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September 29, 1941
10:00 a.m.

GROUP MEETING

Present: Mr. Blough
Mr. Morris
Mr. Thompson
Mr. Cairns
Mr. Haas
Mr. Bell
Mr. Gaston
Mr. White
Mr. Graves
Mr. Schwarz
Mrs. Klotz

Thompson: Several years ago when the Procurement Division was established, we transferred to it most of the duties of our whole Printing and Stationery Division. We are now proposing to transfer the balance of the Division. It is a Printing Division now. It is a small unit and can function better in Procurement Division.

H.M.Jr: Where is it now?

Thompson: It is an independent office now. Mr. Mack has agreed to take it over and the chief of the Division recommends it. The Bureau of the Budget and the Legal Division have cleared it.

H.M.Jr: What is it called?

Thompson: Division of Printing. Requisitions on the Government Printing Office go through them.

H.M.Jr: It is O.K. with me. What is this?

Thompson: There are two orders.

H.M.Jr: Incidentally, Clif Mack did quite a job. I don't know whether you have given it out yet, but he found that--

Schwarz: We did give it out. It got on the wire.

H.M.Jr: Anyway, he found that on this mimeograph paper the specifications were written so there was only one company could bid for it, so he changed the specifications. How much did he save? Three hundred or--

Schwarz: Three hundred thousand dollars.

H.M.Jr: Three hundred thousand dollars. And he is looking into the thing surrounding it, why were the specifications always written so just this? one company could get it.

Schwarz: One company had a monopoly on the cellulose material.

H.M.Jr: Just that one thing. I mean, it interested me. Nowadays the fact that a person saves three hundred thousand dollars interests most people. I mean outside the Treasury.

Bell: On our aluminum sales, we have gotten seventeen dollars and fifty-three cents in the Treasury to date in receipts.

H.M.Jr: Well, now, who is responsible that the

aluminum dumps are all over the country and they don't sell it? Is that our responsibility, Harold, under Procurement?

Graves: I so understood that the Procurement Division was responsible for the--

H.M.Jr: Once they create--

Graves: Yes.

H.M.Jr: Would you find out - God, the Government is getting terrific publicity. They have got these dumps all over the country. It is terrific. If it is up to us to move them, for Heaven's sake, let Mack put some one man on to move them. We have got policemen guarding them, and the women have given up their pots and pans and there they are staring them in the face.

Graves: All right.

Bell: We have got word from the - through the Navy Department that the General Accounting Office has approved a plan of payroll deduction for the Navy people in the purchase of Savings Bonds, and I think the General Accounting Office gave consideration at the same time as to whether other Departments might not do it, and I think they have worked out a scheme that would fit any Department if they want to do it.

H.M.Jr: . Wonderful.

Bell: You know we have a conference today on Social Security at eleven.

H.M.Jr: Eleven o'clock?

Bell: And the luncheon tomorrow.

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H.M.Jr: Right.

Bell: Eccles and Henderson and Nelson will be here.

H.M.Jr: Fine.

Bell: As you noticed, the Treasury tax notes picked up a hundred and ninety-two million.

H.M.Jr: How much?

Bell: A hundred and ninety-two million. My reports indicate about two hundred fifteen million up to Friday night.

H.M.Jr: Fine.

Bell: So that the estimates both on tax notes and Savings Bonds are not going to look so bad after all. We probably won't reach them, but they won't be so bad at the end of the month.

H.M.Jr: Do we start talking financing next Monday?

Bell: Monday, yes.

H.M.Jr: Do you and I go to work?

Bell: Yes, sir, we will be ready.

H.M.Jr: I have got some new ideas that I passed on to George.

Bell: Really?

H.M.Jr: Have you got anything on that, George, for me?

Hanz: We are working on it now, Mr. Secretary.

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H.M.Jr: If you have them, let Mr. Bell see them and Mr. Morris and myself. Harold, Colonel Greenbaum called me up this morning, and he says one of these juke box fellows that I saw in Detroit is a gangster. He mentioned his name. His name didn't sound familiar to me.

Graves: Not Small, I hope.

H.M.Jr: Small, yes.

Graves: Says he is a gangster?

H.M.Jr: Yes, he is sending me over all the facts. is that the fellow that came here?

Graves: That is the fellow that came here.

Gaston: Aren't they all? (Laughter)

H.M.Jr: Not when they play "Any Bonds Today."
Well, you might start - have we got an Internal Revenue man in Detroit?

Graves: Oh, yes.

H.M.Jr: Get a wire off, will you, on Small? But wait until he puts the deal across for the country.

Graves: You don't mean that?

H.M.Jr: What do you mean?

Graves: I mean you don't mean that literally? I suppose if he is a gangster we would--

H.M.Jr: What do you think?

Graves: I don't think you do mean it.

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H.M.Jr: Well, if after eight years you don't know, Harold, it is too bad. We are getting "Any Bonds Today" played in every juke box in the United States. That was my chief mission to Michigan. Now it seems the man I am doing business with, my palsey-walsey, is a gangster. (Laughter) If he is, the fellow out there in Detroit should have known it.

Graves: Yes, that is right. I am inclined to doubt that he is.

H.M.Jr: Well, when the stuff comes over, I will turn it over to you.

Graves: Fine.

H.M.Jr: What else, Harold?

Graves: You asked for a memorandum on what we had done on schools.

H.M.Jr: Right.

Graves: Three hundred thousand of them are going to play "Any Bonds Today."

Klotz: All the time?

H.M.Jr: Whenever you put a nickel in.

Bell: Don't you have to punch a button?

H.M.Jr: Oh, yes.

We have got so many machines playing it between eighteen and twenty times a day, but one song is a little bit more popular than ours. It is called "Blue Champagne."
(Laughter) You can't tell me anything about juke boxes and so forth and so on. I am with the people these days.

Graves: You raised a number of questions in the memorandum you sent me this morning.

H.M.Jr: Well, we will get around to them.

Graves: There is one thing that I would like to mention. Perhaps now is as good a time as any. The annual convention of the A. F. of L. is to begin in Seattle on the sixth of October and run for two weeks. The annual convention of the CIO is to begin in Detroit on November 17. It has been suggested that you might speak at each of those conventions. Mr. Kuhm and Mr. Odegard and I think that that would be a good thing for you to do.

H.M.Jr: Well, I don't think I am going to talk in October any more.

Graves: The trouble there is that you could scarcely appear at either of those conventions unless you are prepared to appear at both.

H.M.Jr: When is the Seattle one?

Graves: It begins the sixth of October and runs for about two weeks.

Gaston: That is A. F. of L.?

Graves: That is A. F. of L. You have spoken to bankers' gatherings and advertising clubs and so on.

H.M.Jr: Why are you so serious about it, Harold?

Klotz: This is Monday morning.

H.M.Jr: Well, you are dropping the seed. Let it--

Graves: We would like to know. That is, we would have to know pretty quick.

H.M.Jr: Well, do they want me?

Graves: Oh, they would be very enthusiastic about having you, but they have - as far as the A. F. of L. convention is concerned, they have simply said they want someone from the Treasury. There is no question but that they would be overjoyed to have you--

H.M.Jr: Well, let me kind of think about it a little bit, you see.

White: Of course, it means both or none.

Graves: Both or neither.

H.M.Jr: You see, I promised my son, Henry, the next place I talked would be Cleveland.

Graves: He might let you off.

White: Maybe you have got some pull with your son.
(Laughter)

H.M.Jr: Well, you, as a father, know what your word to your children means. Let me think about it. I won't forget about it.

Graves: Then these other things that you raised with me, I would like to talk with you about them as soon as convenient to you.

H.M.Jr: Why don't you stay after this meeting.

Graves: All right.

H.M.Jr: Supposing you stay, Harry, do Mexico?

White: Well, the question is that Monteros called me again and said their Finance Minister is waiting. He is their representative up here who has been negotiating. They also have in

mind discussing here--

H.M.Jr: What am I to do, Harry?

White: Merely say you want the Finance Minister up here, and he will be up here pronto on the next plane.

H.M.Jr: See how Mexican he is. He goes "pronto." You sure it isn't "mañana"? (Laughter).

Bell: I thought we told them we wanted him.

H.M.Jr: From south of the border.

White: On the agreement, there is complete agreement here on the agreement, so all that is necessary--

H.M.Jr: Can you sing "That South American Way"?

Klotz: He doesn't know Carmen Miranda.

H.M.Jr: If he doesn't, he should.

Well, let him come. Not mañana mañana, but pronto.

Do you know why he shouldn't come, Daniel?

Bell: No. I understood from the beginning that you wanted the Finance Minister to come up here and discuss this agreement with you, and you two could sign it together. I told Collado that, and he called me last week about the signing of the agreement, and I said that you could sign it, I thought, up to noon Wednesday of this week. After that you would have to wait until probably the following week, and that you still wanted the Finance Minister, there had been no change in that.

- H.M.Jr: Well, does he have to bring his wife, who is the seventeenth daughter of a seventeenth son?
- White: I don't know his wife. Do you know his wife?
- H.M.Jr: She speaks no English, and I speak no Spanish. She is the seventeenth daughter of a seventeenth son. She is. (Laughter)
- White: I take it you were going to do the business with the Finance Minister. (Laughter)
- H.M.Jr: Well, after all, women have the vote, you know, and you want a well-rounded conference.
- White: I had better remain quiet.
- H.M.Jr: If you think so, I am with you. (Laughter)
- All right, that is settled.
- White: That opens the question of Ecuador, which you asked me to see about. The question is whether you want to continue those discussions which were held in abeyance. I don't think there is any rush about this.
- H.M.Jr: One South American country at a time.
- White: Mr. Coe is here, and will be available any time you wish to see him.
- H.M.Jr: Just the minute I get a breathing spell.
- White: You will let him know?

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H.M.Jr:

Yes.

