoessel, if I can get Mr. Stoessel to come down one day a week or something like that, somebody like that. But when I want a song, I want a song.
- Tastoni: By the way, Herbert Bayard Swope called me up a couple of weeks ago and offered to us his influence and power with the race tracks to have prizes in Liberty Bonds, and having windows to sell them, and so on, and I have mentioned it to the Savings Bond people and they are having somebody see --

H.M.Jr: That would mean Harold and I would have to go out and make an inspection of the race tracks. (Facetiously).

Gaston: I think it undoubtedly would.

Graves: Mr. Mahan, since I talked to you, has been telephoning Mr. Swope.

H.M.Jr: I am serious about that music business. I want somebody I can talk to about music. Music is important enough that we need somebody like Stoessel, especially after listening to that girl last night sing.

Graves: Did you want me to do anything about it?

H.M.Jr: If somebody could approach Stoessel and find out whether he could come down a day a week or something like that, will you? Albert Stoessel.

Graves: I would appoint Ferdie, because I think he would be a more logical person.

H.M.Jr: No, Ferdie has got too much to do.

Graves: You mean to contact Mr. Stoessel?

H.M.Jr: If Ferdie would contact him it would be swell. I would like to see whether we can't get Stoessel to come down and give us a day a week. What?

Graves: I will talk it over with Ferdie.

H.M.Jr: I would like him here a day a week. If he will come down here on Thursday we will make it Defense Savings Bonds Day and music, on Thursdays. I am not satisfied with the the Saturday program, either.

Dan?

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Bell: Jake Viner says he can be here October 1, 2, and 3, but he wonders if it is necessary. He thought you probably would be out of town two of those days.

H.M.Jr: It is not necessary.

Bell: He would rather not come, but he said he could be here.

H.M.Jr: It is not necessary.

Bell: We have postponed Social Security meetings for this other more important business. Do you want to set a date for resuming them?

H.M.Jr: Let's do it Monday.

Bell: You mean set the time Monday or consider it again Monday?

H.M.Jr: Let's set the time Monday. Let's start at ten thirty Monday.

Bell: Ten thirty, all right.

H.M.Jr: Eleven o'clock Monday.

Bell: And have Brown?

H.M.Jr: Yes, and Blough. Incidentally, there will be no meeting with Paul McNutt this week with the President, General Watson told me.

Bell: I have some other things I would like to talk to you about some time for ten minutes.

H.M.Jr: Will you tell Fitz? I have got some new ideas on financing.

Bell: Really?

H.M.Jr: Yes. I think you will like them. Is Morris

going to have a chance to study today with Heffelfinger?

Bell:

Yes.

H.M.Jr:

And Morris, just so that you know what I am doing, you might sit in and listen at eleven o'clock today.

Morris:

All right, sir.

H.M.Jr:

It is a little out of your line, but just so that you get the feel of how we sell Defense Bonds through juke boxes.

Graves:

We are not going to talk about juke boxes.

H.M.Jr:

Aren't we? Well then, come anyway. I mean, I want him to get the feel of that.

Thompson:

I would like to clear with you whether you approve of Miss Elliott's letter going in the envelopes that we stuff with Defense Savings advertising and your speech to the tax list? There are five thousand.

H.M.Jr:

Five thousand?

Thompson:

Yes.

H.M.Jr:

I don't know what it is.

Thompson:

That is the letter. We found that we couldn't allow her to mail them out, but we are ironing it out as to our mailing it out to the people that are on our list.

H.M.Jr:

Is it strictly kosher?

Thompson:

It doesn't suit the lawyers.

H.M.Jr:

Have the lawyers got any doubts? If they have got any doubts about it, I will throw it out.

- Thompson: The question I am raising now is whether you will allow us to use your tax list or just confine it to her list.
- H.M.Jr: Have we got a mailing going to the tax list?
- Thompson: We hadn't planned to, but she asked through Ferdie that her letter be sent to the people on our list.
- H.M.Jr: The lawyers don't approve it?
- Foley: So far as I know, they don't. Huntington told me he told Ferdie we couldn't approve it unless there was something in the letter that referred to the sale of Savings Bonds or it went out in an envelope related to the sale.
- H.M.Jr: Let me put it this way. If the lawyers say a hundred and one per cent "yes", then I am for it.
- Thompson: I was just raising a question as to the propriety of that list, whether you want to confine it to your own mailing list.
- H.M.Jr: No.
- Foley: I don't think we are ever going to be able to tell you a hundred and one per cent "yes", Mr. Secretary. We are going to be able to tell you that we can defend it on the Hill.
- H.M.Jr: No.
- Foley: If it is questionable.
- H.M.Jr: Have you got some doubts?
- Foley: Well, there are some doubts about the whole business, sure. We can't make it airtight.

H.M.Jr: You remember --

Foley: By dressing it up and relating it to the sale of bonds --

H.M.Jr: You remember what you originally said, sitting in that chair was, "Let them worry about it."

Foley: If they want to send it out, sure, but you said you weren't going to do it that way, that you were going to make me responsible for her.

H.M.Jr: Well, I am making you responsible for what she does in connection with me.

Foley: O.K. All right.

Thompson: She can mail anything on request. There is nothing in the law prohibiting that.

H.M.Jr: But go into it once more, and I am holding you responsible. I don't even - I don't want to be in the position that I have got to apologize for anything.

White: Is it a legal matter, Mr. Secretary, so much as how you feel about it, and if you have any doubts about it I don't think it is worth it. Even if it is legal a hundred per cent, if it troubles you or somebody else can pass a remark, I don't think it is important enough, since most of them are going out through other channels. Let them find some way of paraphrasing or some other way of handling the thing.

H.M.Jr: I think Harry is right.

Kuhn: They can always write a new letter which will bring in Defense Bonds.

H.M.Jr: We will make it an ethical matter, not legal.
Foley: If they write a letter bringing in Defense
Bonds it is O.K.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

152

DATE September 25, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 10 a.m. on September 23 the Secretary received Mr. Bewley, British Treasury representative, at the latter's request. Messrs. Bell, White and Cochran also were present. Mr. Bewley briefly summarized to the Secretary the financial arrangements which were being provisionally made between Great Britain and Russia. He raised the particular question as to whether the Treasury would have any objection to the British receiving from Russia, possibly delivered in the United States, Russian gold or its equivalent in reimbursement of military supplies which the British had bought for dollars in the United States, under pre-Lend-Lease contracts, and which might now be passed on to Russia. Mr. Bewley stated that Mr. Jones had recently called him to his office and had explained that the dollars which the R.F.C. was making available to Russia should not be used in making any payments to Great Britain for supplies. The Secretary stated that he was not currently informed of immediate financial requirements of Russia. The Secretary felt that he should solicit instructions from the President before answering any questions as to British arrangements for compensation for supplies provided to the Soviet. The Secretary asked Mr. Bewley in the meantime to draw up a memorandum in the premises.

Last evening Mr. Bewley submitted the attached memorandum, which is almost a verbatim reproduction of the remarks which Mr. Bewley made at the meeting on September 23.

At 9 o'clock this morning the Secretary instructed me to ask the ranking officer of the Soviet Embassy to be at the Treasury at 10:45 a.m. In the temporary absence of the Charge d'Affaires, Mr. Chuvachin, First Secretary, came. When the Secretary received the visitor, Messrs. White and Cochran were present. The latter which the Secretary is today addressing to the President reports this conference. The First Secretary was most appreciative of the Secretary's reception, and it was agreed that he would let the Secretary know as soon as he could give a reply upon Russia's possible requirements.



(Handed by Mr. Bewley of the British Treasury to Mr. Cochran at the United States Treasury at 6 p.m., September 24, 1941.)

24th September, 1941.

MEMORANDUM.

The financial arrangements which we have provisionally set on foot regarding the finance of supplies to Russia are as follows:-

CIVILIAN SUPPLIES.

Our deliveries to Russia (rubber, tin, wool, etc.) will largely exceed Russian deliveries to us. A balance will be struck every three months and the net amount then due to us will be paid;

as to 60% in sterling which we shall provide as an advance to the Soviet Government;

as to 40% in gold or its equivalent.

(The reason for expecting 40% to be paid in gold or its equivalent is that a substantial part of the materials with which we are providing Russia, especially rubber & tin, would otherwise be available to earn us dollars).

MILITARY SUPPLIES.

(A) Sterling Area Supplies

We shall not ask for payment for military supplies from the sterling area. Some arrangement analogous to Lend-Lease may perhaps be made for return of any intact supplies after the war.

(B) Sterling Area Supplies which include dollar raw materials.

In view of the difficulty of disentangling the precise dollar content it is proposed to ignore this, and to treat these supplies in the same manner as purely sterling supplies ((A) above).

(C) Lend-Lease Supplies.

If it were desired to transfer to Russia any goods received by us under Lend-Lease and a re-transfer directive were received from the U.S., no payment would be asked by us from Russia, and the transfer would be subject only to such conditions as the U.S. authorities might require.

(D) Dollar Supplies.

As regards military supplies which we have bought for dollars in the U.S., under pre-Lend-Lease contracts, etc., and which we may pass on to Russia in the same form in which we have received them, we should expect Russia to reimburse us in gold or its equivalent. We do not wish to make ourselves responsible for direct dollar outgoings on behalf of Russia, and Russian gold reserves are believed to be substantial.

We should be prepared to take gold anywhere outside Russia. It might be sent, as occasion arises, either to the United Kingdom or else via Vladivostok to the United States. We should be glad to know that there is no objection if gold is sent from Russia to the United States and placed at our disposal in this country.

We must reserve the right to re-open at a more convenient occasion the question of the possibility of receiving payment in dollars from Russia for dollar goods supplied to her.

(Signed) T. K. Bewley

COPY - dm - 9/24/41

Copy:alm 9-25-41

10/6/41

Copy furnished Mr. Welles today when
he called on the Secretary.

155

SEP 25 1941

Dear Mr. President:

Following our conversation of last night, I requested the ranking official of the Soviet Embassy to come to the Treasury this morning. In the temporary absence of the Ambassador and Charge d'Affaires, the First Secretary, Mr. Chuvakhin, called at 11 o'clock.

I told Mr. Chuvakhin that you desired that, until the general program of assistance is worked out, I ascertain from him the immediate financial requirements of his Government with respect to purchases in this market. I reminded the First Secretary of the Soviet Embassy that I had in August worked out an agreement with his Ambassador whereby the Treasury made \$10,000,000 immediately available to the Soviet against the delivery of Soviet gold within ninety days. I told Mr. Chuvakhin that I would be glad to make new arrangements of this type in order that, in accordance with your instructions, the Soviet be kept supplied with the necessary dollars until the whole picture is studied and larger plans are consummated.

I also mentioned to Mr. Chuvakhin the visit yesterday of Mr. Bewley, the British Treasury representative in Washington. You will recall that I told you that Mr. Bewley had come in to ask my opinion as to whether the British should request gold from the Government of the U.S.S.R. in return for supplies passed on to Russia, which had been purchased in the United States by the British under pre-Lend-Lease contracts and paid for, of course, with dollars. Mr. Bewley had felt that he should request my advice on this subject particularly since he stated that Mr. Jones had recently called him to his office and had explained that the dollars which the R.F.C. was making available to Russia should not be used in making any payments to Great Britain for supplies. Mr. Bewley has, at my request, prepared a memorandum on this subject, a copy whereof is attached.

While talking with Mr. Chuvakhin, I told him that I would be glad to cooperate with his Embassy if they care to inform me of their general financial requirements outside of the United States, particularly vis-a-vis Great Britain. This suggestion was made since, as you are aware, I am in constant touch with the financial representatives of other friendly countries, most particularly those of Great Britain.

- 2 -

China and Canada, with respect to their general financial resources, and especially their dollar position. Since the beginning of the war I have followed this work closely, feeling that the Treasury has a real responsibility in knowing whether these Governments have the actual resources with which to meet the obligations that they undertake in this country. We have very frequent conferences with representatives of the British Treasury and no substantial sums are spent by the British Treasury in the United States without prior discussion with us here. (You may be interested in the appended statement of the British dollar position today compared with that of January 1, 1941, and of their expected dollar receipts and requirements over the next six months.)

Will you kindly advise me at your early convenience as to the answer which I should give the British on the question raised in Mr. Dewley's memorandum.

As soon as I have further word from the Soviet Embassy, I shall let you know what, if any, their requests are for immediate assistance.

Sincerely yours,

(Signed) T. T. ...

Secretary of the Treasury.

The President,

The White House.

sent by P. A. Cyt to
hand to Miss Tully
9-25-41 at 4:28 pm

HMC:lsp/dm-9/25/41

KIN:

24th September, 1941.

MEMORANDUM.

The financial arrangements which we have provisionally set on foot regarding the finance of supplies to Russia are as follows:-

CIVILIAN SUPPLIES.

Our deliveries to Russia (rubber, tin, wool, etc.) will largely exceed Russian deliveries to us. A balance will be struck every three months and the net amount then due to us will be paid:

as to 60% in sterling which we shall provide as an advance to the Soviet Government;

as to 40% in gold or its equivalent.