White:

We have prepared this memorandum for the Vice President on the economic defense functions administered by the Treasury. It is several pages long. I think it would be interesting for you to read it. But they raised two questions that we need your opinion on. They have been cleared all over, but we are all doubtful about two points.

I could mention them very briefly, and I think you could give a yes or no answer on those two points.

One is, we do say that the Treasury has power to make Stabilization arrangements - oh, I noticed that your initials are not on this, Dan. I thought you had cleared it. I am sorry. I will see that he gets it. I thought his initials were on it.

The Treasury has the power to make Stabilization arrangements with foreign countries, such as, for example, the arrangement with China can be used to achieve some of the objectives of economic defense. Specifically, the Stabilization Fund arrangements may be utilized to render economic aid to friendly nations and to induce third nations to cooperate more fully with the United States in economic, political, and military matters.

Now, that is a fact. But whether we want to state that is something --

H.M.Jr:

The answer is "No".

White:

Then I think the answer to the second will likewise be "No".

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"The Treasury purchases of silver from foreign countries as in the case of Stabilization Funds are a means of helping friendly nations and of persuading" --

H.M.Jr:

I didn't hear you, Harry.

White:

"The Treasury purchases of silver from foreign countries as in the case of Stabilization Funds are a means of helping friendly nations and of persuading other third nations to cooperate with us."

H.M.Jr:

The answer is "No".

White:

Those are the only two points about which there would be difficulty. We will delete those and if we get Mr. Bell's signature, we will send it to you and it is quite late so --

H.M.Jr:

I can clear it today if Bell will clear it.

White:

Miss Chauncey returned this question of the proposed Inter-American Treasury Bulletin and said that she wanted it raised here. All we are asking for is six thousand dollars which the Rockefeller Foundation said they would give us for a preliminary investigation among the South American countries of their willingness to cooperate on an Inter-American Treasury Bulletin.

H.M.Jr:

You mean to say it is going to cost me six thousand dollars to send you to Cuba?

White:

No, it is going to cost not us, but the Rockefeller Commission six thousand dollars to send somebody else, and not to Cuba, but to South America. Outside of that, you are correct.

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H.M.Jr: Harry is feeling fine today.

White: All right then, I will return the letter and sign it. There is a question here you raised about Keynes, but since Mr. Coe is here, I think possibly you might want to take that up with him.

H.M.Jr: What I will do is, see, I have got to do this. I will give Coe tentatively 11:30 tomorrow.

White: Right.

H.M.Jr: Tentatively.

White: That is all.

H.M.Jr: Mr. Schwarz?

Schwarz: General Surles, the War Department man, assures me that there was a genuine letter they received from the little town in Arkansas telling them about Defense Bonds. He said if that had been all, they would have sent it over to us, but the lady simply told about their purchase of the Bonds to explain why they had no money left to build a booth at their county fair, and for that reason she asked the Army to supply the material for the booth.

H.M.Jr: I was delighted. General who?

Schwarz: Surles. S-u-r-l-e-s.

H.M.Jr: Does he speak to you?

Schwarz: Very much. He is an old friend. He was a colonel last time he was here.

H.M.Jr: That is wonderful. They said they got out a three-page release on that.

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Schwarz: He is sending me the release. It hasn't arrived yet.

H.M.Jr: Fine.

Schwarz: I have here your room numbers for the Hotel Stevens that the American Bankers have set up, and F.M. Edwards is in town today, and he will be glad to take out any messages that you might like.

H.M.Jr: I will have to see him some time today.

Schwarz: Walker Stone of the Scripps-Howard papers has asked us for an auditor from the Treasury to help them on an informal basis, to help them analyze the budget to find places where non-defense expenditures can be cut. I don't think we ought to do that. While they agree to do it anonymously, I think it would be a bad precedent.

H.M.Jr: The answer is "No".

Schwarz: And press conference at four o'clock today?

H.M.Jr: Yes.

Schwarz: That is all.

H.M.Jr: Schwarz and Gaston, will you be here at two thirty? What time are you leaving, Gaston?

Gaston: Three thirty.

H.M.Jr: Well, I have got a meeting at two thirty that I want you and Schwarz at, please.

Gaston: Good.

Schwarz: This copy of the press release just arrived.

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H.M.Jr: Let Harold see it.

Graves: Thank you.

H.M.Jr: And then, Herbert, you just walk out when it is train time.

Gaston: I will have plenty of time.

H.M.Jr: Just walk out.

George?

Haas: Draper is now working on that small loan figure.

H.M.Jr: Yes. I want to follow through on that. I think that they can do that thing.

Haas: You wanted to know how much --

H.M.Jr: Does he know it is from Mrs. Roosevelt?

Haas: Yes. I thought I had better send that man over there along with that.

H.M.Jr: I don't think it is a hopeless case. And stress the fact I want to get the son a job.

Haas: Fine.

H.M.Jr: Won't the local man get their son a job, see? And I would like to talk to him about it, would they stress getting the boy a job?

Haas: A week or so ago you asked me to follow daily these prices.

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- H.M.Jr: Yes.
- Haas: On cotton, see, since your speech, it has - what is happening here in cotton, a new crop is coming.
- H.M.Jr: Wickard was very fair about it. He said that my speech and the new crop happened to come on together, and I wish everybody that has been helping me on prices would please read what Brookings Institute said, and give me an analysis.
- Haas: All right.
The retail price hasn't shown any decline yet.
- H.M.Jr: Thank you.
- Blough: The first stop-gap rough draft of the six per cent profits tax bill which you talked about last week has been prepared. We would like to keep it in the safe, however, and not show it to anybody because it is just there in case you want it as a stop-gap.
- H.M.Jr: You are coming in to see me at two o'clock. Two fifteen.
- Blough: Mr. Sullivan will be speaking tomorrow noon at the Bar Association in Indianapolis on the inter-governmental fiscal relations business which you talked with him about before. I am just reminding you that he is going to be there.
- H.M.Jr: Did John call up? Have you spoken to him?
- Blough: Several times since last Wednesday.
- H.M.Jr: I couldn't understand that he didn't call up. It seemed inhuman.

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Blough: He waited until after your press conference, Mr. Secretary, and then called and asked what happened. I told him what happened, and that is about all there is to it. He didn't express any opinion at all.

H.M.Jr: Didn't he?

Blough: No. And then I talked to him again last night about this speech for tomorrow. I think he plans, if the weather is suitable for flying, to be at the fight tonight also, so Mr. Gaston might see him there. I don't know that he plans to be in here any earlier than his earlier plans, which I don't quite know.

H.M.Jr: He is supposed to report back on the sixth. What is he going to do between his speech and the sixth?

Blough: I haven't the slightest idea, Mr. Secretary. I suppose take a vacation.

The tax treaty with Canada which they asked for is scheduled - the negotiations are scheduled to begin in Ottawa next Monday and you asked me to help negotiate that. The present plan is for Mr. Eldon King and myself to spend a good part of next week in Ottawa. It probably won't take more than three or four days. However, you did make the reservation that if necessary, we might not --

H.M.Jr: Speak to me the day you are leaving. That is my understanding with Harry on his trip to Cuba.

Blough: All right. I will probably leave Saturday or Sunday, but I will speak to you at the end of the week about it.

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The National Tax Association has its annual convention in St. Paul two weeks from today. I think Mr. Foley is speaking at it. Mr. Sullivan isn't going to be able to go, and he has asked me to attend that for him. I think it is quite an important gathering.

H.M.Jr: When is that?

Blough: That is two weeks from now.

H.M.Jr: Well, tentative.

Blough: Yes.

H.M.Jr: By the way, is the man from Wisconsin in town, the tax man?

Blough: Yes, sir, Mr. Groves is here and has been on the job, and we have been in very close touch with him.

H.M.Jr: Wouldn't he have some ideas on this six per cent business?

Blough: Yes, he is a very able tax economist.

H.M.Jr: Why don't you bring him in with you at two fifteen?

Blough: All right.

H.M.Jr: And let him see that confidential draft before.

Blough: All right.

H.M.Jr: Will you?

Blough: Surely.

H.M.Jr: Supposing you bring him in at two fifteen.

White: You won't want to get him in on the Social Security, too, would you?

H.M.Jr: Not at this late date, I don't think, Harry. I have got a particular thing I want to do. Bring him in at two fifteen, will you? Tell him whatever we are doing is very confidential.

Blough: Well, he is very good about that sort of thing. I am still trying to get a little vacation in between times. I enjoyed the three days I had last week very much, indeed. So I am really not back here, with your permission, full time, except just when you need me.

H.M.Jr: You are back just for today, as far as I am concerned.

Blough: That was my understanding.

H.M.Jr: Just for today. You have had more than three days.

Blough: Well, off and on I had one or two days in addition.

H.M.Jr: No, my understanding with you is just for today.

Blough: That is not quite fair. I have had more than three days, but only three consecutive days.

H.M.Jr: I would like you and what is the man's name?

Blough: Harold Groves.

H.M.Jr: I would like you to come in and let him read this thing beforehand, and if you could, I would very much like to have him read everything that I have said on the Hill back and forth before that, too.

Blough: I am sure he would be very glad to.

H.M.Jr: Will you?

Blough: Yes, indeed

H.M.Jr: Is that all?

Blough: That is all.

Cairns: I have nothing, Mr. Secretary.

H.M.Jr: What is the matter?

Cairns: Well, Ed left last night and there have been no new developments.

H.M.Jr: You haven't discovered any new and unheard of orations by Demosthenes, have you?

Cairns: No, I assume that one has been used.

H.M.Jr: I don't think so.

Morris: I can only report I am still trying to find out about things, and I just

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want to see if I am going on a tangent or not.

I have spent quite a little time trying to learn something about the background of the Treasury's tax proposals and the whys and wherefores, and tying it in with this six per cent thing, so that when I get asked as to reasons, I will know something about it.

I have just been studying along those lines.

H.M.Jr:

That is all right. Have you got in on the - have you had a chance to look in to our trust funds?

Morris:

I have got a bowing acquaintance with them, and expect to go into them further as I get time.

H.M.Jr:

Well, you come to the eleven o'clock meeting today on the Social Security. I thought it might be useful for you if you went with me to Chicago, seeing that they are bankers. Would you like to go?

Morris:

Yes, sir, very much.

H.M.Jr:

Well, if you will ask Fitzgerald what time - I know I am going out on the Baltimore and Ohio and coming back on the Baltimore and Ohio. So if you will find out, I think as long as it is bankers you had better go.

Morris: Yes, sir.

H.M.Jr: O.K. And then George, as you begin to prepare this stuff for me on my next financing, I want Mr. Morris to be kept posted, you see. I mean this new idea I have evolved, if you will give it to Mr. Bell and also give it to Morris. Will you?

Haas: I will be glad to.

H.M.Jr: But you had better spend as much time as you can talking with George and Henry Murphy, Morris, on the next financing.

Morris: All right.

H.M.Jr: I would like you to get in on that. Will you?

Gaston: One of the new eighty-three foot patrol boats, a series of them that are being built in Brooklyn, is here now. They are a little different design than we have had before. I thought you might possibly have a chance to look at it in the next day or two. It is down here in the Washington Channel. It is the first of the new series. They are about twenty-one miles an hour, eighty-three foot boats.

H.M.Jr: How long will it be there?

Gaston: As long as you want but it will be here for a couple of days, anyway. I planned to go down tomorrow and take a look at it.

H.M.Jr: I will try to go too.

Gaston: All right. I will remind you tomorrow, then.

H.M.Jr: Will you, please?

Gaston: Yes. You asked about this case that I reported back to the White House, the man who was detected in tax fraud and was not prosecuted. One of the OPM dollar-a-year men.

H.M. Jr: Oh, yes, I wanted to know what happened to that.

Gaston: Jim Rome says that the system is that he takes those things up direct with the President and he hasn't - he will take this up and he will let me know what happens but he hasn't yet done so.

H.M. Jr: The purpose of my note is, if we find that there is a fellow who is in trouble with the Government in OPM, what are they going to do about it? If they are not going to do anything, I want to stop my investigating. If they are just going to whitewash these fellows, there is no sense of our going to all this trouble.

Gaston: You know what the situation is about this man? Back in 1937 they discovered that he had falsified his inventory for a previous year, and it was a plain, open and shut case of wilful deceit.

H.M. Jr: I know.

Gaston: But the decision over there in the Bureau was not to prosecute --

H.M. Jr: I read it.

Gaston: He made a compromise settlement so he has nothing pending now but he did cheat in 1935 and '36.

H.M. Jr: What sort of things is he the head of?

Gaston: wholesale hardware.

H.M.Jr: I am just curious because if they are going to let a fellow like that represent the Government, then what is the use of our making any investigations? That is the way I feel.

Gaston: And you asked about that other thing, that radio installation. Norman is taking it up in that way and the same thing on the Krasin. There are three ways we can work it. I have written a little memorandum about it.

There are three ways that we can work. One is Lend-Lease, which isn't so good. Another is special presidential fund. We are sending a letter over today on special presidential fund. At the same time I had them prepare a request for an appropriation to be inserted in this deficiency bill which we might try if the other doesn't work. Of course, we would have to lay the whole deal out before Congress if we go through the Appropriations.

H.M.Jr: Well, the best way would be - how much is involved?

Gaston: We don't know. They would like to ask for a hundred thousand, just as a guess. But it may run less than that or it may run three hundred thousand.

H.M.Jr: Well, we have got to repair it, that is all there is to it. The President knows about it.

Gaston: I think that is the safest way because I think you will get a knock down and drag out debate up there on the Hill if you don't.

H.M. Jr: All right.

Gaston: You asked about the plane at New Hackensack.

H.M. Jr: Yes.

Gaston: Well, the explanation is that the passenger was Kossler, who is our chief engineer on airplane design and so on. He went up. He was in New York and he had the boys take him up to New Hackensack to ride back to Washington and they say that this is not a - this is not - I forget what kind of an airport it is. It isn't an airport that requires communications.

"Did not establish communication with New Hackensack radio. No radio communication was received from New Hackensack radio. Pilot estimated time of arrival of your plane and landed in New Hackensack about five minutes after your plane. New Hackensack field is not a radio controlled airport and radio communication is not required."

That is his story.

H.M. Jr: Herbert, all that is true. It is like saying, well, green lights don't work after twelve o'clock so I don't have to be careful. But I have never been in a Coast Guard plane that I have gone into a place where there is a radio that they don't call in and say, "I am coming in in five minutes, or ten minutes, and is it all right for me to come in?"

There is a school there where they fly these planes around and for that man to come in, just because the regulations said he didn't have to ask --

Gaston: It is possible to communicate, is it, with that field?

H.M.Jr: Oh, we always do. That is the point.

Gaston: It says the ship did not establish communication with New Hackensack radio or no radio communication was received.

H.M.Jr: How could they, if he didn't ask?

Gaston: I don't know whether that means that he tried to establish it and failed. It says no radio communication was received from New Hackensack.

H.M.Jr: Of course not. If he didn't say - my plane starts talking ten minutes before, "I am coming in in ten minutes, nine minutes, or five minutes." The place is full of these little flivver planes.

Gaston: Do you want me to ask whether he attempted to establish a radio communication?

H.M.Jr: Yes.

Gaston: This is not clear.

H.M.Jr: And also the fact that he landed five minutes afterward, I think, is incorrect. I think it was less than that. I mean, he came right in on our tail. They have got this little school and the planes are there. I think he was over the field before we were. Now, if he had phoned in, you see, "Can I come in?" they would have said, "No, keep off," that my plane was coming in, "keep off".

Gaston: Well, I think he knew that. That is, he knew the time of arrival of your plane. Wasn't he watching your plane?

H.M.Jr: That I don't know. But Herbert, this has

radio and it has everything. The man has radio. A careful pilot would use it and say, "Is it clear for me to come in?" They have got those tremendous graders running right across that thing. It is under repair.

Gaston: There was an operator on duty there, wasn't there?

H.M.Jr: Oh, twenty-four hours.

Gaston: Do they have twenty-four hour service?

H.M.Jr: They have got the same sort of equipment that they have on the thing on account of it being the field that the President's messengers use. It has got complete radio service, twenty-four hours.

Gaston: Even though it is not listed as a controlled field?

H.M.Jr: That I don't know. These trucks go through there and there might just as well have been a truck crossing or a little plane or me.

Now, the fellow was over the field before I was, I am pretty sure, and then he ducked out to make room for me. Was that Burke - not Burke, what was that, the fellow in charge in New York? The pilot?

Gaston: This message does not indicate who it was. It probably was not.

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H.M.Jr: Well, anyway, my example, just because the green light stopped working after midnight on the corners doesn't mean that a fellow shouldn't watch his corners when he crossed.

Gaston: No, if he could communicate with that field, he certainly should have.

H.M.Jr: And he could. Ask if he has ever been in to that field before, because if he has, he would know that they have the latest radio telephone equipment in America there. They have got everything the last word because it is the field that the War and Navy Department use.

Gaston: I will follow that up a little more.

We had some hurricane damage last week on the Texas coast at Galveston. A radio beacon tower was destroyed.

A lifeboat station was destroyed near Galveston; two of them, in fact. We had two patrol boats driven ashore.

H.M.Jr: All right.

O.K., that is all, Herbert?

Gaston: That is all.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Sept. 27, 1941

TO Secretary Morgenthau
FROM H. D. White
Subject: Argentine Loans

Press dispatches indicate that the present attempt of the Argentine Government to get Congressional approval for the U. S. loans was at least temporarily frustrated again yesterday (September 24) as the result of a political tangle that may be connected with the abortive insurrection of Argentina's air corps personnel.

Radicals in the Chamber of Deputies apparently refused to approve the U. S. loans without assurances from the Castillo Administration respecting the forthcoming December elections in Buenos Aires Province. The National Democrats (conservatives - Castillo's party) thereupon walked out of the Chamber of Deputies. Whether the action of the Radicals was connected with Castillo's accusation that some of the insurrectionists were Radicals is not clear.

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ASSISTANT SECRETARY OF THE TREASURY

September 29, 1941.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

(1) Jim Rowe at the White House has agreed to inform me what action is taken with respect to William A. Parker, the OPM appointee who was detected in a tax fraud but not prosecuted. Approval or disapproval of these appointments is by the President personally and Rowe will tell him the substance of our memorandum.

(2) Norman Thompson is making application for an allocation from the President's Special Fund in an amount necessary to take care of the Hyde Park radio installation.

September 29, 1941
10:40 a.m.

HMJr: Hello.

William H.
McReynolds: Good morning, sir.

HMJr: I'm honored, General, I'm honored.

Mc: Well, I'm honored that you're available, sir.

HMJr: I'm always available. Easiest man in Washington to get.

Mc: Yeah. Except when there are forty people in your office, which is usually true when I get over there. Listen, the General Motors people who run this show, you know, that they had down on the lot a few years ago.....

HMJr: Yeah.

Mc:are starting a new one. They've got a lot of good stuff in it. They're in here - Charlie Lewis, who's the daddy of it - in here talking to me about whether you folks wouldn't like to run a stamp booth and bond sales booth to be run by the post offices and the various people at places where they go in connection with that, sir.

HMJr: I wrote them to that effect.

Mc: Oh, you did?

HMJr: I wrote to the fellow in - the vice-president in charge of promotion.....

Mc: Uh huh.

HMJr: Hello.

Mc: Yes.

HMJr:asking them whether they wouldn't do that.

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Mc: Well, he - Charlie is - I guess it hasn't gotten around to him yet. Well, he's the one that handles the show and runs it, and he's here in my office and is very anxious to work something of that kind out.