(The reason for expecting 40% to be paid in gold or its equivalent is that a substantial part of the materials with which we are providing Russia, especially rubber & tin, would otherwise be available to earn us dollars).

MILITARY SUPPLIES.

(A) Sterling Area Supplies

We shall not ask for payment for military supplies from the sterling area. Some arrangement analogous to Lend-Lease may perhaps be made for return of any intact supplies after the war.

(B) Sterling Area Supplies which include dollar raw materials.

In view of the difficulty of disentangling the precise dollar content it is proposed to ignore this, and to treat these supplies in the same manner as purely sterling supplies (A) above).

(C) Lend-Lease Supplies.

If it were desired to transfer to Russia any goods received by us under Lend-Lease and a re-transfer directive were received from the U.S., no payment would be asked by us from Russia, and the transfer would be subject only to such conditions as the U.S. authorities might require.

(D) Dollar Supplies.

As regards military supplies which we have bought for dollars in the U.S., under pre-Lend-Lease contracts, etc., and which we may pass on to Russia in the same form in which we have received them, we should expect Russia to reimburse us in gold or its equivalent. We do not wish to make ourselves responsible for direct dollar outgoings on behalf of Russia, and Russian gold reserves are believed to be substantial.

We should be prepared to take gold anywhere outside Russia. It might be sent, as occasion arises, either to the United Kingdom or else via Vladivostok to the United States. We should be glad to know that there is no objection if gold is sent from Russia to the United States and placed at our disposal in this country.

We must reserve the right to re-open at a more convenient occasion the question of the possibility of receiving payment in dollars from Russia for dollar goods supplied to her.

T. A. Brisley

MEMORANDUM FOR THE PRESIDENT:

Subject: British Dollar Exchange Position

1. United Kingdom holdings of gold and dollar exchange assets:

	<u>Jan. 1,</u> <u>1941</u>	<u>Sept. 1,</u> <u>1941</u>	<u>Decrease</u>
	(In millions)		
Gold and official dollar			
balances	\$ 146	\$ 205	\$ 141
U.S. securities	616	372	244
Direct and other invest-			
ments in U.S.	<u>900</u>	<u>785</u>	<u>115</u>
Total	\$1,862	\$1,362	\$ 500

These figures do not include:

(a) United Kingdom investments outside the United States;

(b) over \$1 billion of French and Allied gold located in the British Empire;

(c) \$300 million of United Kingdom private dollar balances in this country which the British consider to be at a minimum essential to the conduct of business;

(d) nor other assets -- gold, dollar, and foreign investments -- of British Empire countries other than those of the United Kingdom.

(For more detailed information see Appendices A and B.)

2. In January the British expected, during the period of January through August, to make gold and dollar expenditures of approximately \$2 billion and to receive gold and dollar

FILE COPY

receipts of about \$1 billion, leaving a gold and dollar deficit on all transactions of roughly \$1 billion.

(See Appendix G.)

3. The actual drain on British gold and dollar assets during this period was, however, approximately only half as large as the British in January anticipated it would be. The discrepancy is due principally to:

(a) The greater-than-anticipated financial assistance from Canada to the United Kingdom. The British in January expected to transfer to Canada some \$400 million of gold and U.S. dollars, January through August. Instead, according to the information available to the U.S. Treasury, the United Kingdom transferred no gold or U.S. dollars to Canada during this period.

(b) Slower-than-anticipated deliveries on pre-lease contracts.

There were other discrepancies on remaining items which reduced the net discrepancy between the actual and anticipated drain to about \$500 million.

4. The British expect a gold and dollar deficit on all transactions during the six months ending March 1942 of \$152 million. Expenditures during that period are placed at \$1,036 million and receipts at \$884 million.

To meet this deficit, the British expect to receive during this period the remainder of the R.F.C. loan, which is \$225 million (assuming that \$100 million was paid to the British in September as anticipated).

The British cash position as of the close of March 1942 may, therefore, be \$50 million to \$100 million higher than it was on September 1, 1941, but their unobligated holdings of securities and other investments in the United States will be \$500 million to \$600 million smaller than they were on September 1, 1941.

(See Appendix B.)

HW:YK:ica
9/25/41

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**United Kingdom Gold and Dollar Exchange Assets
as of September 1, 1941**

(Except where otherwise indicated, the figures below were obtained from the British Government.)

(In Millions)

A. Available Assets

1. <u>Gold</u>	\$ 151
(In addition, the British hold \$105 million of gold borrowed from Belgium. This gold is not included in the British assets since it involves a definite gold liability of like amount.)	
2. <u>Official dollar balances</u>	54
3. <u>U. S. securities</u>	167
Readily marketable	\$105
Other	62
(Of the \$105 million of readily marketable securities, over \$30 million is composed of some 1,100 stocks in small holdings, which could not be immediately mobilized.)	
Total - available assets	\$ 372

B. Other Assets

1. <u>Private dollar balances</u>	\$ 310
(This is taken from U. S. Treasury data. The British state these private balances are at a minimum necessary to the conduct of business and thus not available to the Government.)	
2. <u>Assets pledged or to be pledged against R.F.C. Loan</u>	700
U. S. securities	\$205
Direct investments	495
(Against a part of these the British Treasury has received from the R.F.C. \$125 million up to Sept. 30, 1941.)	
3. <u>Trusts in U.S. held for U.S. beneficiaries</u>	290
(These trusts are established under United States law and hence the assets may be unavailable to the British Government. Together with the direct investments pledged or to be pledged against the R.F.C. loan and with Viscose and Brown and Williamson, they account for the estimate of \$900 million submitted to Congress in January. There may be in addition a number of small investments in U.S. enterprises which, because of their size, the British regard as virtually unseizable.)	
Total - other investments	\$1,300

APPENDIX B

Changes in British Gold and Dollar Exchange Assets,
January 1, 1941 to September 1, 1941

(In millions of dollars)

	Jan. 1 1941	Sept. 1 1941	Decrease (-) or Increase
Gold	292	151	- 141
Official dollar balances . .	54	54	--
U. S. securities	616	372*	- 244
Direct and miscellaneous investments in U.S., in- cluding trusts for U. K. beneficiaries	900	785**	- 115
Total	1,862	1,362	- 500
Private dollar balances. . .	305	310	5

Treasury Dept., Division of Monetary Research. Sept. 25, 1941.

- * This figure includes the \$205 million of securities pledged or to be pledged against R.F.C. loan. The decrease since Jan. 1, 1941 represents sales and changes in market value.
- ** This figure includes the \$495 million of direct investments in U. S. pledged or to be pledged against R.F.C. loan. It reflects the sale of Viscose, which was originally valued at about \$100 million, but for which the British received only \$54 million, and the loan on Brown and Williamson which was originally valued at \$35 million.

**Estimated Gold and Dollar Expenditures and Receipts
of the British Empire, Excluding Canada and Newfoundland,
January through August 1941**

(These are the British estimates for the year 1941, which
were submitted to Congress in January, reduced on a pro-
rata basis.)

Gold and Dollar Expenditures

(In Millions)

A.	U.K. payments to be made on total purchases from the U. S.		
	1. Sums to be paid on orders placed before Jan. 1, 1941	\$ 849	
	2. Imports from U.S. not purchased through the British Purchasing Commission -- largely on private accounts	<u>187</u>	\$1,036
B.	Purchases by Empire countries (excluding U.K., Canada and Newfoundland) from U. S.		
	1. Commodity imports	\$ 222	
	2. Payments for shipping, tourist expenditures, interest payments, etc.	<u>3</u>	225
C.	Purchases by Empire countries, excluding Canada and Newfoundland, from areas outside the U.S. requiring gold or dollars		
	1. Purchases by Empire countries (chiefly U.K.) from areas outside the U.S., Canada and Newfoundland requiring dollars	\$ 164	
	2. Payments by Empire countries (chiefly U.K.) to Canada and Newfoundland	<u>587</u>	<u>751</u>
	Total dollar requirements for all transactions		\$2,012

Gold and Dollar Receipts

A.	Dollar receipts by U.K. from U.S.		
	1. U.K. exports of merchandise to U.S.	\$ 110	
	2. Net balance from U.S. to U.K. on shipping, tourist expenditures, interest payments, etc.	<u>10</u>	120
B.	Dollar receipts by Empire countries (excluding Canada and Newfoundland)		
	1. Commodity exports	\$ 374	
	2. Australian gold exports to U.S.	50	
	3. South African exports of gold	<u>320</u>	744
C.	Canadian assistance to U. K.		<u>173</u>
	Total dollar receipts by Empire countries, excluding Canada and Newfoundland		1,037
	Total dollar deficit with countries other than Canada and Newfoundland	\$ 561	
	Total dollar deficit with Canada and Newfoundland	<u>414</u>	
	Total dollar deficit of British Empire, excluding Canada and Newfoundland		<u>975</u>
	Total receipts and deficit on operations with all countries other than Canada and Newfoundland		<u>\$2,012</u>

Estimated Gold and Dollar Expenditures and Receipts
of British Empire, excluding Canada and Newfoundland, 1/
October 1, 1941 to March 31, 1942

(In millions of dollars)

Gold and Dollar Expenditures

A. Payments to the United States by the United Kingdom		
1. On British Purchasing Mission commitments (including administrative expenses) - net.....	\$501	
(In addition \$285 million will fall due after Mar. 1942 on B.P.M. commitments now outstanding)		
2. For shipping, interest, film remittances, etc....	85	
3. For other goods and services, urgent or ineligible for Lend-Lease.....	110	\$ 696
B. Payments to the United States by rest of sterling area (principally Empire countries).....		280
C. Payments by sterling area (principally British Empire) to areas outside U.S. requiring gold or dollars.....		<u>60</u>
Total gold and dollar requirements.....		<u>\$1,036</u>

Gold and Dollar Receipts

A. Receipts from the United States by the United Kingdom		
1. From merchandise exports.....	\$ 60	
2. From shipping and interest.....	21	
3. From other service items.....	38	\$ 119
B. Receipts from the United States by rest of sterling area (principally Empire countries)		
1. From Merchandise exports.....	\$310	
2. From shipping, interest, etc.....	15	325
C. Receipts from sale of gold, new production and disboarding.....		290
D. Unidentifiable receipts of Empire countries 2/....		<u>150</u>
Total gold and dollar receipts.....		\$ 884
Total gold and dollar deficit of sterling area (principally British Empire), October 1941 through March 1942.....		<u>152</u>
Total gold and dollar requirements.....		<u>\$1,036</u>

To meet this expected deficit of \$152 million during the next six months, the British have in addition to available gold and dollar exchange assets (as shown in the accompanying table of assets) U.S. securities and direct investments here which are to be pledged against the remainder of the R.F.C. loan. The amount the British expect to receive on this loan, October 1941 through March 1942, is \$225 million. This assumes that \$100 million is received in September.

1/ These figures also include the gold and dollar expenditures and receipts of non-British members of the so-called sterling area -- namely, Egypt, Anglo-Egyptian Sudan, Iraq, Belgian Congo, Ruandi-Suandi, Iceland, Faroe Islands, French Settlements in Africa, and French Oceania. The gold and dollar expenditures and receipts of these areas are small, however, and are believed to about balance. It is thought they do not affect the net dollar position of the British Empire.

2/ This is a residual item. It may represent in part capital items, but probably reflects also such items as gifts.

SEP 25 1941

My dear Mr. Secretary:

Reference is made to your letter of September 17, 1941 (RA) informing me that the Government of Cuba has formally requested that a technical mission be sent at once to Habana to work with the appropriate Cuban officials in the formulation of a project of monetary and exchange legislation, central banking, and the creation of agricultural credit facilities, and that it has been tentatively planned that the technical mission would include experts from the Treasury, the Board of Governors of the Federal Reserve System, and the Department of Agriculture. It is noted that the State Department requests that the Treasury Department make available such experts as it may wish to have included in the mission.

The Treasury Department is pleased to cooperate with the Department of State in extending this technical assistance to the Government of Cuba, and will make available the services of the following experts: Mr. Harry D. White, Assistant to the Secretary and Director of Monetary Research; and Mr. George A. Eddy and Mr. Harold R. Spiegel, who are Senior Economic Analysts in the Division of Monetary Research. It is my understanding that Mr. White will be chief of the mission. It cannot be determined at this time how long Mr. White will be able to remain in Cuba, but he will be in touch with the work of the mission after his return to Washington.

Sincerely yours,

(Signed) H. Morgenthau, Sr.

Secretary of the Treasury.

The Honorable,

The Secretary of State.

File to Mr. Thompson:

By Messenger 11:30 *Evans*

H. M. Conway

FAS:ang
9/25/41



DEPARTMENT OF STATE
WASHINGTON

September 17, 1941

In reply refer to
RA

My dear Mr. Secretary:

I refer to the preliminary discussions, to which your Department has been a party, which have taken place with representatives of the Government of Cuba over a number of years looking towards a program of monetary and banking reform and reorganization. The Government of the United States has on several occasions expressed itself as prepared to lend all possible technical assistance when so requested by Cuba.