HMJr: Well, have you ever heard of Major-General Harold Graves?

Mc: Oh, yesh. I tried - I called for you and then I called for him and they said you had him in your office, and I thought I'd just tell you exactly.....

HMJr: Of course, Graves is always busy. He's sitting right across the way from me.

Mc: Yes. Well.....

HMJr: You send him over to see the Major-General.

Mc: Yeah. I'll send him right over.

HMJr: Okay.

Mc: Okay.

HMJr: Good-bye.

Mc: Thank you.

September 29, 1941
11:10 a.m.

RE SOCIAL SECURITY

Present: Mr. Brown
Mr. Currie
Mr. Blough
Mr. Morris
Mr. Bell
Mr. Haas
Mr. White

H.M.Jr: Well, Dan, for Heaven's sake, tell me what I am to say because at Cabinet Paul McNutt has been writing the President for a two hour conference. I think he is going to get it. Does the Treasury know which way it is going?

Bell: Well, I am not so sure whether it does or not.

H.M.Jr: Well, I don't, on this.

Bell: Well, it seems to me that this is a pretty big program. Whether this is the time to do it or not I don't know but I suppose it is as good a time as any. The one thing that worries me, I think, most - he would say two things.

First, I am not sure that they know where this is leading us in the future or whether or not it is going to pay for itself. That is on the unemployment, on the insurance end, the old age end. But on the direct assistance end it worries me a little to start that scheme at this time and just up

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the budget and it is something that you will never get out and in the future you will increase it substantially and you will probably have WPA and everything else to boot.

- H.M.Jr: Well, may I just interrupt? There is one thing interesting. I said to Paul McNutt, "If you don't mind my saying it, the trouble with you fellows is, you haven't given the fiscal aspect of this thing any consideration." He says, "You are right", which interested me. He says, "You are right. We haven't", which is encouraging.
- Bell: Well, now, Altmeyer doesn't want to emphasize the fiscal side of this at all in going to Congress. They want to put it on a strictly Social Security basis.
- H.M.Jr: He can't get away from it, whether he likes it or not.
- Bell: I think most of us feel just the other way. We think the President at least - we don't care what the Board does in its report - but the President in sending it up with a message really ought to have strongly emphasized the fiscal needs at this time.
- H.M.Jr: Yes. Well, here is the point. I have traveled this far. I am ready to go along with increased unemployment insurance. Now, just what does that mean in terms of percentage? What have you got to do?
- Brown: Well --
- H.M.Jr: What do they want to do, increase it from what to what?
- Brown: They want to lengthen the benefit period and

shorten the waiting period and they want it Federalized.

H.M.Jr: That Federalized business, I haven't studied that. I don't know what that means.

Brown: That in the long run will save in that the reserves will be available for unemployment in any area of the country, whereas now we are building up pockets of reserve that are useless in one state or against another.

S.M.Jr: Have you met Mr. Morris, Professor Brown?

Brown: Yes.

So that it is more economical in the long run. You get your dollars worth more to have a central reserve available for any heavy lay-off area.

Bell: I think the most of us in the Treasury are definitely in favor of Federalizing the unemployment insurance.

H.M.Jr: Who isn't?

Bell: I don't know but I was talking about Treasury only.

Blough: There will be certain members of Congress who will be definitely against it.

H.M.Jr: I don't know, but I take it the Senator from Arkansas would be opposed to it. What? I mean, the poor states.

Brown: Well, they may be helped by it.

White: The poor states will like it.

- Blough: Politicians won't like it.
- H.M.Jr: Where will New York be?
- Brown: That depends on what will happen to them after the defense program and if they are scared at all as to the drains on their funds in their state, like Michigan, they intend to come along because they will be part of the over-all insurance scheme.
- Bell: The politicians might be against it because it takes some of these state appointments out of their hands.
- Blough: For instance, the appropriation bill for the Social Security Board gave them the right to spend the money in direct administration under some circumstances in the states. The Senate Finance and Ways and Means Committee members were up in arms about that because they, in all legislation heretofore, have tried to protect the state control over unemployment compensation. I think some resistance will certainly be met there.
- White: The people in Social Security feel that that is, and they have felt for some time, one of the most essential reforms.
- Bell: I think so.
- White: In the whole Security program, the Federalization of unemployment insurance.
- Currie: Both the C.I.O. and A.F. of L. are on record as favoring it.
- H.M.Jr: How about the juke box operators?
- Currie: That I haven't gone into.

- H.M.Jr: It is very important.
- Currie: I know it is. I am sorry, I slipped on it. (Laughter).
- Blough: In answer to your question, they proposed a one percent increase in the tax for that purpose.
- H.M.Jr: One percent?
- Bell: It goes from three to four.
- H.M.Jr: How is that paid now, how much - fifty-fifty, is it?
- Blough: It is now all paid by the employer.
- Brown: Except in a few states.
- H.M.Jr: It is all paid by the employer?
- Blough: Yes.
- Brown: There are about five or six states that have employee contributions, but that is entirely a state action.
- H.M.Jr: It is all paid by the employer?
- Brown: That was partly due to the fact that quite an employer group were willing to go along on that on account of merit rating. They were hoping that if they paid this three, as merit rating took effect they would drop down to two or one.
- Blough: Which is what is happening.
- H.M.Jr: I don't understand.
- Brown: There was an idea developing in Wisconsin that

you could cure a lot of this unemployment if the employer would really stabilize and the way to get an incentive was to charge them three percent in the first instance, then if he stabilized, he would get a lower rate. I know practically all students of social insurance are against that because it tends to lower standards in the whole system. A good many of the people --

H.M.Jr: What do you call it, the merit?

Brown: Merit rating. Experience rating is another word for it.

Blough: The employer doesn't have any unemployment or very little unemployment -- if he doesn't, they cut his tax rate.

H.M.Jr: Well, now, they increase it from three to four on the employer.

Blough: They propose an over-all scheme, an over-all system in which the total tax would be increased from five to ten and whereas now the employer pays four and the employee pays one, they wind up with the employer paying five and the worker paying five.

H.M.Jr: Oh --

Bell: That includes old age.

Blough: Which would mean that in effect this additional one percent for unemployment insurance would be on the worker instead of the employer, although they might not so recognize it in the law.

H.M.Jr: Well, I have just got to go step by step. I

mean, let's say we - for the moment we will say we are for increasing the unemployment insurance by one percent, which, as I remember it, would bring in to the Treasury five or six hundred million dollars more, what is that figure?

Well: No, I don't think it is that much, is it, Roy?

Blough: Well, with the extended coverage and somewhat an improvement in business conditions they expected seven hundred million dollars more.

Bell: Just from that one percent?

H.M.Jr: No.

Blough: Yes.

H.M.Jr: I thought we went over - in taking out business improvement I thought it came back to five hundred million dollars.

Blough: That is quite true if you take out business improvement.

H.M.Jr: That is what you told me the last time we met. Taking out the normal increase would come anyway - by increasing it one percent would mean five or six hundred million.

Blough: One percent wouldn't do it but that plus the extended coverage is expected to do it.

H.M.Jr: That is right. Now what is the extended coverage?

Blough: They propose to extend the coverage. Their

statement is a little vague. They propose to extend it to all employees except Government employees and agricultural workers and domestic servants. That means not a very broad extension of coverage. But they intend also to cut down the waiting period for workers that are covered. That is not on the tax side.

H.M. Jr: Who were they going to extend it to, again?

Blough: They were vague in their statement and I am not sure just what groups would be involved there. Are you sure what groups they would have?

Brown: One group is the less than eight. The law as it now stands covers only eight or more employees by a given employer. Some states have it four or more. But the idea would be to have the Federal law go down to one or more, just like old age insurance. That would add a considerable number to coverage.

Blough: About three million, they expect.

H.M. Jr: Going down to one?

Brown: One or more employees by a given employer. You see, when the act was first passed they thought the administrative problems would be so much greater on those small employers, but they are finding in the case of old age insurance that they can cover them pretty well.

White: Who would be excluded - what workers would be excluded?

H.M. Jr: If you get down to one who would be excluded.

Brown: It would be a category exclusion. That is,

if they cut out domestic servants or farm labor, but in any industry normally covered, they go down to one.

- White: I understood from Roy that they were going to include servants and agricultural workers.
- Blough: No, exclude them. Everybody except those.
- White: I see.
- H.M. Jr: Well now, let me see. As I understand it, they are going to take everybody when they say one or more; that is everybody.
- Brown: In the covered industries.
- H.M. Jr: What about agriculture?
- Brown: It is my understanding that they still want to exclude farmer labor and domestics under unemployment insurance but cover them under old age and disability insurance.
- H.M. Jr: But we are only talking about unemployment. They are going to exclude them on that?
- Brown: That is my understanding.
- H.M. Jr: How about domestic servants?
- Brown: It is my understanding that they would exclude them. That is a difficult administrative problem.
- H.M. Jr: It still means that I wouldn't have to pay any unemployment insurance. They take mighty good care of us farmers up on the Hill, don't they?
- Brown: They expect you to hire them all the year round, in good times and bad.

H.M.Jr: Well, let me just say this. I mean, Dan, put down as number one that we will go along, shall we say, with the increasing of the unemployment insurance.

White: And the Federalization.

H.M.Jr: And that. Do we want to do much more than that at this time?

White: Old age.

Brown: Sir, I think it is an extremely critical time to broaden the Social Security program generally.

H.M.Jr: I know. I wrote that letter which was written for me. I wrote a beautiful letter. But I have got to go in there - I mean, Miss Perkins and Paul McNutt are just going to be on me with - I mean, I will be the whipping boy in that meeting. It will be a beautiful time.

Brown: Mr. Secretary, what I would say --

H.M.Jr: Are you going to that meeting with anybody?

Brown: No, sir.

H.M.Jr: Will you go as my assistant?

Brown: I will be glad to, sir.

H.M.Jr: I would like you to go.

Brown: The point I was going to make was that in any expansion of Social Security it should be on the basis of a - what can be done as a permanent proposition. That is, the fiscal side of it must be considered as a continuing cost and not merely as intake at this time.

H.M.Jr: Well, does the old age work to the Treasury's benefit?

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- Brown: Yes, sir, to put it this way, to the extent that you have the intake from the people now under sixty-five being considerably larger than those over sixty-five - I don't know what the figures are, Roy.
- Elough: You mean the expansion of coverage?
- Brown: Yes.
- White: There is a net acquisition.
- H.M.Jr: Just to interrupt for one minute to keep from getting too serious, the funny thing which happened, which nobody can explain, the National Townsend Club - I think that is what they call them, they are all writing in for copies of my Boston speech. When I say "all", great numbers of the Townsend Club want copies of my Boston speech, and nobody can understand why. Isn't that amazing?
- Brown: Well, they want expansion of Social Security their way, which would be an extremely costly way.
- H.V.Jr: You think it is what I said on Social Security that they want?
- Brown: Yes.
- H.M.Jr: I was hoping they were interested in the cost of living. (Laughter).
- Brown: Those fellows are only interested in one thing.
- White: They are, but they don't need the speech for that. They still have to buy.

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- H.M.Jr: Well, again, give me what is the old age thing now. Just what happens now?
- Brown: Well, the old age now is limited to these things, to the protection of persons over sixty-five by annuity.
- H.M.Jr: Over sixty-five?
- Brown: Over sixty-five. That is, including the man himself, his wife, if she is over sixty-five, his widow, when she becomes sixty-five long after his death. Then a very small outlay with dependent parents that doesn't amount to much. Now, what they suggest is first, that women be brought down to sixty, because the usual thing is that a man's wife is younger than himself. It covers up a blind spot where there are a lot of wives who go two or three years after their husbands go on annuity before they can go on annuity.
- Then there is the protection of the permanent and totally disabled that was recommended by the Advisory Council two or three years ago with the question on timing. There was a split on timing. But I think the whole Council and others felt that it was due in time.
- Bell: Then there is additional coverage?
- Brown: Yes, sir.
- White: Do you have an estimate of what that would bring in, net?
- Bell: 1942, they claim three billion two over payments.

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H.M.Jr: You have got to go a little slower with me. How is it set up and who makes the contributions the way it is now?

Brown: Well, as it is now, it is one and one. One from the employer, one from the employee.

H.M.Jr: One and one.

Brown: And you remember it was due to go up in '40. That was held back. It is now to go up in '48 to two and two, two from the employer and two from the employee.

H.M.Jr: In '40?

Brown: January 1, '48. Now, the benefits they propose additional to the present are, first, the permanent and the total disability feature that was considered back two years ago. There was a recommendation in principle from the Advisory Council and most people favored it in principle. It was a question of timing. Personally, it seems to me an appropriate time to make that addition. Now, the reduction of the retirement age for women is a thing which experience has shown to be necessary.

H.M.Jr: It is how much now, the tax?

Brown: The tax is one and one.

H.M.Jr: And you are proposing to make it two and two?

Brown: Their suggestion is to bring that up to next January.

H.M.Jr: In other words, advance it a year.

Brown: Yes.

H.M.Jr: And reduce women's age from sixty-five to sixty?

Brown: To sixty, and add various classes like agricultural labor, domestics, non-profits, and so on.

H.M.Jr: Let's see. Right now the employer for unemployment --

Brown: Pays three.

H.M.Jr: Pays three.

Brown: Yes.

H.M.Jr: And they are suggesting an increase of one?

Brown: Yes.

H.M.Jr: And then for old age we are suggesting - he is paying now?

Brown: Jumping to two and two, two on the employer --

H.M.Jr: He is paying two now?

Brown: One now. It would be a jump to two.

H.M.Jr: He is paying one now?

Brown: Yes.

H.M.Jr: And we are suggesting an increase of --

Brown: One to two.

H.M.Jr: One plus one.

Brown: Now, however, they are making their recommendation as an over-all set of percentages. That is sort of breaking it down a bit artificially.

H.M.Jr: Well, I just wanted - an employee on unemployment is paying --

Brown: Nothing, in most states.

H.M.Jr: Zero. And on old age he is paying --

Brown: One now.

H.M.Jr: And it is suggested that he pay --

Brown: Two. That is breaking it apart. They, however, have it bundled together in a five and five, but you include certain other things.

H.M.Jr: But if you stopped right there, it would be as six to two.

Brown: Yes, six to two.

Currie: Unless you add on that additional one per cent of unemployment insurance to the employee instead of the employer.

Brown: It would be five to three then.

Flough: Which you would certainly have to do if the five - five is going to come out.

H.M.Jr: Is that in the works?

Currie: It can be put in the works. It is rather difficult, as Brown says, to break it down, because they have got it all in one bundle, five - five, covering a whole lot of things.

Flough: They want an insurance system that throws everything into one pot, five per cent from the employer and five per cent from the employee. We are trying to break the pot down, you might say.

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White: But it does mean that up to date the employer has paid four.

Blough: That is right.

White: And under this new scheme he will pay one more. Under the old scheme the wage earner pays only one. Under the new scheme he will go from one to five.

Blough: You mean for the whole works?

White: Yes.

Bell: If you combine them.

H.M.Jr: That is pretty tough.

White: It is a very big increase. You have got to be a little bit self interested in this thing. If you go to the employee from one to five and then come along and say you want to set aside some of his things for savings, will this take - will this replace our volunteer payroll deduction plan?

Brown: One --

White: He is paying four per cent more out of his wages than he did before.

Brown: One way it could be done is to add the extra one on the employee. That makes unemployment insurance three and one, giving the employee, however, a lot longer protection when he is unemployed. Then have the old age insurance two and two, two on the employer, two on the employee. That makes the over-all five and three.

H.M.Jr: Now, wait a minute. I have got old age two and two.

- White: but it does mean that up to date the employer has paid four.
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- H.W.Jer: Now, wait a minute. I have got old age two and two.

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Brown: That is right.

H.M.Jr: Under the new proposal. Employer, four under unemployment insurance and employee nothing.

Brown: Well, shift that to three and one. That will give you a total of five and three.

H.M.Jr: Shift that to three and one, which would give you five and three. That would be more equitable, wouldn't it?

White: So that the employer would not be paying any more, but the employee would be paying two per cent more.

Currie: The employer would be paying one more.

White: No, he is paying four and one now.

Bell: No, he is paying three and one. He would pay three and two.

H.M.Jr: At the present time he is paying four. You told me three for unemployment and one for old age.

White: That is four.

H.M.Jr: And you are upping him one.

White: You would up him to five, and you would up the other from one to three.

Haas: Then you would leave out, Doug, the --

Brown: I was just taking this so far. Personally, I feel that in order to get an all-round program, as much as you can afford now, and to at the same time convince the employee of his interest in adding to the contributions from his side, that you need to push a bit into some of these other things. Now, personally,

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I haven't had sufficient time to study this hospital business, as to - how it is sound to go now, but that is a thing which has been in the woods for a long time. The idea is to take only the easy part, that is, the actual cash reimbursement from the hospital side and then a cash disability benefit, leaving out the medical care in the home. The hard part has always been in health insurance, the medical care in the home.

- H.M.Jr: But supposing you just stopped here for this year. This would be quite a step forward, wouldn't it, for one year?
- Currie: How much more revenue would you get from those two steps?
- H.M.Jr: Wouldn't it be quite a step forward?
- Bell: Are you talking now about the six and the two, Mr. Secretary?
- H.M.Jr: I am talking of - the way he put it, five and three, as opposed to four and one.
- Bell: Well, that leaves out the hospitalization, I take it.
- Flough: You would have nearly two billion dollars increased revenue, between a billion seven hundred fifty and two billion dollars revenue from these two steps.
- H.M.Jr: Say it again.
- Flough: You would have in the neighborhood of two billion dollars of increased revenue annually during the good years from these two steps of increasing the unemployment insurance and increasing the old age insurance.

- Currier: That is quite a lot.
- H.M.Jr: Don't you think so?
- White: That will be all the income the first year?
- Currier: Yes.
- Blough: Practically all.
- Currier: I think it is too much.
- H.M.Jr: But it is - I mean, you have got to remember this thing. I mean, I want to be understood by my own people and the people that come in to help me. I have always made a statement. I am saying this for the benefit of everybody in this room. If you try to ride two horses, the one the profit system and the other the State Socialism at the same time, you are going to fall between them, and you have got to do this thing gradually. Otherwise, it is just going to ruin the profits system and after all, that is the way we are running the Government. We have got to collect the profits. I think a thing like this - this is a considerable step forward.
- Blough: May I point out that the one and one for old age is in a sense making up for the action in 1939 of postponing the increase.
- White: For fiscal reasons. It was postponed for fiscal reasons. This is the logical time.
- Blough: And it is being made up now for fiscal reasons.
- Bell: It is right along the line that you are talking about to control inflation.
- H.M.Jr: Oh, yes.

Bell: This whole Social Security picture.

H.M.Jr: This would all be good from a standpoint of mopping up money for inflation.

Bell: Very good.

Blough: In other words, the one and one for old age is just what would happen in 1943, anyway, and in a sense is offsetting what was done in 1939.

White: In other words, the reasons that led us to postpone it in 1939 should be the very reasons which should cause us to impose it now.

Blough: So that in effect, all this would be doing aside from speeding that up for the reasons stated, would be adding one per cent for unemployment insurance on to the worker, which isn't quite as violent perhaps as it looks.

Currier: It would take care of the heavy load to be expected in the post-war period.

H.V.Jr: That is right. That is what I had in mind.

Currier: That is a justification for both halves of the program.

Bell: This is the kind of money that would go out very fast. First on your unemployment and then you will have a lot of people who will retire when this is over, who are now working. Those will go up very rapidly.