The Government of Cuba has now formally requested that a technical mission for this purpose be sent at once to Habana to work with the appropriate Cuban officials in the formulation of a project of monetary and exchange legislation, central banking, and the creation of agricultural credit facilities. There is enclosed a copy of a despatch from the Ambassador at Habana enclosing the text of the formal request of the Cuban Minister of State.

The

The Honorable

Henry Morgenthau, Jr.,
Secretary of the Treasury.

The Department has already discussed this matter informally with officials of the Treasury, and of the Board of Governors of the Federal Reserve System and the Department of Agriculture, all of which agencies have been involved in the previous discussions over several years. It has been tentatively planned that a United States technical mission could be sent to Cuba which would involve experts from the Treasury, the Board of Governors, and the Department of Agriculture. The Department now requests that the Treasury make available such experts. It is anticipated that the mission should arrive in Cuba during the week beginning September 22, and would remain for perhaps four weeks.

Sincerely yours,

For the Secretary of State:



Assistant Secretary

Enclosure:

Copy of despatch
no. 2483, August 13,
1941, from Habana.

No. 2483

Havana, August 13, 1941

AIR MAIL

Subject: { Request of Cuban Government for
services of an American expert
to draft banking legislation

The Honorable

The Secretary of State,
Washington, D. C.

Sir:

I have the honor to refer to my despatch No. 2750, of July 11, 1941, and other correspondence concerning the interest of the Cuban Government in obtaining the assistance of our Government in the establishment in Cuba of a central bank with agricultural credit facilities. In this connection I am enclosing a copy and a translation of a note dated August 10, 1941, received from the Minister of State, in which he requests the loan of the services of a technical expert of our Government who would be instructed to come to Cuba to draft the necessary legislation in cooperation with Cuban officials. It will be observed that the Cuban Government refers to the procedure previously discussed of formulating its own draft legislation for submission to our Government and consideration by it; but has decided that, in view of the urgency of the

matter

matter and the rather critical financial situation facing the Government, it would be preferable from the point of view of the Cuban Government to have the assistance of an American expert on the spot.

I am acknowledging the receipt of Dr. Cortina's communication and informing him that I have submitted it to the Department for consideration.

Respectfully yours,

GEORGE S. MESSESMITH

Enclosures:

1. From Foreign Office,
August 10, 1941 (copy)
2. Translation of No. 1

851.6
EOB/dec

Enclosure 1 to despatch No. 2483,
of August 17, 1941, from the Embassy
at Habana.

COPY

La Habana, 10 de Agosto de 1941.

Republica de Cuba
Ministerio de Fomento

Señor Embajador:

El señor Presidente de la República me encarga manifestar a usted, en relación con el proyecto de legislación bancaria que tiene el Gobierno Cubano, lo siguiente:

Se ha tratado de que el Gobierno de Cuba formule un proyecto de bases y lo remita a la consideración de los técnicos del Gobierno de los Estados Unidos.

Hemos considerado que este sistema tiene el grave defecto, dada la urgencia del caso, de producir notable demora, por la índole peculiar del asunto, su carácter técnico y la multitud de problemas que puede implicar una legislación hecha por medio de consultas prolongadas.

Tenemos la impresión de que en el empréstito que estamos negociando, para que sea realmente fecundo al país, singularmente en su aspecto agrícola, se necesita una organización bancaria que surja con la mayor rapidez posible.

Tenemos el deseo de que nuestro sistema bancario nacional se desarrolle lo mejor posible con la economía de los Estados Unidos de América, con quien mantenemos tan intensas relaciones comerciales, pero al propio tiempo es muy grande la urgencia que sentimos en llevar a la práctica el establecimiento de un banco central de redescuento en Cuba, con sus anexas, bancos de refacción agrícola e industrial.

Fundados en estas razones, solicitamos del Gobierno de los Estados Unidos de América que designe un técnico, de reconocida capacidad y de independiente criterio, para que aquí en Cuba, conjuntamente con los técnicos cubanos, asesore al Gobierno de Cuba en la redacción del proyecto de Ley bancaria que deseamos presentar rápidamente al Congreso de la República.

Tenemos la esperanza de que Vuestro Gobierno acogerá con simpatía esta solicitud, que hacemos inspirados en el vivo deseo de resolver el importantísimo problema bancario de Cuba, que actualmente es muy deficiente, en virtud de las grandes dificultades que existen para el uso de créditos en el movimiento de la riqueza del país.

Aprovecho esta oportunidad para reiterar a Vuestra Excelencia el testimonio de mi más alta y distinguida consideración.

J. A. CORREIA.

Excmo. Sr. George S. Messersmith,
Embajador Extraordinario y
Plenipotenciario de los
Estados Unidos de América,
etc., etc., etc.,
La Habana.

Copy: fm.

Regraded Unclassified

Enclosure 2 to despatch No. 2453
of August 13, 1941, from the Embassy
at Habana.

TRANSLATION

Habana, August 10, 1941.

REPUBLIC OF CUBA
MINISTRY OF STATE

Mr. Ambassador:-

The President of the Republic has asked me to advise you, with respect to the project of a banking legislation being considered by the Cuban Government, as follows:

It was considered that the Government of Cuba would formulate a project of bases and transmit the same to the consideration of technicians of the United States Government.

We have considered that this method has the serious defect, due to the urgency of the matter, of causing undue delay, due to the peculiar nature of the subject, its technical character and the numerous problems which a legislation drafted after long drawn out consultations might involve.

We are under the impression that in the loan which we are negotiating, in order that it really be beneficial to the country particularly from its agricultural point of view, a banking organization which may be organized as soon as possible is needed.

We are desirous of having our banking system be as much as possible in harmony with the economy of the United States of America with whom we maintain such intensive commercial relations, but at the same time the urgency which we feel in putting into practice the establishment of a central bank of Fediscout in Cuba, with its annexed agricultural and industrial financing banks is a very great one.

In view of these reasons, we request the Government of the United States of America to appoint a technician, of known ability and independent criterion, so that here in Cuba, together with Cuban technicians, he may advise the Cuban Government in the drafting of the project of a banking law which we desire to present to the Congress of the Republic rapidly.

We are hoping that your Government will view with sympathy this request which we submit inspired by a known desire to solve the highly important banking problem of Cuba, which at the present time is very deficient by reason of the great difficulties existing with respect to the use of credits in the movement of the riches of the country.

I avail myself of this opportunity of renewing to Your Excellency the assurance of my highest and most distinguished consideration.

J.M. CORTINA.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

174

DATE September 25, 1948

TO Secretary Morgenthau
FROM Mr. Haas

In response to your request, the attached table has been prepared to compare total nonagricultural employment with direct defense employment, monthly, beginning with July 1940.

Both series of figures are compiled by the Bureau of Labor Statistics. I talked to Dr. Lubin about these figures and I thought you might be interested in the fact that he estimates that at the present time, 20 percent of factory and mining output, 30 percent of durable goods output, and 10 percent of non-durable goods output, respectively, is for national defense.

With respect to the number of workers in the airplane industry, we have kept our records up to date. A memorandum presenting a series of tables and a chart is now being prepared and will be ready for you tomorrow morning.

Attachment

Comparison of Total Civil Nonagricultural Employment and Total Direct Defense Employment

July 1940 - July 1941
(In thousands of workers)

	: Total civil	: Total
	: nonagri-	: direct
	: cultural	: defense
<u>1940</u>		
July	35,454	1,828
August	35,902	1,892
September	36,528	1,993
October	36,867	2,146
November	36,986	2,392
December	37,606	2,597
<u>1941</u>		
January	36,621	2,687
February	36,928	2,853
March	37,227	2,880
April	37,676	2,947
May	38,321	2,914
June	38,858	3,026
July	39,241 p	3,166

Office of the Secretary of the Treasury,
Division of Research and Statistics. September 25, 1941

Source: Bureau of Labor Statistics.

Note: The estimate of direct defense employment is made up of the following: (1) employment in 18 major defense industries; (2) employment on public construction handled by private contractors; and (3) employment in Federal Navy Yards, Arsenal, etc.

p: Preliminary

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

176

DATE SEP 25 1941

TO Secretary Morgenthau
FROM Mr. Foley

In accordance with the request contained in Mr. Thompson's memorandum of December 26, 1939, there is attached a summary report of studies or projects carried on in the Office of the General Counsel for the month of August, 1941.

Sia 7h.

Attachment

SUMMARY REPORT ON STUDIES OR PROJECTS IN
THE OFFICE OF THE GENERAL COUNSEL -
AUGUST 1941

The following work was done under the supervision of
Assistant General Counsel Cairns:

1. Air Commerce Regulations. In cooperation with the Department of Justice, the Department of Commerce, and the Public Health Service joint regulations have been prepared for the application to civil air navigation of the laws and regulations relating to customs, public health, entry and clearance, and immigration. After a number of conferences, in which Mr. Chambers participated, a final draft of the regulations was agreed upon and has been signed by the heads of the various governmental agencies concerned. These regulations will be incorporated in due course in the volume of customs regulations now in preparation.
2. Emergency. The report for the month of July referred to the preparation and signature by the President of a proclamation declaring that an emergency exists due to drought conditions which have caused a serious shortage of forage for livestock in certain areas of the United States and authorizing the Secretary of the Treasury to permit the free

importation of certain forage for use in such areas. Mr. Chambers has participated with representatives of the Department of Agriculture and administrative officials of the Bureau of Customs in the preparation of regulations to make the proclamation effective, and these regulations have been published in the weekly Treasury Decisions and in the Federal Register.

3. Proposed amendment to the Anchorage Regulations. Mr. Harrison, Chief Counsel, Coast Guard, and Mr. McMurray have been engaged during the past month in the consideration of a proposed amendment to the Anchorage Regulations which would establish a system of control over the movements of all vessels in the territorial waters of the United States through a licensing arrangement. The Opinions Section has also worked on this matter.

4. Transfer of personnel, vessels, etc., of Coast Guard to Navy. Mr. Harrison was engaged in the drafting of a comprehensive Executive Order to provide procedures to be followed in the case of the transfer of personnel, vessels, or units of the Coast Guard to operate as a part of the Navy.

5. Required appearance in secrecy of employees of Philadelphia Mint before Civil Service Commission committee.

An opinion addressed to the Director of the Mint which was prepared by Miss Goode and approved on August 6, 1941, concludes that the Superintendent of the Mint had authority to order employees to appear before the committee, and that the requirement of secrecy does not violate the employee's constitutional right of freedom of speech.

6. Optional flat tax graded according to fixed amounts of total income. An opinion addressed to the Secretary, which was prepared by Mr. Feidler and approved on August 8, 1941, concludes that such a tax plan would be constitutional.

7. Secret Service investigation of thefts of Surplus Marketing Administration food stamps. An opinion addressed to the Chief of the Secret Service Division, which was prepared by Mr. Collins and approved on August 21, 1941, concludes that the Secret Service has no jurisdiction over such thefts.

8. Payment of income from trust fund by Library of Congress Trust Fund Board. An opinion to the Under Secretary, which was prepared by Mr. Meeker and approved on August 21, 1941, concludes that the Library of Congress Trust Fund Board may

not pay to the Smithsonian Institution a half of the income derived by the Board from trust property at 16th and I Streets, N.W., Washington.

The following work was done under the supervision of Assistant General Counsel Bernard:

9. Fidelity Bond Bill (formerly identified as "Bond Survey") (for description see original report, Item 10). Congressman Cochran has advised that he will be unable to sponsor this proposed legislation. The legislative section is presently canvassing ways and means of securing its most effective sponsorship in Congress.
10. Federal Depository System. (for description see original report, Item 6). This bill was sent to the Bureau of the Budget on July 24, 1941 for clearance, and is still being considered by that Bureau.
11. Law Committee of Defense Communications Board (for description see November report, Item 23). Mr. Spingarn in conjunction with the other members of the Law Committee of the Defense Communications Board is assisting in the drafting of legislation which would give the President power to act with respect to wire services and other desirable features which are not now covered by section 606(c) of the Communications Act.

12. Administrative procedure bills. (for description see April report, Item 8). The Legislative Section prepared a final draft of a letter for Under Secretary Bell's signature to Senator Hatch, Chairman of the Subcommittee considering these three bills, as well as a final draft of the lengthy memorandum to accompany the letter. The letter and memorandum now incorporate all the suggestions from the various branches of the Treasury on this material. As soon as final clearance is received from the Bureau of Internal Revenue of the revenue comments in the letter and memorandum, the letter will be sent forward to Mr. Bell for signature.

13. Proposed legislation to regulate production of opium poppies. (for description see May report, Item 9). The Legislative Section prepared a memorandum to Commissioner Anslinger on the subject of his eight suggested changes in the draft of the opium poppy seed bill, which that office submitted to him.