H.M.Jr: By dropping it from sixty-five to sixty?

Brown: That is just for women. It will cost a tremendous lot.

H.M.Jr: You mean it is unfair to have it at sixty-five?

Brown: You see, women, by and large, the wife is younger than her husband and this puts them both on retirement about the same time, whereas under the present system the wife may have to wait two or three years before she is sixty-five and goes on retirement.

Bell: Is it proposed, Roy, to increase it up to ten per cent immediately if the whole system goes in as one or is that --

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- Blough: If this whole thing went in, it would increase it to ten percent immediately, and eventually it would get as high as--
- Bell: Twelve?
- Blough: Twelve.
- White: The remaining two percent would not yield an equivalent amount, would it, because some of them would be out-payments at once?
- Blough: It would probably come at a time when out-payments were heavy.
- Bell: That comes in '46, doesn't it?
- Blough: Part of it in '46 and part in '49.
- Brown: That two percent would be for hospital benefits and disabilities.
- White: Then the net would not be as fruitful as the other, and therefore it is a Social Security proposition and not a fiscal proposition.
- Brown: People get sick any time in life.
- Blough: They probably get a little sicker during depressions.
- White: That still leaves, it seems to me, a reasonable room for demanding some additional contributions, voluntary or otherwise, because two percent out of a salary is not - that is all that would be two percent under this arrangement. It should not exclude any further demands.
- Currie: Three percent altogether.
- Blough: Two percent added to the present one.

Currie: Yes.

Blough: Then the remaining question would be: Do you want as a part of the Social Security program hospital benefits and temporary disability now with another two percent?

Hall: But if you put in the whole program and then your employee contribution is increased by four percent - from four to five - from one to five.

Blough: It is increased three hundred percent.

Hall: That is right.

White: From a fiscal point of view, I suppose we should be opposed to that additional. It would be merely an expenditure. You collect it and spend it; if your idea is to divert some of that purchasing power which the employee has, you would prefer to have him either invest it in bonds - either voluntarily or by forced savings. From a social point of view, there are the same reasons for it as there ever were. From a fiscal point of view, there is less reason for it this year than there has been in the past or may be in the future.

Hewson: Well, let's put it this way, that the two percent for temporary disability, cash benefits and hospital is almost a pure social insurance question because the in-movement and out-movement of funds would be almost gratuitous from a fiscal point of view. There might be some additional outlay in time of depression because people would take advantage of it, but by and large it would be determined by the health of people rather than by any business conditions.

Hall: There would be some intake during good times over expenditures.

Brown: That is right. They would rather work than take their benefits.

Carrie: Now, there are two things when you are looking at it from the point of view of benefits. What we are proposing now is that on the unemployment insurance they get longer and larger benefits. On the old age, not only this point about the women, but in addition it would cover permanent disability, wouldn't it?

Brown: The two and two.

Carrie: That is a pretty bad gap in the law now, Mr. Secretary. When a man becomes totally disabled at forty or forty-five he gets nothing at all until he is sixty-five. Then he qualifies for an old-age pension. I think we ought to classify permanent disability as a loss of earning power equivalent to old age.

H.M.Jr: I would kind of like to stop here on the theory that this is a pretty big bite of the apple, you see, and then let the other people argue why they should go further. What?

Brown: If--

White: I think that is the thing to do. You have but one argument to oppose their going further. I don't know how much you would want to weight it. That is, that they are taking away two additional percent from the worker even though he gets it right back in a sense in social insurance at this time may make it more difficult in any future plans, severance wage or any other type of saving. That is the one argument against it, but

aside from that one argument, I think you are quite right, it is wholly a matter for social insurance. It has no fiscal--

Brown: The two and two though does include permanent disability in their figures. So I mean you could move to that and add that as a benefit side which has been accepted. I mean the Advisory Council, going back to that - I don't want to overemphasize their decision, but it represents employers and labor and public. They did accept that unanimously in principle and the division was only on timing. As to whether we have come to that time, if two to two will finance it, as they said--

H.M.Jr: What I would like you to do is to write me up a little statement of the pros and cons, why, from the Treasury standpoint, we should go so far, you see, Brown.

Brown: Yes.

H.M.Jr: And if you could get it over to me the first thing tomorrow morning, you see. Would you do that?

Brown: Do you want me or Mr. Blough to do it?

H.M.Jr: " No, Blough is on another matter for me. He is all tied up. Then he goes home tonight. He is on holiday. You might not know it. But he has got something else he is working on, so I am going to ask you to do it.

Brown: All right.

Blough: You don't have anything else to do.

H.M.Jr: When you send it over, to be sure it doesn't go through the whole Treasury, mark it for

Mrs. Klotz, will you? You know, K-l-o-t-z?

Brown: I am just wondering, Mr. Secretary, if we could do it justice with the troubles over there, but I will do my best.

H.M.Jr: Have you got troubles over there?

Brown: Oh, lots of them.

H.M.Jr: Well, would you try? Is that asking too much of you?

Brown: I never like to say that much. I just wanted to be sure it is a worthy effort.

Bell: Probably the time isn't enough. He has got his own problems over there. Give him another day.

H.M.Jr: Well, I will give him another day provided that--

Bell: That the President doesn't call.

H.M.Jr: Yes. Let me find out from Watson if I can.

Currie: Watson is not here today.

H.M.Jr: Well, they would know.

Currie: He is away today.

H.M.Jr: You mean--

Currie: I mean the President is not there.

H.M.Jr: You mean this is the - well, it would be the reverse. This is his usual day. (Laughter)

Brown: Would it be all right, sir, if it were done over here, and I will come over here this afternoon late or this evening

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and whatever is necessary we can go over it?

H.M.Jr: Sure. Can you make a deal with him, Hoy?

Blough: We can fix it up.

H.M.Jr: You made a deal with him?

Blough: Yes.

H.M.Jr: O. K. I want something to read with an argument, you see, so that I can say, "We feel that one bite out of this cherry is a pretty big bite, and it will increase taxes and everything else, so we don't want to give these fellows indigestion." Then next year you can do something else.

Blough: Well, on the public assistance, do you want to rather frown on that at this time?

H.M.Jr: Oh, I think this is enough. This is enormous.

Brown: Well, the one thing on the public assistance side is the old-age assistance, and what the fear has been is that the Townsend boys, if some of these poorer states don't get a better due out of old-age assistance, will go whole hog for Townsend.

H.M.Jr: Now look. I have listened to Agriculture - well, I don't want to mention any names, but somebody over there that tried to scare me by telling they were going to ask the veto of the President on the freezing of the cotton. I told them they were crazy because I knew they couldn't. On that particular thing, I mean, they used these arguments. I don't believe in these times that the Townsend people have got the influence, and it is not an election year anyway. I may be wrong, but I just don't think the people

are interested today in what the people have particularly to say. Right?

Currie: Yes.

H.M.Jr: So I mean, they are always - I mean, somebody in Cabinet on WPA. Well, this would interest you. I guess they are going to have to begin to build up the WPA rolls to solve the transitional thing on the lay-off in automobiles and so forth. Now, they haven't got the ingenuity to say, "Here are three hundred thousand employees, and we are going to make Fischer and General Motors use them on national defense because they have got to use them," but instead of that they say, "We will put them on WPA." Now, I think it is terrible. Not that I am worried about the increase of money, because they haven't got the brains to find a place to put these people to work to make munitions of war. That is where they should go to work, not on WPA. Am I not not right?

Currie: That is right.

H.M.Jr: Well, I know there are places that they could put them to work if they weren't so damn mentally lazy or more serious than that. So I mean you get - all I am saying is, we, here in the Treasury, all the time have pressure on us. That is all. Don't misunderstand me. It is always Townsend, agricultural bloc, soldiers' bonus. It is always something. Silver bloc.

Witte: We don't give in to any of them. (Laughter)

Brown: On the part of unemployment--

H.M.Jr: Harry is feeling wonderful. We will not in an off election year, Harry.

White: No.

H.W.Jr: That makes a lot of difference. (Laughter)
After all, Roosevelt isn't running again,
so we can pick up courage.

Bell: Is that a statement of fact? Is that an
Administration statement?

H.W.Jr: I was with him for the fifth time when he made his
swing through Dutchess, Orange, and Ulster
Counties. For the fifth time I have ridden
with him on election night on that swing
that he makes. In every single place he
spoke, and he talked about eight or ten
times, he said, "Gentlemen, this is the last
time I will appear before you as a candidate."
He says, "I may run some day for sheriff,
but that is as high as I want to go." He
says, "This is the last time I will ever
make this trip," and everybody had tears in
their eyes, including myself. And if ever
a man meant it, he meant that. But I heard
him say that ten or eleven times on election
eve, and I believed it.

Bell: I think he hated to run this time.

H.W.Jr: I know darn well he did. Just like I hated
to come back, too.

Fix me up something, will you?

Bell: Well, I think of the whole program the public
assistance is the one that I am worried
about, because it is a new field to them.
They are getting over into WPA fields, and
I think there will be a clash there of
personalities. I am talking about the
direct relief. I don't think they have
threshed that out within the departmental
area yet officially.

Brown:

Well, I might say this: I opposed right along this variable grant to the states on old-age assistance. I testified against it two different times up on the Hill, and finally the only reason that I have weakened on the variable grants to some of these states is, when you look at the low level of benefits - that is, assistance, that they get and then see the way they are swinging on an all-out gravy train proposition, if there is some connection you hate to concede it, but it does seem that Townsend is going good in these backward states where old-age assistance is pretty low.

A.M. Jr:

Well, I have had enough for today unless somebody wants to dissent.

Bell:

I hope they don't start it on a big program, and then get all the benefits and no taxes. That is what I am afraid of, too. I think the President has got to tie them up in his message.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 29, 1941

TO Secretary Morgenthau

FROM Mr. Hass *[Signature]*

A slight decline of 2,000 brought Work Projects Administration employment to 1,035,000 persons during the week ended September 17, 1941.

Attachments

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WORK PROJECTS ADMINISTRATION
Number of Workers Employed - Weekly
United States

| Week ending 1941 | Number of Workers (In thousands) |
|---------------------|-------------------------------------|
| February 5 | 1,892 |
| February 12 | 1,893 |
| February 19 | 1,885 |
| February 26 | 1,867 |
| March 5 | 1,806 |
| March 12 | 1,764 |
| March 19 | 1,736 |
| March 26 | 1,708 |
| April 2 | 1,662 |
| April 9 | 1,634 |
| April 16 | 1,607 |
| April 23 | 1,586 |
| April 30 | 1,560 |
| May 7 | 1,519 |
| May 14 | 1,497 |
| May 21 | 1,474 |
| May 28 | 1,464 |
| June 4 | 1,442 |
| June 11 | 1,423 |
| June 18 | 1,410 |
| June 25 | 1,368 |
| July 2 | 1,172 |
| July 9 | 1,030 |
| July 16 | 1,016 |
| July 23 | 1,025 |
| July 30 | 1,036 |
| August 6 | 1,041 |
| August 13 | 1,042 |
| August 20 | 1,043 |
| August 27 | 1,045 |
| September 3 | 1,043 |
| September 10 | 1,037 |
| September 17 | 1,035 |

Source: Work Projects Administration.

WORK PROJECTS ADMINISTRATION
 Number of Workers Employed - Monthly
 United States

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

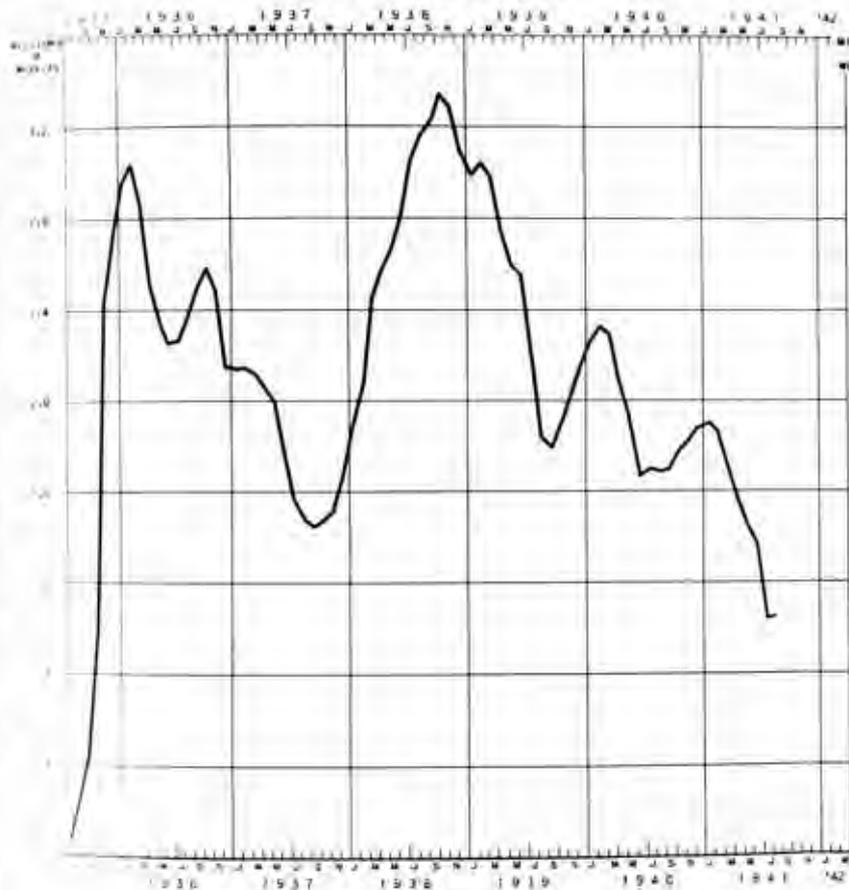
Sources: Work Projects Administration

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

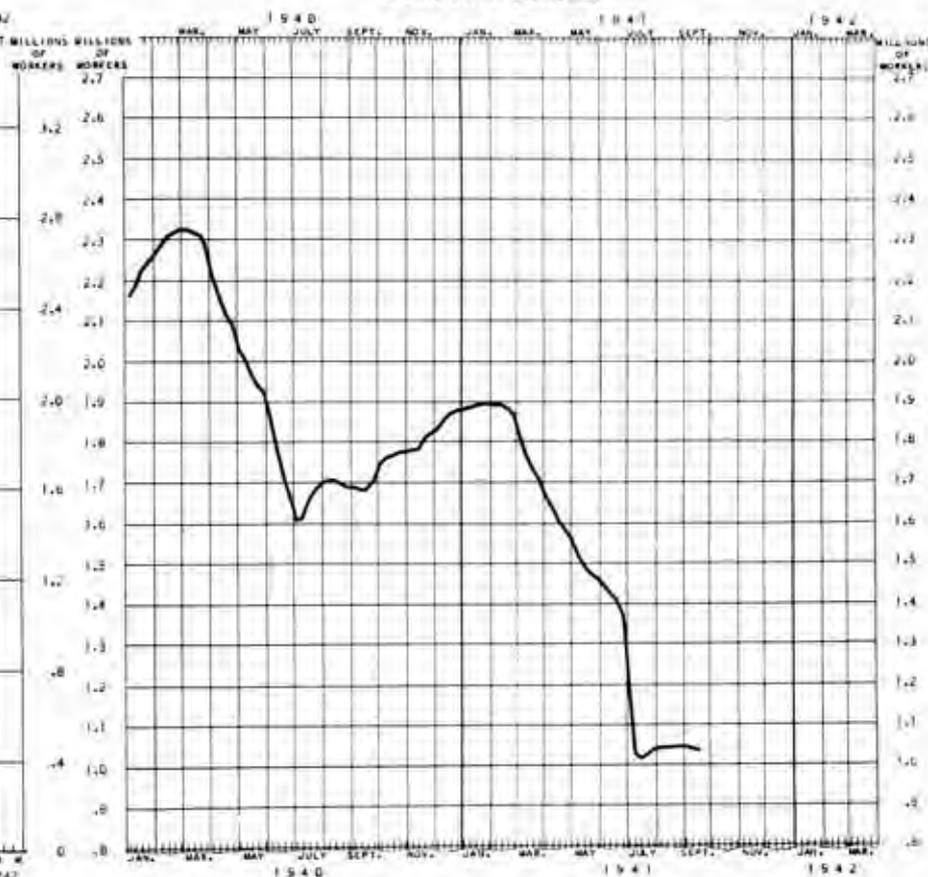
They include certified and noncertified workers.

WORK PROJECTS ADMINISTRATION
Number of Workers Employed
United States

Monthly W.P.A. Employment



Weekly W.P.A. Employment



SOURCE: WORK PROJECTS ADMINISTRATION

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE September 29, 1941

TO Secretary Morgenthau
FROM Mr. Hagg
SUBJECT: The Business Situation,
Week ending September 27, 1941

Summary

(1) Expansion in business activity during the current month may fall slightly short of the usual seasonal proportions. The New York Times weekly business index thus far in September has shown an average decline of 1.4 points, or about 1 percent, from August levels.

(2) Rural chain store and mail order retail sales last month, seasonally adjusted, fully matched the unusually sharp spurt shown by department store sales. Variety store sales also rose substantially above previous record high levels after allowance for seasonal factors. There is evidence, however, that these sharp increases have been due in part to over-buying in advance of the effective date on the new excise taxes, and to inflation fears, hence a reactionary tendency may be seen in later months.

(3) New orders for steel during the current month have fallen noticeably below August levels, probably reflecting a decline in civilian orders following the application of full-priorities regulations. The OPA has amended the price schedule on steel scrap to a limited extent in order to facilitate the collection of scrap in remote areas of the country.

(4) Due to declines in prices for farm products and foods, the BLS all-commodity index declined 0.1 point to 91.5 in the week ended September 20. Cotton prices declined further last week, but wheat prices were firm despite the publication of a report near the end of the week forecasting a record domestic carryover of wheat next July.

(5) Increased exports of agricultural products contributed importantly to a rise in exports of United States merchandise in July, which ran 8 percent above the previous month. Exports of meat products and lard continued to rise sharply.

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Business rise moderating

Evidence continues to accumulate that business expansion during the current month may fall slightly short of usual seasonal expectations. As a result of a decline of 1.9 points to 128.3 during the third week in September, the New York Times index of business activity in the week mentioned stood more than 2 points below the average level of the previous month. (See Chart 1.) This decline was somewhat offset by a fractional rise in Barron's index of business activity, which advanced 0.7 point to 138.4 in the same week. However, despite two successive small gains, Barron's index is still a trifle below last month's average level.

A dominant factor in the failure of weekly business indexes to make a stronger showing recently has been the less than seasonal rise in freight carloadings. The contra-seasonal decline of 6,000 cars during the week ended September 20 was due to the falling off in coal loadings as a result of labor troubles. Nevertheless, freight traffic for some weeks has been showing signs of failing to fulfill earlier expectations. Reference to Chart 2, will disclose that total loadings in recent weeks have been hovering around late-June levels, whereas the normal rise by the third week in September is nearly 10 percent. A somewhat stronger showing, however, has been made by miscellaneous and l.c.l. freight which have risen to a new high for the year. (Refer to Chart 2.)

Scope of August retail trade boom

The widespread scope of the August boom in retail trade is strikingly revealed by additional figures which have become available, showing that rural chain store and mail order sales have fully matched the sharp gains previously reported by department stores. Variety store sales also rose substantially and sales for all three branches of retail trade, after allowance for seasonal factors, soared substantially above previous record highs. (See Chart 3.)