14. Payment of claims against the United States (for description see original report, Item 11). This bill for the orderly payment of claims against the United States, and letter of transmittal therefor to Congress, were forwarded on August 5, 1941. It was introduced on August 11, 1941,

by Mr. Van Nuys as S. 1839, and referred to the Senate Committee on the Judiciary.

15. Board of Legal Examiners (for description see August report, Item 7). Mr. Bernard, as the representative for Mr. Foley on the Board of Legal Examiners, has attended a number of meetings of the Board in Solicitor General Biddle's office. As acting chairman of the Board's Committee on Transfers, Mr. Bernard presented a report which was accepted by the Board.

16. Un-American Activities Committee. Because of the pressure of Mr. O'Connell's work, Mr. Spingarn replaced him on the Treasury Committee to consider charges of un-American activities on the part of Treasury employees. Mr. Wilson, the Director of Personnel, is the other permanent member of the Committee, and a representative of the Bureau in which the accused employee works will also act as a member of the Committee in each case. The Committee held several meetings during the month, and after careful consideration of investigation reports in several of these cases agreed to recommend to Mr. Thompson that no action be taken looking to the dismissal of the employee involved in almost all the cases considered. The remainder are receiving further study.

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The Legislative Section office is making a study of some of the problems involved in, and other matters related to, the Committee's work, including the scope of its jurisdiction, past and present statutes on the subject, and opinions and decisions thereunder, as well as comparative material on the subject that may be helpful. It is also preparing a proposed procedure for the conduct of hearings by the Committee.

The following matters were worked on under the direction of Assistant General Counsel Bernstein through September 13, 1941.

17. Foreign Funds Control.

- a. Census Report: The census report on Form TFR-300 and the instructions to accompany such form were issued during August. The report form was issued in nine different series to cover the needs of particular classes of enterprises. A thirty page public circular of instructions was issued in connection with the forms. In addition, the reporting unit is also endeavoring to prepare answers to all general questions in connection with the various classes of reports. Thus, a fifteen page circular of questions and answers has been prepared for the guidance of banks. Similar

programs are in the process of preparation on the subjects of trusts, corporations, exports, railroads, insurance, etc. All of these activities involve conferences between the interested groups and representatives of this office. Messrs. Bernstein, Reeves, Arnold, and Luxford worked on these matters.

- b. General Licenses: General Licenses were issued relating to transactions involving Portugal and its nationals, for the payment of subscriptions to United States' periodicals, and relating to the problems involved in the patent field. The problems connected with the issuance of the general license on patents was the subject of several conferences with the various Government departments interested, as well as with patent attorneys and business firms interested in the subject. A public circular was also issued in connection with the patent problem. General License No. 28, relating to American citizens returning to the United States, was amended. Messrs. Bernstein, Luxford, DuBois, and Murphy worked on these matters.

- c. Blocked Foreign Bonds: A program for the redemption and purchase for sinking fund purposes of blocked foreign bonds was formulated and issued. This procedure will necessitate the holders of all blocked foreign bonds applying to the Federal Reserve Banks for clearance certificates before such bonds may be redeemed or transferred to another person. In connection with the execution of this program, it was necessary to issue a public circular, a new application form, a confidential circular of instructions to the Federal Reserve Banks, and a press release. The matter was the subject of a series of discussions with the New York Stock Exchange, New York Federal Reserve Bank, and the Departments of State and Justice, as well as with the Securities Exchange Commission. Messrs. Bernstein, Luxford, and DuBois worked on these matters.
- d. The Proclaimed List of Certain Blocked Nationals: Various problems have been worked out in connection with the "black list". Instructions were sent to the important oil companies operating through subsidiaries in Latin America to the effect that they should have

no dealings with persons on the list. These instructions were circulated to all American Diplomatic Missions in Latin America. Considerable work has been done on the problem of how to deal with the operation of proclaimed list nationals in certain of the Central American Republics, it appearing that the continued operation of such firms is closely tied up with the economic life of such Central American Republics. Programs to deal with this problem have been worked on and have, in some instances, been submitted to our diplomatic missions in such republics. A representative of this office (DuBois), together with a representative of State Department, have gone to the Central American Republics for the purpose of working on this problem. General instructions to all diplomatic missions in the American Republics are being worked on designed to prevent all dealings by the United States concerns through their subsidiaries, agents, or otherwise, with the proclaimed list nationals in the American Republics. Messrs. Bernstein, Luxford, DuBois and Mann worked on these matters.

- e. Far East: To meet the further needs for personnel familiar with freezing control problems in the Far East, it was necessary to send another attorney (Clay) from this office to the Philippines. The problems arising in connection with the freezing control in China required the transfer of one attorney (Aarons) from Manila to China.
- f. Business Enterprises: In the field of regulation of business enterprises negotiations were continued with the Sterling Products, Inc., and consideration was given to a formula for the handling of foreign banks doing business in the United States under general licenses. Also considered was the problem of drafting a basic formula for the handling of blocked business enterprises engaging in export trade and negotiations in connection with the Silesian-American Corporation. Messrs. Bernstein and Lawler worked on these matters.

18. Stabilization -- Freezing Control Operations. Considerable work has been done to coordinate freezing control with stabilization operations in order to improve the economic position of China. A series of telephone conferences were held

with A. M. Fox, American representative of the Chinese Stabilization Board, with a view toward formulating a program in conjunction with the British and Chinese which would throw the weight of the American and British freezing orders behind the Chinese Stabilization Board and Chinese exchange control operations. A program was devised at conferences within the Department as well as with the State Department and others and it is now receiving further consideration. A series of general licenses, etc., will need to be issued in connection with the execution of this program. Messrs. Bernstein and Luxford worked on this matter.

19. Censorship Bill. This office studied the censorship bill and program proposed by the Navy Department, particularly from the point of view of how it may be integrated with our needs under freezing control. Conferences were held with a representative of the Navy Department and certain other conferences were held for the purpose of learning what the British were doing in the same field. Messrs. Bernstein and Luxford worked on this matter.

20. Certifications Under Section 25(b) of the Federal Reserve Act. Licenses were issued and papers prepared in connection with certifications under section 25(b) of the Federal Reserve

Act of authority to operate the following accounts:

- a. Danish Consulate Accounts held by four banks in this country.
- b. Norwegian Government accounts at the Federal Reserve Bank of New York.
- c. Accounts of the Bank Polski, central bank of Poland, at the Federal Reserve Bank of New York.
- d. Account in the name of "Danish Legation (Representing the Governors of Greenland) Account II" at the Bank of New York.

Messrs. Bernstein and DuBois worked on this matter.

21. Purchase of Russian Gold. We prepared an agreement between the Treasury and Russian Ambassador covering the purchase of \$10 million of Russian gold, the gold to be delivered within 90 days after the date of the agreement, and 95 per cent of the payment to be made upon execution of the agreement.

Mr. Bernstein worked on this matter.

22. Mexican Stabilization and Silver Arrangement. This office in cooperation with Dr. White's office and Mr. Cochran worked on the proposed stabilization and silver arrangements with Mexico and discussed changes with Dr. Monteros, the Mexican representative. Mr. Bernstein worked on this matter.

September 25, 1941
11:15 a.m.

RE DEFENSE SAVINGS BONDS

Present: Mr. Graves
Mr. Houghteling
Mr. Iseby
Mr. Milton
Mr. Johnston
Mrs. Kuhn
Miss Dallas
Mr. Poland
Mr. Kuhn
Mr. Odegard
Mrs. Miller
Mr. Hyatt
Mr. Touchstone
Mrs. Morgenthau

H.H.Jr: Well, Harold, the floor is yours.

Graves: You will recall, Mr. Morgenthau, that you and I decided that it might be most useful for us to confine our discussions today to two subjects, schools and payroll allotment plans, and I think it might be best for us to begin on the schools and after concluding our discussion of that, take up then the payroll allotment plans.

My suggestion would be that we have Mr. Iseby explain to us what he has done and proposes to do further in Michigan with reference to his school program. We have with us Mrs. Miller from our New York organization and they are crystallizing their plans there for a school program, and I would like after that to have Mrs. Miller explain what is in contemplation in New York.

H.M.Jr: As long as Frank doesn't start off by reading some poetry. (Laughter).

Iseby: It works.

H.M.Jr: Yes, it does work wonderfully.

Dravos: Then I think that Mr. Odegard might tell us something of what he saw on his field trip west about this work in other states on the schools. So Mr. Iseby can begin this.

H.M.Jr: Talk just as though we were talking to shop stewards.

Iseby: Well, we started late last year because the program started on May first. Schools closed, some of them, at the end of June. We had about a hundred and ten cities in Michigan that inaugurated a Defense Savings program in the schools, one day each week, before schools closed. Now this year we will have by the middle of next month, every school in every city in every town and village and every rural school in the eighty-three counties of Michigan having Defense Savings Stamps talked about and sold to the school children one day each week until school closes next spring. The schools that had the program last fall and spring are the ones that were so enthused about it. Any school that wanted to check on the program and we were satisfied that we wouldn't have to talk any more about it. The school teachers were very enthused about realizing that it was a fine subject to talk about to the school children, particularly eight, nine, ten, eleven, and twelve were very loyal and were there each week, those that could. There was no pressure.

I have found in labor, business, every group,

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one thing that is a cardinal point in our program that just seems to win everybody, labor particularly. They love it. It is so much so, Mr. Secretary, that the Ford stewards are having a meeting Saturday that they have called themselves for two thousand of them in the Dearborn highschool to start it - after your conversation.

H.M. Jr:

Grand.

Isby:

All the school teachers we - we approached them through them through the teachers first because I have found that you must have school teachers' support through their own associations. In that way then, to the superintendents of schools. We haven't had to go to any school boards. It seems to have been the thing with the superintendents and with the school teachers, who are powerful enough, that if they are in favor of the program, the program will go through. In setting up our committees in each community, of course the mayor was picked as an honorary chairman, and we picked also a working chairman. Always the Superintendent of Schools has said, "Please understand that we are separate. We want to cooperate, but we are separate. We just don't want to be involved in any part of the rest of the picture. We will do our jobs as far as the schools are concerned," which they have.

The parochial schools, the Archbishop of Detroit has printed some ninety thousand pamphlets of their own to distribute to children in parochial schools, along with our stamp albums. Some of the schools keep the stamp albums in the schools, and they are numbered and distribute them to the children each week and let them paste their own stamps in. Some of the other schools say they have no safe place for safekeeping, and have them bring their

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stamp albums that day and they buy the stamps, paste them in and take them home. In others, there are funds in the local school where they buy the stamps and have a stamp bank in the school and sell the stamps to the children.

In other schools, the majority in Detroit, they collect the money one day and requisition the post office for the stamps that afternoon and distribute the stamps the following day to the children. That has worked very satisfactorily.

So every one of our schools and every one of our newspapers. Mr. Namm, Friday, who was in Detroit awarding the prizes for the window displays downtown --

H.M.Jr:

He came to Detroit?

Iseby:

Yes, and Mr. Gaertner, who is the managing editor of the Detroit News, was there. Brent Gaertner is a very able citizen from the newspaper field who doesn't fall for anything easily. He said to me, "Sit down here for a minute on the sofa. The school program, Frank, is the finest program that has ever come to Michigan." He has three children, too, and he knows of it first-hand.

The school program has softened up industry and the industrialists so that when I went into Chrysler to talk payroll deductions, the treasurer of Chrysler said, "Yes, I am for it because I have to, in slang, 'decorate the mahogany' for my children to buy Defense Savings Stamps, and I think it is a fine thing for the school children, and a wonderful thing for the worker."

I think the school program has brought it home to business so that the retailers will support the stamp bank and sell stamps. It has brought

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it into every community, including the worker, who, when we come to payroll deductions, knows pretty well all about this Defense Savings program.

I think it is a grand thing because every Monday morning now, or Tuesday, in Michigan some thirty thousand intelligent women will be talking Defense Savings to over a million two hundred fifty thousand school children. We hope to have at least one million children in Michigan saving regularly, voluntarily.

So much for that. We have sent packets to the schools and in return asked them to let us know what type of literature they wanted, and they have all come back and picked out what they wanted for the children we have up to now. We have sent that back to each community where it has been distributed as the school program starts.

Graves: You have sent that to the superintendents?

Iseby: All the superintendents. I find that the quickest way to reach them - a few weeks before the start of school I dictated a day wire which cost, I think, about twenty-two cents, four hundred seventy-six of them. The great majority of the State people are familiar with the school program. Within seven days I received replies from three hundred ninety-four of them, and here are the letters (exhibiting file). They come from almost every city in Michigan, saying they will put the program in effect.

H.M.Jr: Don't you want to answer questions?

Iseby: Yes, I will be very glad to answer them.

H.M.Jr: Peter, start the ball rolling. I mean, just --

- Odegard: I would like to hear something on the other side, Mr. Iseby. It can't be all beer and skittles. It can't be all - shall I say "roses". There must be some problems that arise in connection with the program.
- Iseby: You mean problems in so far as cooperation with the schools?
- Odegard: Yes. Problems of administration, for example, how the stamps are handled in schools, whether by the teacher or so on.
- Iseby: Oh yes.
- Odegard: There must be cases of children losing stamps.
- H.M.Jr: Children who haven't got the dime.
- Iseby: That is understood by all our school teachers because they take part in so many of our charitable programs there, that no school teacher would in any way embarrass any of the children of the school who didn't have the money.
- There were bugs in the program, if I may put it that way, but not from our standpoint. That was, as you know, from the postoffice standpoint where we got rolling too fast and they couldn't handle the picture and it became embarrassing. But still the school teachers were loyal and they helped iron it out and we called on the banks to handle Defense Stamps and then on some of the stores like Mr. Shapira at Cunningham, if he wouldn't handle the stamps and service some of the schools, which he said he would be glad to do. Oh yes, I had a lot --
- Odegard: Have you had a hundred percent cooperation

from teachers?

Iseby:

Yes, oh yes.

Odegard:

It is the first time in history.

Iseby:

No refusal. Of course, I fought for the school teachers. I spent probably nine or ten thousand dollars of my own money in 1932 to see that they didn't receive all their pay in scrip. I suggested at that time that all industry take twenty-five percent of its payroll in the city of Detroit in scrip to be used for rent and taxes and that every worker be paid seventy-five cents in cash and twenty-five cents in scrip. It was the only scrip in the United States that ever made par and was retired at above par.

Maybe that has something to do with it in Detroit, because I went before this group at four o'clock in the afternoon of the Detroit Teachers Association, some thousand of them, and notified the newspapers that I was going, and I thought they would do it. So I was on the spot if they wouldn't. And they voted to do it. So it has traveled. I think the approach through the teachers and the superintendent has --

Odegard:

Do you encounter this sort of thing? Do you encounter competition, one school with another, or one room in a school with another?

Iseby:

No, they were all forewarned of that. We have a good committee, particularly in Detroit, and we used the Detroit plan and sent it to every school superintendent in Michigan. Emphasis was put on that and Mr. Cody, who has been the superintendent of

the Detroit schools for twenty-three years, emphasized that there was to be no pressure of any kind.

Graves:

I might read from the instructions sent out by Superintendent Cody to the Detroit school teachers, Peter. This paragraph:

"The above plan would probably meet the needs of most schools. Necessary adjustment to carry out the spirit of the enterprise may be made at the discretion of the principal. It is of primary importance that participation in this project be considered in the light of voluntary action, and it is essentially important that pupils who are unable to buy stamps should not be embarrassed in any way."

Those are the instructions of Superintendent Cody to the Detroit school teachers. Of course, I suppose there is room for some over zealous teachers to ignore that, but certainly the school authorities have undertaken to apply that safeguard.

Iseby:

I would say they would not. I might say this to you, that when I started this program and brought the teachers in to cooperation, more than one other thing was that I flatly put up to them in this meeting that they were to finance the stamp banks in these schools, that I thought the teachers, each one, should be the bankers, and that the teachers in the high school and the grade schools could put up for one or two hours each day three to five dollars apiece and have a bank of a hundred dollars for stamps and that would be converted into cash and they would have their money before they left school that evening.

- H.M. Jr: Who puts up the three to five dollars, who puts it up?
- Iseby: I had suggested that the teachers put it up, but we found that they said they thought that they could collect the money. Where they had school funds, they would use the school funds, the local funds of the school; and where they didn't have, they would rather collect the money one day and buy the stamps afterward. Some of them are, but that is a voluntary program.
- Odegard: Have you any estimate of the amount involved in this school savings?
- Iseby: Of last spring I have. Some of our schools sold from - in that three weeks, some of them in Detroit, a hundred and seventy-five dollars up to two thousand - I think the most was two thousand one hundred and some for a school.
- Odegard: Are these accounts kept separately so that each student, for example, must wait until he accumulates eighteen dollars seventy-five cents before he gets a bond.
- Iseby: We had the ten-cent stamp album, of course, and used that, so that we said to them, "If you will save this and carry it back and forth to school, if you should lose it, you would only lose two dollars and a half. You can exchange this ten-cent stamp album when you have it filled for two and a half to ten twenty-five cent stamps if you want to, and you can keep that at home. When you accumulate eighteen dollars seventy-five cents - the schools voted, I think you will see it in the instructions this year, to complete the process and see that the student receives the bond.

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The teachers have voted to take them to the post office and see that they receive the bond in the way they want it when the eighteen dollars seventy-five cents is built up.

They had that discussion, and I said I thought they should. Mr. Cody said that he thought they should complete the program, supervise it--

Odegard:

I had two points in mind. One was that in many schools there are already savings programs. In San Francisco, for example, there are about three hundred thousand children who are now saving each week. Those savings plans that are in this case administered by the Bank of America pay interest after the first dollar is accumulated.

Now, the point is that a child who puts his savings in that kind of a savings plan begins to get interest on his savings after he has accumulated one dollar. If you put in a plan like this one, he doesn't get any interest until he has accumulated eighteen dollars and seventy-five cents. It doesn't make a great deal of difference, I suppose, in terms of the amount, but it does make a considerable difference when you have three hundred and twenty-five thousand people participating in that kind of a program. That is why I asked if there is an attempt on the part of the schools in Michigan to work out a plan where just as soon as there is eighteen dollars seventy-five cents accumulated, the bond is purchased.

Iseby:

Oh, yes, that is true. I say, the school agrees to finish that--

Odegard:

Oh, I see.

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Isoby:

.... Immediately. I think that you will find - just the other night I was talking to the Secretary in Pontiac. There is a city that has a savings plan. Flint had one in the schools. The bank failure in Flint - never in the history of the United States - even the safety deposit boxes were looted and the school children lost complete confidence in any kind of a savings program, and both in Pontiac and in Flint, the banks will say that all of their men in the community, business, that this is the finest thing that has ever come to their community. It is instilling confidence. You could not start any school savings program in either one of those communities from a banking standpoint, but now with the Government Defense Bonds, saying to them that the post office or the Federal Reserve Bank windows have never been closed--

W.S.Jr:

Could I interrupt a minute, Frank? I am a little bit embarrassed today on time.

What I would like to do is this, because I have got to stop at about noon. If you people would continue in Mr. Graves' office. I mean, I just haven't got the time that this thing is worthy of. I just want to ask one thing myself to be taken up later on and that is, try it out on these people. You can say it is my idea so you are not trying to sell your men, this idea of borrowing Mr. Cody to go into one of your adjoining states to use him on this - what I call the J. C. Penney idea, you see. After all, I am impressed with the fact that the reason the Self-Help Cooperative, which my wife is so interested in in Washington, goes, is that they have developed such a unique technique. That is why it goes here and nowhere else. I think that may be true in Michigan.

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As I understand, this man Cody is the fellow that you have used.

Iseby: Yes, we have used him.

H.M.Jr: The thought that I had was to borrow him; and, if it was agreeable to our people in Ohio, to let them go into, say, Ohio, and say, "Now here are these people. They have learned how to do it. Lend them to our committee in Ohio and teach them how to do it." Then we have planted another seed, and then maybe Ohio can teach it to Pennsylvania. I don't want you to feel that this is Michigan trying to put something over on the rest. It was my own idea. If you people, Harold, decide you want to go ahead with this thing, I would like to also suggest borrowing one or two people from Michigan and sending them into Ohio or New York if they are ready. I don't think New York is ready. Send them to carry the torch in there.

Iseby: From what Mr. Namm said, both the chairman and vice chairman of Ohio have been to Michigan and spent, I think, two days with us, and from what Mr. Namm said, when he was in Akron, they have caught the spirit all right, and Ohio is starting to roll.

Graves: If we have time, and I think we have, I think it would be nice for Mrs. Miller to tell us just what they do have in prospect in New York, if you don't mind.

H.M.Jr: I would like it.

Miller: Mr. Secretary, I can't point to any such program as Mr. Iseby does, because the whole idea is a new one in New York and hasn't been tried out. However, the Commissioner of Education has appointed a Dr. Arthur Getman to

sit on the New York State Executive Board to represent education, and he has been there just very recently, so that I am afraid I undertook to do what I could before that, before it was officially decided upon to have a member of the State Board of Education. It seems to me that there are several lines of approach, and I am very glad to have Mr. Iseby bear out my own feeling. There are, at this time of year, many conferences and conventions of teachers and supervisors throughout the state. It seemed to me that one way of setting this thing in motion was to reach those people.

Accordingly, I was in touch with the New York State Teachers Federation and have lined up a program of visits to those conferences. There are ten of them. Two have already taken place, one of the city and village superintendents and one of the district superintendents of rural schools, and day-before-yesterday I spoke before both of those bodies and found them in the main very eager and very cooperative.

Of course, the school bank plan is a very important part of the New York City system. Too important, I sometimes think. Unfortunately there are eager principals and eager teachers who put pressure on the thrift plans in the city schools that I am very much afraid might be translated into the Defense Stamp program too, and I think they must be avoided at all costs. I think the savings banks will be very eager to cooperate because they are sometimes, I think, embarrassed by the numbers of dollars that come rolling through children's banks. You may have seen the report recently. Something in very high figures, in the millions, that is collected in New York State each year that way.

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Now, Dr. Getman, with whom I have been in close touch since he has been appointed, feels with me that we need some literature that is addressed to the school child, probably the ninth or tenth grade child, the early high school years, maybe the range of those grades, and he has undertaken to start a poster campaign throughout art classes in schools throughout the state to get children thinking along these lines and to get children's ingenuity in this work.

It seems to me that that plus the attack on the teaching profession, by the end of October, I shall have met with every teachers' group in the state. I think we will have the ground laid at least for a program when it is developed.

Now, that program will have to be developed with the close cooperation of the Superintendent of schools of New York, Superintendent Campbell, and the President of the Board of Education, Mr. Marshall, and I think they will set up a committee.

I am afraid this is all in the future, but I hope the very near future.

H.M. Jr:

Mrs. Miller, I would just like to make one suggestion, if I might. The plan hasn't yet been approved. We will do it for the whole country. But if Mr. Graves and Mr. Odegard and Mr. Kuhn agree among themselves they want to go ahead - I don't know how they are going to feel about this; but if they do, the only suggestion that I have is, don't wait until you get the whole state started. Start it in a community, because if you wait until you get the whole state, I am afraid it will be Christmas.

Miller:

Yes.

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- H.M.Jr: So pick a small town, ten, fifteen thousand, or twenty-five thousand, don't you think so?
- Iseby: That is right.
- H.M.Jr: And start it there and make your mistakes there, but I am so anxious that something be done in New York other than just committees. I mean, I want to get beyond the committee stage and break the ice there. So if these gentlemen decide they are going to do it, try it in a town of twenty-five thousand or under.
- Miller: All right. Is it true that New York State would be very largely guided by what is done in New York City? Do we have to wait until New York City is organized?
- H.M.Jr: I don't know.
- Miller: I should hope not, because it presents a different problem, of course.
- H.M.Jr: I don't see why you couldn't start in Poughkeepsie or Newburgh.
- Miller: We certainly shall do it right away.
- H.M.Jr: I think it is very progressive with the schools.
- Graves: Were you meaning to ask our attitude with reference to that question?
- Miller: Yes.
- Graves: Certainly not. We had no idea that it should start first in New York City.
- Miller: I am not sure whether the school bank program is pursued quite as aggressively throughout the state as it is in New York City. In New York City you have that as a special factor to deal with.

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- H.M.Jr: Well, if, as I say, those three gentlemen decide that this is something they want to do --
- Miller: Then we can start a demonstration immediately.
- H.M.Jr: Somewhere.
- Miller: Yes.
- Iseby: Our experience, Mr. Secretary, in starting the program was that the rivalry of the other cities was very great, and they wanted to know the minute we had the program started. They wanted to know in two or three smaller communities why we hadn't started it in their community.
- H.M.Jr: Well, we have, for example, the Federal program on Food Stamps. They tried it out in Rochester and until they had it worked out there they wouldn't move. They worked everything out in Rochester and got all the bugs out of the thing and then they went to work on other cities.
- Iseby: I sat in on that first meeting, Mr. Secretary, when that was planned.
- H.M.Jr: I am so anxious to get something going in New York State.
- Sparks: I might say, Mr. Secretary, that according to the correspondence we have Rochester, New York, has already started. They even started before the appointment of Colonel Patterson.
- Miller: Yes. And Buffalo, on the other hand, refuses to have anything to do with it. I think Mr. Odegard remembers that Mr. Fainiff of Buffalo was very insistent that they weren't going to do that because of the difficulties they had down in the thrift banks and I am afraid we will have a little education to do there.

Iseby: I think that is why if they find from a man like Mr. Cody - I am not getting back to Michigan again, but Mr. Cody is known by every superintendent of schools in the United States, I believe. He is probably the oldest superintendent of schools in a major city. He is very restrictive, and when the teachers voted for this program, he immediately called me because they had approved it before I approached him. He asked for a meeting and we had a meeting and he understood and then he approved it. We prepared for the children this mimeographed question and answer business.

Millers: Have you a copy of that?

Iseby: Yes.

Graves: I will take these people to my office.

H.M.Jr: Peter, have you made up your mind yet, or are you still in a state of flux?

Odegard: I just have one idea, that is all, and that is that the schools are primarily for education, and the minute we lose sight of that fact we get into trouble. I think the schools are not organized to sell stamps or bonds as such, that the sale of stamps and bonds can be made logically incidental to the major purpose of the schools, which is education. I think it is perfectly fine to do so, but the minute the main purpose of this or any other promotional campaign becomes the promotion of sales, then we are becoming a party to the betrayal of the American school system.

Now, I don't know about the Michigan plan and I assume that the educational object

is apparent because obviously the amount of money you are going to raise in this way is not going to be great. The main purpose of it is going to be its impact and effect upon the children and more particularly the parents through the children, and that is an educational job, and not primarily a sales promotion job as such.

I am delighted to hear about the Michigan thing because, as I say, it is the first time in my experience that teachers have been one hundred per cent for anything. That is, it is almost unique, I think. I am not doubting that it is true because of the circumstances there.

Now, the Buffalo situation is characteristic of what one might expect. The only thought I have is just a word of caution that we not try to make the schools primarily sales outlets and never forget that their primary purpose is education.

Graves: Could you say a word about Oregon, Peter?

Odegard: Yes, the thing about Oregon that impressed me was the fact that Gamble and Mr. Hoyt out there have insisted that whatever school - and I think you have done the same in Michigan - whatever school program is adopted, must be administered by the local school people.

Iseby: Yes.

Odegard: That is, it can't be done by remote control and it can't be done by someone coming in and saying, "Now this is what you should do." It probably ought to be dumped in the laps of the local school people. Otherwise, I think you might get into difficulty.

Iseby:

That is very true from a promotional standpoint, Peter. I think as far as our Government is concerned there is no other thing that will get across the message like this Defense Savings Program. I don't look at it as a sales promotion, no, sir. I think it is the grandest educational thing that has come to the school children and - their interest in our Government. There is no pressure. Every local school, Birmingham, Pontiac, the little communities, it is all their own. Nobody tells them what to do. Here is the plan. But the emphasis is no pressure under any circumstances. So much so that this letter that has gone out merely speaks of the educational value of thrift and savings.

Odegaard:

You see, the magnificent thing about this program from the point of view of education, and I don't know anything about much else and not much about that, is that the Treasury has, if you want to put it this way, an excuse for going to every man, woman and child in America with almost any kind of message we want to give them, as no other agency of the Government that I know of has.

We have ten cent stamps. Now, the primary value of that is that it does give us an excuse for reaching these people with a particular kind of educational material. That is the only word of caution that I have.

Iseby:

I think that the school children of Detroit, four hundred thousand of them, when they reach eighteen dollars seventy-five cents, have a ten million dollar stake in their Government, something that has never been

heard of before in our country, I don't think. I think that is the rock on which this is founded.

Odegard:

It isn't just having the eighteen dollars seventy-five cents stake, it is understanding what they mean.

Iseby:

That is right.

Dallas:

Mr. Iseby, I am sorry, it seems to me in reading clippings on Michigan I read a couple in which it pointed to a couple of schools as having achieved a hundred per cent subscriptions on these Defense Savings Stamps, and I was curious to know how that was accomplished.

Iseby:

One school is the Thomas Jefferson School. There are a very fine group of teachers out there. There were six children out there who could not afford to buy a ten cent stamp and they found jobs for them. Now, I might say, Mr. Secretary, that all our newspapers feel that coupled with Defense Savings should come this conservation program, and give the children, block by block, the opportunity to raise money to buy Defense Savings Stamps. Our three most powerful papers are together and that is why the earnings of these children - they have found a way for them to earn this ten cents in that school and give them a hundred per cent. I would say we haven't tried to reach one per cent or a hundred per cent. That is the Thomas Jefferson School only.

At Hillman, Michigan, a little town of some four hundred, every person in the community has started a stamp album.

H.M.Jr:

I wonder if Miss Dallas referred to the quota.

Dallas: No, I just wondered how the children were --

H.M.Jr: I mean the question that they were trying to have a hundred per cent as a quota for each school or did you just wonder how they got that way.

Dallas: I wondered whether it also wouldn't be an influence on other schools. Wouldn't other high schools say, "We want to have a hundred per cent, too," and wouldn't it produce pressure methods?

Iseby: No, we have emphasized that too much. The teachers at Thomas Jefferson were trying to do a good job and they had a scroll, and we sent it down here to the President from that school and they were trying for that more than anything. There was no pressure.

Odegard: Mr. Iseby, do you have with you or do you have available any of the educational materials that you use in connection with this?

Iseby: Yes.

Odegard: I think that would be very helpful.

Kuhn: That is one of the two questions I would ask Mr. Iseby, what do they do in the Defense Savings period once a week when they devote an hour to this?

Iseby: Well, they don't devote an hour. Some of them have tied it in with mathematics and arithmetic and that part of the program.

Kuhn: I would be interested in that side of it, and then the second thing was, how was it possible to avoid embarrassing a non-purchaser

if you sell and distribute the stamp albums in the classroom?

Iseby:

Well, let's look at it this way. There are children in every one of these schools. The children in the schools know at certain times of the year they are bringing food and clothing to school to fill up baskets to take care of them. There is no secret about that among children today. I don't find that there is.

Kuhn:

I don't mean that. I simply mean that there is a kind of effect of intimidation --

Iseby:

You mean where they are all buying at one time?

Kuhn:

Yes, and on Monday morning they are all brought into the room and put on the children's desks, and there are four desks where there are no stamp books. That to me is embarrassing to the occupants of those four desks.

Iseby:

I don't know. I don't believe that is embarrassing on our school children today. I sat in the back of these rooms around Detroit long before these Savings Stamp things. I don't believe you can embarrass children that way. There is no drive on.

Kuhn:

It depends on how it is done.

Iseby:

As I say, I couldn't nor could the United States Government tell our school teachers to put on any pressure or force in this. They are too conscious of their social responsibility in our community, and they would not, and they do it in a very subtle way. There will be no - maybe in New York State by reason of your savings program or something like that, but that was the one

thing that Dr. Cody emphasized and I have emphasized all the time to the teachers, that we don't need to do it because they wouldn't do it.

Odegard: Mr. Iseby, couldn't you accomplish the same purpose by devoting this period, say, to defense or Defense Stamps, and then having a central point at which students might purchase Defense Stamps in the school, a school bank, without selling the stamps in schools so that no one knows whether a student buys one or not?

Iseby: You must leave this program to each individual school, or they won't do it.

Graves: That is said in the literature, Peter, that each teacher will adopt methods deemed appropriate for that class. That is said in their literature.

Odegard: It might even go so far as to suggest that it ought not to be done that way.

September 25, 1941
12:10 a.m.

HMJr: Hello.

Dorothy
Doyle: Yes.

HMJr: This is Mr. Morgenthau.

D: Yes.

HMJr: Would you tell Mr. Blough I'd like to have him have somebody besides himself start immediately on working of a draft of legislation to put into effect what I said yesterday about six per cent tax.

D: Yes.

HMJr: So tell Mr. Blough I'd like somebody to start on that at once.

D: Okay. I will call him right away.

HMJr: Well, he isn't in. They say he won't be in until three.

D: Oh, I see.

HMJr: Is there anybody in your shop that you could start on it?

D: Yes, indeed. I'll speak to Mr. Shere, the Assistant Director, and have him get somebody started.

HMJr: Tell Mr. Shere to get it, because I told the press that somebody was working on it, and I'd like to keep my word.

D: I believe that they are. I believe that they're working on that now.

HMJr: Wonderful. Then I guess I told the truth.

D: All right.

HMJr: Thank you.

D: You're welcome.

September 25, 1941
2:12 p.m.

Chester
Barnard: Hello, Mr. Morgenthau.

HMJr: I apologize, Mr. Barnard, but I went on the Hill yesterday at ten and left there at a quarter of seven.

B: I saw that you did.

HMJr: So I just couldn't get to the phone.

B: Well, I'm sorry to trouble you.

HMJr: You haven't.

B: I'm all set except for a formal vote of leave of absence from my company, which will be taken in about five minutes.

HMJr: Yes.

B: And I thought it would be necessary, locally here, for me to give some statement since the organization here is affected.....

HMJr: Yes.

B:but I didn't want to do that without consulting you.

HMJr: Well, I'd be glad if you would say that you're coming down on my invitation to assist me in general problems affecting the Treasury.

B: All right.

HMJr: Is that all right?

B: That's all right. I think nothing more is necessary than a brief statement.

HMJr: Is that all right?

B: That's quite all right.

- 2 -

HMJr: I didn't know. I thought maybe after my six per cent statement you'd gotten cold feet.

B: No, I don't get cold feet very easily.

HMJr: (Laughs) All right. Well, I'm really looking forward to your coming because the day isn't long enough and I haven't got enough right hands.

B: Well, I hope I can be of help to you.

HMJr: Well, thank you. I know that you can, and I'm delighted you're coming.

B: Well, thank you very much, and I'll go right ahead.

HMJr: Thank you.

B: I'll be there the sixth.

HMJr: What?

B: I'll be there the sixth.

HMJr: Thank you.

B: Yes, sir. Thank you.

September 25, 1941
2:15 p.m.

HMJr: Hello.

Sidney
Hillman: Hello.

HMJr: Hello, Sidney, how are you?

H: Fine. Well, I want to congratulate you.

HMJr: Thank you.

H: I haven't read it fully and completely, but the headlines are good and the subject matter what I've read was good.

HMJr: Well, I appreciated your help.

H: Well.....

HMJr: I hope you reached the paragraph that I had on labor.

H: I read that.

HMJr: Is that all right?

H: Yes. Well, I'm going to read more of it. I think, you know, you've got to be real frank to bring to the attention of the country what was so necessary to do.....

HMJr: Well, if you'll.....

H:of this cutting off profits above a certain amount.....

HMJr: That's right.

H:so that we can really talk that everybody is making a contribution.

HMJr: That's right.

H: Yes.

HMJr: Well, if you're pleased, I am.

H: Well, it was very, very good; and, of course, I wasn't able to read it all.

I was yesterday at the latest convention of the shipbuilding workers, and I'll tell you, you know, that the spirit there is just most magnificent.

HMJr: Isn't that grand.

H: Oh, my. I wouldn't want anything better.

HMJr: Uh huh.

H: I don't believe I ought to talk to you about it, but it's coming in now more in some of our contacts here and on over in your department, and this is some of the places where they negotiate through your Procurement Division.

HMJr: Yes.

H: We have the question of copper in Michigan.

HMJr: Yes.

H: And Mr. Mack is the Director of the Procurement Division.

HMJr: That's right.

H: Now, our boys here - you know we always want to have the labor fellows feel that they're part of it.

HMJr: Yeah.

H: And they have asked him to see a labor committee jointly with the employees, and he said, no, that's not his line.

HMJr: Yes.

H: So I'd like you - I don't want to talk to him directly, of course, I wouldn't do it; but first of all, they may have a contribution to make....

HMJr: Yeah.

H:and the next thing is, it's very desirable that the labor groups feel that they're part of our whole effort.

HMJr: Well, I tell you what I'd like to do.

H: Yes.

HMJr: I'd like to send Mr. Houghteling - who sort of looks after those things for me.....

H: Yes.

HMJr:used to be Commissioner of Immigration.....

H: Uh huh.

HMJr:over to see you any time it's convenient.

H: Fine. Now, if you'll.....

HMJr: You give me a time and I'll.....

H: Well, let's make it - let's say four-thirty today?

HMJr: I'll have him there and you tell him what you have in mind.

H: Fine. Thank you very much.

HMJr: I'll have him there.

H: Very good.

HMJr: Thank you.

H: Thank you.

HMJr: Good-bye.

September 25, 1941
2:20 p.m.

HMJr: Hello.

Operator: Mr. Houghteling.

HMJr: Hello.

Operator: Go ahead.

HMJr: Hello.

James
Houghteling: Hello.

HMJr: Houghteling.....

H: Yes.

HMJr: Morgenthau.

H: Yes.

HMJr: Sidney Hillman just called me. It's something with the copper workers - I don't know what it is, and something to do with Procurement in the Treasury and Clif Mack. He wanted to talk about it, and I said you'd go over and see him at four-thirty.

H: Yeah.

HMJr: Before you go, you better talk to Clif Mack, Director of Treasury Procurement and find out what it is. It has something to do with copper.

H: All right, I'll do that.

HMJr: Some labor trouble of some kind.

H: All right, I'll do that.

HMJr: Could you please? And be at Sidney Hillman's office at four-thirty.

H: Four-thirty. All right, sir.

- 2 -

HMJr: And let me know tomorrow.

H: All right, I'll do that.

September 25, 1941
2:21 p.m.

HMJr: Hello.

Ronald Ransom: I think you did splendidly on your testimony.

HMJr: I'm sorry. I didn't hear you.

R: I say I think you did splendidly on your testimony.

HMJr: Well, I'm delighted if you are.

R: And it seems to me that that was a very difficult situation and our boys report that it came out fine.

HMJr: Well, it was difficult.

R: Yes, it was. I think in the light of what the market has done in the last few days that it's very important that we should continue these discussions of what should be done beyond this point. I am a little bit afraid that although the press didn't, the market may have construed what we said as bullish and not as a dampening influence.

HMJr: Yeah.

R: I wish you'd think that over and see if you don't think we ought to keep our boys at the job of.....

HMJr: Oh, I'm in entire agreement, and I've told Dan Bell I want him to continue.

R: If I might make a suggestion - just off the record to you - I think if between now and Monday Dan would have another conference with the staff men on that subject, it might be very helpful.

HMJr: I'll pass that along to him at once.

- 2 -

R: Thanks very much.

HMJr: Thank you.

R: Okay.

September 25, 1941
2:25 p.m.

HMJr: Hello.

Daniel
Bell: Yes.

HMJr: Ronald Ransom called me up and he said - and I didn't ask him why - that if you could call another meeting of the staff between now and Monday, he thought it would be very helpful.

B: Okay. Why?

HMJr: I don't know why, but as long as he asks it, I think I'd do it.

B: Why, sure.

HMJr: Okay?

B: Yeah. Do it right away.

HMJr: Thank you.

B: Good-bye.

TREASURY DEPARTMENT

224

INTER OFFICE COMMUNICATION

DATE September 25, 1941

TO The Secretary of the Treasury
 FROM Mr. Houghteling

I have the following confidential information about George N. Buffington of Chicago.

He was formerly in the Chicago office of Eastman Dillon & Co., a stocks and bonds house, but now has a financial business of his own in Chicago. I made confidential inquiries through my cousin, Francis P. Butler, a stock broker, and learned that Leeds Mitchell, senior partner of Winthrop, Mitchell & Co., stock brokers, reports that Mr. Buffington is a brilliantly able man. He has considerable financial resources as he married his first cousin, who is a daughter of the late Judge Eugene Buffington, for many years chairman of the Illinois Steel Co.; Mrs. George Buffington inherited a considerable part of Judge Buffington's large fortune. George Buffington is a man of quiet habits and good character. Mr. Mitchell reports that the only possible criticism of him may be too great self-assurance.

Paul H. Davis, leading Chicago stock broker, who has had many dealings with Mr. Buffington, told Mr. Butler that he is satisfactory to deal with in every way.

I talked on the telephone with Edwin G. Booz, an efficiency expert who was brought to Washington by Secretary Knox to install a more efficient organization in the Navy offices, and who is now doing the same work for the War Department. I have known Mr. Booz for many years. He knows George Buffington well and states that he is a man of fine character and great ability, who gets along with people well. He is more of a promoter than a routine business man. He is very restless and energetic and is constantly developing new business opportunities. This does not make him a good "inside man."



September 26, 1941.

My dear Captain Wright:

It was good of you to write and let me know that the silver cup I presented has been awarded for the year 1941. It seems to me that your choice in making the award was a most appropriate one, and I want to send my congratulations to the Officer in Charge of the Fire Control Division, as well as to those under his command.

With cordial personal regards,

Sincerely,

(Signed) H. Morgenthau, Jr.

Captain G. E. Wright,
United States Navy,
Commanding Officer, U.S.S. ANCHUTTA,
Via Postmaster,
New York, New York.

GEF/dbs

COMMANDING OFFICER
U. S. S. AUGUSTA

226

September 23, 1941.

Dear Mr. Secretary:

The silver cup which you so kindly presented to this ship has been awarded for the year 1941 to the Officer in Charge of the Fire Control Division, since in the opinion of the Commanding Officer that division contributed most to the battle efficiency of this vessel.

Very truly yours,



C. H. WRIGHT,
Captain, U.S. Navy.

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

September 25, 1941

My dear Mr. Young:

Thank you for your very courteous letter of September 22nd.

I want to take this opportunity to again thank you most heartily for the luncheon which you so kindly arranged for me. I enjoyed being with you and the bankers of Detroit and the meeting was very helpful to me.

I look forward to seeing you in Chicago on October 2nd.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Mr. C. S. Young, President
Federal Reserve Bank of Chicago,
Chicago, Illinois.

Federal Reserve Bank of Chicago

228

OFFICE OF THE PRESIDENT

September 22, 1941

Dear Mr. Morgenthau:

I thought you would be interested in learning that press comment, as well as that of the individual banker and businessman, was very favorable on your Detroit visit last Friday. The Detroit bankers especially were pleased to have an opportunity to meet with you at luncheon.

As I promised you Friday, we are taking steps to have our Detroit Branch issue Series E, F and G bonds and to sell Tax Anticipation Notes. We are also arranging for the safekeeping of Series E bonds at the Branch.

Very truly yours,


President

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

September 25, 1941

Dear Mr. Lovett:

I find I have not acknowledged receipt of your letter of September 12th.

Your prompt and complete reply to my request of September 11th is indeed appreciated.

Yours sincerely,

(Signed) E. Mergenthau, Jr.

Hon. Robert A. Lovett
Assistant Secretary of War for Air,
War Department,
Washington, D.C.

Gile M. Chaney

By Messenger 2:30

WAR DEPARTMENT
OFFICE OF THE ASSISTANT SECRETARY FOR AIR
WASHINGTON, D. C.

230

September 12, 1941

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

Dear Mr. Secretary:

I have your letter of September 11 with respect to the figures on inventory of combat planes suitable for use against a completely modern air force.

We have preliminary figures for August 31, which show a substantial increase. I give them below compared with July.

	<u>July 31</u>	<u>August 31</u>
In Continental U. S.	486	683
At Foreign Stations (U.S.)	277	357
Undergoing Modernization, Service Tests, or Repair.	458	523
Totals	<u>1221</u>	<u>1563</u>

With respect to your inquiry as to "why the number of combat planes still remains so small", the answer, I believe, is not difficult to find and not comforting when found. In my opinion, it is because of a combination of the attitude of business-as-usual, failure to start the program early enough and in sufficient quantity, and the ever-present, overshadowing problem of priorities. I am sure you are aware that from August 12, 1940 until the latter part of June the entire Army Air Program was subordinated to 1221 Navy planes of the so-called "Fleet Aircraft Replacement Planes". Priorities were granted in June and will become effective, for the most part, in September on the Army Heavy Bomber Program, lifting this single type of plane to an A-1-b rating which will likewise be shared with Navy patrol planes and other Naval aircraft totaling about 3000 planes of assorted types. At the present time we are getting about 50 per cent of the production of combat aircraft and,

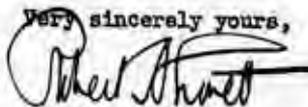
SECRET

if we are able to maintain a fair distribution, deliveries to us should be at a rate equivalent to about one squadron every other day.

There continues to be an urgent need for our trainer planes on which production continues to be excellent.

With kindest regards, I am,

Very sincerely yours,



ROBERT A. LOVETT
Assistant Secretary of War for Air

SECRET

September 11, 1941

Dear Mr. Lovett:

Thank you for your letter of September 8th on combat planes.

Do you have more recent figures than July 31st?

It is difficult for me to understand why the number of combat planes still remains so small.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Hon. Robert A. Lovett,
Assistant Secretary of War for Air,
War Department,
Washington, D. C.

By Messenger

Gibbons
4:10 pm

Mia Charney

WAR DEPARTMENT
OFFICE OF THE ASSISTANT SECRETARY FOR AIR
WASHINGTON, D. C.

233

September 8, 1941

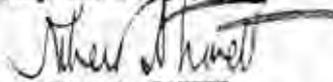
Honorable Henry Morgenthau, Jr.,
The Secretary of the Treasury
Washington, D. C.

Dear Mr. Secretary:

Given below are figures indicating the total combat planes available as of May 31, June 30 and July 31. These planes represent equipment which is modern in all respects.

	<u>May 31</u>	<u>June 30</u>	<u>July 31</u>
In Continental U. S.	296	427	486
At Foreign Stations (U.S.)	337	329	277
Undergoing Modernization, Service Tests, or Repair.	294	319	458
Totals	<u>927</u>	<u>1075</u>	<u>1221</u>

Very sincerely yours,



ROBERT A. LOVETT
Assistant Secretary of War for Air

SECRET

TREASURY DEPARTMENT

234

INTER-OFFICE COMMUNICATION

DATE September 25, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

The British, through Mr. Bewley, told us yesterday evening that they contemplated issuing a statement to the press at London on September 30 in regard to Sir Otto Niemeyer's visit to China. Mr. Bewley, knowing of my contemplated departure with Sir Otto, asked that we approve a reference to my trip also in their communique. The communique of the British was, therefore, slightly revised to read as per the attached note, which had your approval, as well as that of Messrs. Bell, Bernstein and White in the Treasury and Assistant Secretary of State Acheson and also Mr. George Acheson in the Far Eastern Division of that Department.

When discussing this note, you asked me for a memorandum for release by you on September 30, the date of the British release. May I suggest something along the following lines:

"Mr. H. Merle Cochran, Foreign Service Officer and Technical Assistant to the Secretary of the Treasury of the United States, left San Francisco on September 23 by Clipper, en route to Hong Kong. Traveling with Mr. Cochran was Sir Otto Niemeyer of the Bank of England. Mr. Cochran will collaborate with Mr. A. Manuel Fox, the American economist and member of the Stabilisation Board of China, as well as with other American, Chinese and British officials concerning the inter-related financial and economic problems of the Stabilization Fund, the Chinese Foreign Exchange Control and the United States Freezing Control."

The draft of this release as approved should be given by the Treasury to Mr. Bewley in ample time for him to cable it to London before September 30.

9/27/41
A

Chase O'Keefe this
at Staff meeting
today. swB
9/26

White had no objection
although does not
like link up with
Niemeyer swB

At the request of His Majesty's Government in the United Kingdom and on invitation of the Chinese Government, Sir Otto Niemeyer has undertaken a financial and economic mission to China. Niemeyer has recently been in Washington consulting with American officials. Mr. H. Merle Cochran, Foreign Service Officer and Technical Assistant to the Secretary of the Treasury of the United States, is traveling to China with him. Sir Otto Niemeyer will be accompanied and assisted by Mr. James Baxter, Financial Adviser to the Government of Burma.

[Handwritten signature]

DEPARTMENT OF STATE

Washington

September 25, 1941

H. Merle Cochran, Esquire,
American Foreign Service Officer,
Care of the Department of State,
Washington, D. C.

Sir:

Reference is made to the Department's instruction of July 19, 1939 detailing you to the Department for duty. This detail is terminated effective at the close of business September 25, 1941.

You are instructed to proceed to China on the special mission concerning which you have received oral instructions.

You are authorized to render accounts direct to the Department covering your salary in accordance with the provisions of Chapter 5 of the Foreign Service Regulations. The transportation expenses and the per diem incurred by you on this mission will be reimbursed by the Treasury Department from its Stabilization Fund. In this connection your attention is directed to Section 7-45 of the Foreign Service Regulations.

Very truly yours,

For the Secretary of State:

(Sgd.) G. Howland Shaw

For Miss Chauncey

237

September 25, 1941.

Mr. Carl E. Milliken,
Secretary, Motion Picture Producers
& Distributors of America, Inc.,
25 West 44th Street,
New York, New York.

Dear Mr. Milliken:

In acknowledgment of your letter dated September 19, 1941, I have pleasure in informing you that I am departing tomorrow for a visit to China, and shall take with me a copy of your communication for the information of Mr. A. Mammol Fox, the American member of the Stabilization Board of China. You may hear directly from that Board. In any event, I shall be glad to communicate with you further upon my early return to Washington.

Very truly yours,

(Signed) H. Merle Cochran

H. Merle Cochran,
Technical Assistant to the Secretary.

EMC: dml 9/25/41

100-100000

MOTION PICTURE PRODUCERS & DISTRIBUTORS OF AMERICA, INC.
25 West 44th Street
New York City

September 19, 1941

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

Sir: Attn. Mr. E. Merle Cochran.

In the matter of the American-British-Chinese Stabilization Board in respect to the order for discontinuance of U.S. dollar remittances from Shanghai in payment to U.S. motion picture producers and distributors for motion picture films, and the resumption thereof.

The undersigned, in behalf of the members of the Motion Picture Producers & Distributors of America, Incorporated, representing the important units of production and distribution of motion pictures in the United States and the distribution of such motion pictures in China and throughout the rest of the world, presents the following brief:

1. The American producers and distributors of motion picture films have been advised by cable on or about September 12th that the American-British-Chinese Stabilization Board at Shanghai has failed or refused to provide United States dollar exchange in payment for films supplied by them for distribution and exhibition in China.

Before such action on the part of the said Stabilization Board remittances were freely made to the United States suppliers of motion picture films from the various distributing companies in China by virtue of contracts between the American companies and the distributors in China.

2. We respectfully enlist the assistance of the Honorable Secretary of the Treasury to the end that the remittances to the United States film companies be resumed and in support of this request we desire to point out the following:

a) The motion picture industry of the United States is one of the most important industrial and commercial enterprises, representing capital investments estimated at two billion dollars and employing 300,000 workers.

- 2 -

b) In normal times this American industry has received up to 40% of its annual gross revenue from foreign countries. The production costs of its films in America have been and are based upon the utilization of the world market and the remittances therefrom. Without these markets the industry would find it impossible to maintain its high quality of production and high position throughout the world. Every restriction which decreases the amount of revenue remitted to the American motion picture companies from any foreign country diminishes to that extent the funds available for production of motion pictures in the United States, and therefore decreases the economic value of the industry in the United States.

c) In recent years this industry has been restricted drastically in its activities in the world's markets. As country after country on the Continent of Europe succumbed to the ruthless dictatorships the market for American motion pictures has steadily contracted. Up to the present time all income has ceased from sixteen countries: Albania, Belgium, Czechoslovakia, Danzig, Estonia, Germany, Greece, Holland, Italy, Japan, Latvia, Lithuania, Luxemburg, Norway, Poland and Yugoslavia.

Income has almost entirely ceased from Bulgaria, Denmark, Finland, France, all French Colonies, Hungary, Roumania, Spain, Syria and Turkey.

d) Motion pictures are not a luxury, but on the contrary are invaluable during these times of war, strife and struggle, and become an absolute necessity for sustaining the morale of the people and the armed forces. It is needless to point out that the methods of present warfare make the civilian populations an integral part of the fighting forces and their morale is as important for final victory as the morale of the fighting forces themselves. This concept has been recognized by the governments of Great Britain, Australia and New Zealand, and indicative of this recognition is the fact that these last mentioned countries insist that the American exportation of films to them shall continue in quality and amount equivalent to the exportation prior to the outbreak of hostilities.

The American film serve as a vehicle of ideas and a moulder of opinions and attitudes and the product itself is a symbol of democracy. American films are constantly presenting the American way of life in vivid and impressive form throughout the world and are therefore conducive to the principles for which the democratic governments throughout the world now contend.

- 3 -

e) The continuance of the restriction upon remittances from China to the American film companies, because of the foregoing, may necessitate a discontinuance of the supply of American films for exhibition in China. The American motion picture industry is eager that such a discontinuance of the supply of pictures should not occur because it feels that once American pictures are no longer on the screens in China, Axis motion pictures and their incident and designed propaganda will exclusively appear on the screens of China because from our experience we know the people of China want motion pictures and the exhibitors, to protect their own property interests, will be forced to exhibit motion pictures to them irrespective of the ideals and principles which these motion pictures portray.

3. We therefore respectfully urge that the Honorable Secretary of the Treasury give every possible consideration and support at the earliest possible moment to induce the American-British-Chinese Stabilization Board to place the motion picture films supplied by the American companies on its preferred list of essential imports so that the unrestricted remittances from China, which the American film industry has heretofore enjoyed, shall be forthwith resumed and continued.

We appreciate your co-operation and are ready to furnish any additional information which you may deem necessary.

Respectfully,

(Signed) Carl E. Milliken

Acting Foreign Manager
Motion Picture Producers & Distributors
of America, Inc.

COPT - 9/30/41 - 22

241

September 25, 1941

Dr. Feis

Mr. Cushman

Will you kindly send the following cablegram:

"American Embassy,
Cunghing.

For Fox from Secretary of Treasury.

Reference No. 343 from Stabilization Board of China sent through
General General, Hong Kong, September 4, 5 p.m.

Please cable similar report of operations to date in dollars and
sterling."



HMC: dm: 9/25/41

COPI

TELEGRAM SENT

GRAY

September 25, 1941

11 p.m.

ANEMBASSY,

CHUNGKING VIA N.R.

229

FOR FOX FROM SECRETARY OF TREASURY.

Reference No. 343 from Stabilization Board
of China sent through Consul General, Hong Kong,
September 4, 5 p.m.

QUOTE Please cable similar report of
operations to date in dollars and sterling.
END QUOTE.

HULL

KAI FLI PAK

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KEY - 1100 - 11

September 25, 1941

Dr. Feis

Mr. Cochran

Will you kindly send the following cablegram:

*American Embassy,
Chungking.

For Fox from Secretary of Treasury.

Considering the extreme difficulty of adequate communication between us and in view of the need of an adequate discussion and early solution of the interrelated problems of the Stabilization Fund, the Chinese Foreign Exchange Control, and the United States Freezing Control, Cochran, who has a detailed knowledge of the current Treasury discussions on these matters, is leaving by Clipper due Hong Kong October 7. I hope that this will make possible a round table discussion of the various American, British, and Chinese views toward a quick solution of the pending problems.

We are in agreement with your suggestion not to replace Aikin and Arcene who will be authorized to leave for Manila in the next day or so."



EMC: dm: 9/25/41

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TELEGRAM SENT

211

GRAY

PM

September 25, 1941

Midnight

AMEMBASSY,

CHONGKING VIA K.B.

230.

FOR FOX FROM SECRETARY OF TREASURY.

QUOTE Considering the extreme difficulty of adequate communication between us and in view of the need of an adequate discussion and early solution of the interrelated problems of the Stabilization Fund, the Chinese Foreign Exchange Control, and the United States Freezing Control, Cochran, who has a detailed knowledge of the current Treasury discussions on these matters, is leaving by clipper due Hong Kong October 7. I hope that this will make possible a round-table discussion of the various American, British, and Chinese views toward a quick solution of the pending problems.

We are in agreement with your suggestion not to replace Alkin and Aarons who will be authorized to leave for Manila in the next day or so. END

QUOTE

HULL
(PL)

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Copy 10j:9-29-41

TEM

GRAY

Hong Kong via N. R.

Dated September 25, 1941

Rec'd 9:45 a.m.

Secretary of State,
Washington.

PRIORITY

384, September 25, 2 p.m. (SECTION ONE)

STRICTLY CONFIDENTIAL FROM FOX FOR THE
SECRETARY OF THE TREASURY.

"Detained Hong Kong for examination by urgent
Shanghai questions.

(A) (?): from letters from Mackey of (?)
Shanghai direct in section two and from other
sources we learn that Shanghai is definitely en-
deavoring to maximize imports into Shanghai and
(?) as little of stabilization fund as possible with
the aid of political pressure on Washington. Im-
perative that something be done immediately to curb
imports into Shanghai. Board itself definitely
in favor of curtailing imports, especially in light
of increasing evidence of large surplus stocks and
that most Shanghai buying for hoarding (?). Shang-
hai demands insatiable as evidence by September and
October

-2- #384, September 25, 2 p.m. (SECTION ONE)
from Hong Kong via N.R.

October requirements and Mackey letter. Chinese Government favors drastic curtailment. British Board of Trade do not include 25 cases take care of Shanghai imports from sterling area.

(B) (?) (?) United States action now imperative if fund just received rapidly drained on lines Mackey contemplates start on essential (?) United States and Philippine Islands exports to Shanghai. Alternatives I have indicated are: (1) revoking general licenses 58 and 64 and putting exports to Shanghai on specific license basis: (2) action similar to British Board of Trade order. (3) adopting Roman three of the whole telephone message of September third to Manila.

You have raised objections of considerable weight to one and two and are familiar with British objections to three. However, British have already acted through Board of Trade order and problem now is specifically America's. Adopting any one of the above alternatives quickly better than waiting for ideal scheme. Speedy action all important.

SOUTHARD

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GRAY

247

Hong Kong via N. R.

Dated September 25, 1941

Rec'd. 11:18 a.m.

Secretary of State,
Washington.

PRIORITY

384, September 25, 2 p.m. (SECTION TWO).

Following is digest of letter September 17th from Mackay of National City Bank Shanghai received September 24th in his own words where possible:

(1) Worried about way things are going. Unless Board prepared to meet all (underline) importers' obligations as of August 18th, large operations in black market cannot be prevented. (2) Another bad snag all Shanghai foreign company officials paid in dollars or sterling and Shanghai Municipal Council has such heavy obligations in foreign exchange Mackay afraid the project defective. (3) Merchants worried about Board's October policy and becoming elusive. Asks Board to provide cover for October and November maturiveness of service. (4) 'I do not know how long stabilization fund is supposed to last or exactly what policy is, but judging from total of applications already approved and great flood of applications now coming forward,

I doubt

-2- #384, September 25, 2 p.m. (SECTION TWO) from Hong Kong.

I doubt if this interest can be handled satisfactorily with present funds (***) cover from both these sources (export bills and non-commercial cover) now has almost completely dried up and Board can take it they will receive very little in way of return cover (?) banks. I think it is going to cost Board much more than originally expected and I fear present fund will be entirely inadequate (***) I think we would have to look at situation from a different angle. In my humble opinion this is a political question, and if financiers interested wish to prevent Shanghai from falling into hands of enemy a much larger fund will have to be put up'. (5) Suggests scrapping your list and putting all imports on quota or rationed basis as clients unable to obtain cover from Board asking their home offices to put pressure on Washington. Motion Picture people have acted and cotton, automobile and leaf tobacco are going to. (6) Asks for Board to give exchange for imports which have no covering documents as well as for bills outstanding on bank's books. Please note (4) above; full text letter being forwarded by clipper.

(END OF MESSAGE)

SOUTHARD

JRL

INCOMING CABLEGRAM

249

September 25, 1941

Hongkong, September 25, 1941.

Federal Reserve Bank of New York

New York

On September 20th sent you through U.S. Treasury following message: "No. One Please confirm procedure establishing Stabilization Board is now complete enabling Board to draw funds. Signed Stabilization Board of China"

Bank of China has been advancing funds to Board and we are anxious to return amount so advanced. Cable whether Board's account is available.

(Signed) Chaotingchi
Secretary Stabilization Board
of China,
Hongkong Bank Building,
Hongkong.

(Rec'd from FRB, N.Y. 10:00 a.m. Sept. 25, 1941 — imc)

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21712

GRAY

250

Shanghai via N.E.

Dated September 25, 1941

Rec'd 1:45 a.m., 28th

Secretary of State,
Washington.

1361, September 25, 2 p.m.

Press yesterday and today carries official customs announcement to the effect that Ministry of Finance Nanking instructs that as of today no exports from Shanghai will be allowed to be shipped to any port or city in unoccupied China. However, interpretation place upon this order by the local customs authorities stressing tax aspects is that whereas up to present it has been possible to consign goods from Shanghai say to Kunming Yunnan as shipment via Hong Kong or Rangoon on payment of interport dues now the procedure will be that the goods thus consigned can only be exported to a foreign port such as Hong Kong or Rangoon but not under customs interport treatment. Hence the Shanghai goods could presumably enter free China from the foreign port only as a foreign import unless Chungking authorities

decide to give special treatment. Press comments and interpretations places much more seriousness on this order than above indicated and regard it as a prohibition of movement of goods from Shanghai to free China the effectiveness of which may be tightened at any time by the authorities concerned. Some trade comments even hint that the order may shortly be enforced in retaliation for withholding of official exchange allotments by Stabilization Board from Japanese Shanghai interests. Inform Commerce and Treasury.

Sent to the Department, repeated to Chungking and Hong Kong.

LOCKHART

CSB

Copy: dtg: 9-30-41

TREASURY DEPARTMENT

252

INTER-OFFICE COMMUNICATION

DATE September 25, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£43,000
Purchased from commercial concerns	£ 5,000

Open market sterling held steady at 4.03-1/2, and there were no reported transactions.

The Canadian dollar, which recovered to a final quotation of 11-5/8% discount yesterday, again improved today and closed at 11-1/8%.

In an idle market the Argentine peso moved off to a closing quotation of .2358, as compared with .2363 last night.

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

Brazilian milreis (free)	.0505
Colombian peso	.5775
Mexican peso	.2070
Venezuelan bolivar	.2735
Uruguayan peso (free)	.4400
Cuban peso	3/8% discount

There were no gold transactions consummated by us today.

No new gold engagements were reported.

In London, spot and forward silver were unchanged 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.



RESTRICTED

G-2/2657-220; No. 502 M.I.D., W.D. 11:00 A.M., September 26, 1941.

SITUATION REPORTI. Eastern Theater.

Ground: German forces continue to press their attacks against Leningrad.

Russians are making strong counterattack in upper reaches of the Dvina river and north there of. This is admitted by the Germans: the Russians claim successes.

On the Kharkov front German advanced infantry has reached Belopolye (50 miles east of Konotop), Karlovka and Krasnograd (both about 60 miles southwest of Kharkov).

The Russians are making a strong defense of a bridgehead north and south of Melitopol.

II. Western Theater.

Air: While R.A.F. units were grounded by bad weather with the exception of a coastal command raid made on shipping off Norway, German attacks were limited to daylight raids on Scottish East Coast railroad lines and a night attack on Dover.

III. Middle Eastern Theater.

Air: Palermo, Sicily, was bombed by British aircraft last night as was Tripoli, Benghazi, and Bardia.

RESTRICTED