The very sharpness of the gains indicates that, in addition to the underlying upswing in consumer purchasing power, other factors of a transitory character contributed to the buying splurge. These appear to have been principally (1) the fears of shortages of many products, touched off by the frantic buying of such items as silk stockings, (2) heavy buying to anticipate the October 1 increase in excise taxes, and (3) attempts to anticipate the curb on installment buying.

Thus, in reporting a gain in August furniture sales of 40 percent over year-earlier levels, the National Retail Furniture Association states that a particularly sharp increase occurred in the last two weeks in August just before the installment credit curbs became effective.

September retail sales slacken

A natural result of the August trade rise is that some business -- perhaps a considerable volume -- has been borrowed from succeeding periods, and this appears to be borne out by current trade reports. Thus, furniture sales are now reported to be showing only minor gains over year-earlier levels, while department store sales gains have narrowed down considerably. During the week ended September 20, department store sales showed a gain of 12 percent over year-earlier levels as compared with a gain of 8 percent in the previous week and 32 percent in August. However, as the October 1 effective date of new excise tax levies approaches, some additional anticipatory buying is undoubtedly going on, and further borrowing from future business volume is in progress.

Steel orders decline

New orders for steel during the current month have shown a noticeable decline, with trade sources reporting incoming business to be running from 30 to 45 percent below August levels. This probably reflects a falling off in civilian orders following the application of full priorities. New orders booked by the U. S. Steel Corporation in the week ended September 18, fell 15 percent to 89 percent of capacity, the lowest level touched thus far this year. Nevertheless, despite this decline in new business, the Iron Age asserts that consumers requiring steel for non-essential uses can expect little or no steel for a while at least.

At the beginning of the week miners returned to work at the captive coal mines of the steel industry, and by Tuesday nearly all of the plants which had been affected by recent sporadic work stoppages were again operating normally. However, at the end of the week a strike of 17,000 workers broke out in the Birmingham steel mills, which was settled on Sunday except for one group of 500 blast furnace workers. Steel operations last week were scheduled at 96.8 percent of capacity -- an increase of 0.7 point over the previous week. Operations during the current week are scheduled at 96.9 percent of capacity.

Steel scrap price schedule amended

As a step toward alleviating the serious shortage of steel scrap, near the end of the week the OPA amended its price

schedule to facilitate the flow of scrap from certain remote areas to consuming centers. The amendment, which expires December 31, permits higher prices for scrap and increased transportation allowances in Florida and certain western states. This action was characterized as experimental, and is intended to move scrap from remote areas before winter weather slows up scrap collection. Steel industry officials have been concerned for some time over the industry's inability to make the usual headway in building up steel scrap stock piles before the advent of winter weather.

New orders index declines

Due to the decrease in new orders for steel to the lowest levels of the year, our index of new orders for the third week in September declined 3 percent. (See Chart 4.) Textile orders and new bookings in other industries on the whole showed gains, but they were insufficient to offset the drop in steel orders.

BLS all-commodity index declines slightly

The extended rise in the BLS all-commodity index of wholesale prices (nearly 900 commodities) was temporarily halted during the week ended September 20. Due entirely to declines in farm products and foods, the index during that week decreased 0.1 point to 91.5. In addition to the 2 major commodity groups that declined, 2 others were unchanged during the week, while the remaining 6 major groups continued to rise.

Basic commodity prices level off

Prices of basic commodities show a levelling-out tendency for the second successive week. (See Chart 5.) Due to a slight decline in the price index for domestic commodities, which more than offset a slight rise in import commodities, the BLS index of 28 basic commodities showed a fractional decline in the week ended September 26.

A dominant factor in the decline in domestic commodity prices was the weakening of cotton prices early in the week, attributed in part to hedge selling and mill liquidation. Wheat prices were steady, and at the close of the week futures displayed a slight firming tendency, but the market showed a lack of the enthusiastic buying seen early in the month. Near the end of the week the Department of Agriculture reported that the estimated domestic carryover of wheat stocks on July 1, 1948, would rise to a new record of no less than 650,000,000 bushels -- or 260,000,000 bushels above the carryover on July 1 of this year.

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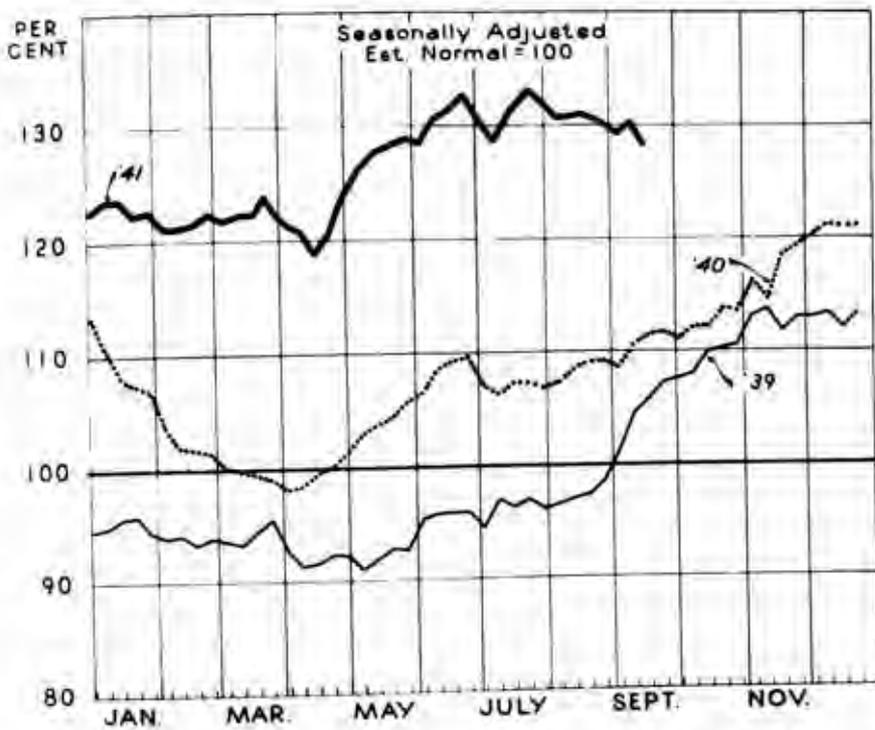
Agricultural exports feature July export gain

Due largely to substantial gains in shipments of agricultural products, firearms and ammunition, exports of United States merchandise in July rose 8 percent above the previous month to a total of \$349,000,000. Exports of meat products and lard continued to rise sharply, while tobacco and dairy products also showed good gains. As a result, agricultural exports for the month reached the highest levels since March 1940. (See Chart 6.)

Non-agricultural exports rose 3 percent above the previous month as a result of a very sharp gain in shipments of firearms and ammunition to a total of \$20,000,000. Exports of machinery and iron and steel remained virtually unchanged, but aircraft exports expanded moderately to a total of \$43,000,000. (Refer to Chart 6.)

The Department of Commerce, in releasing the foreign trade figures for July, again indicated that the month's figures were not fully comparable with earlier periods due to delays in the receipt of shipping documents.

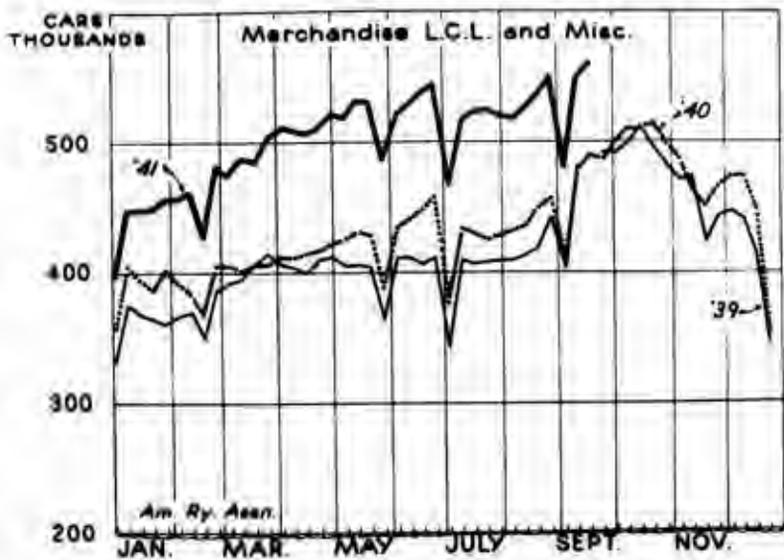
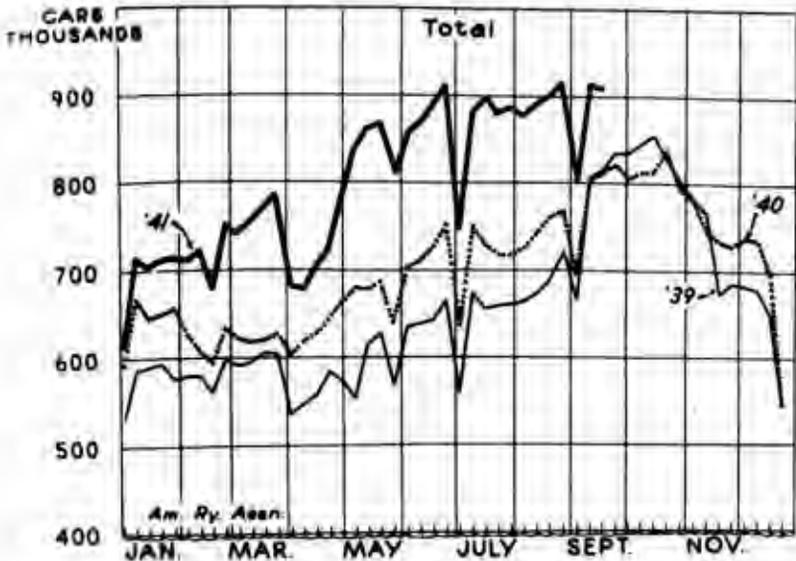
BUSINESS ACTIVITY. N.Y. TIMES



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

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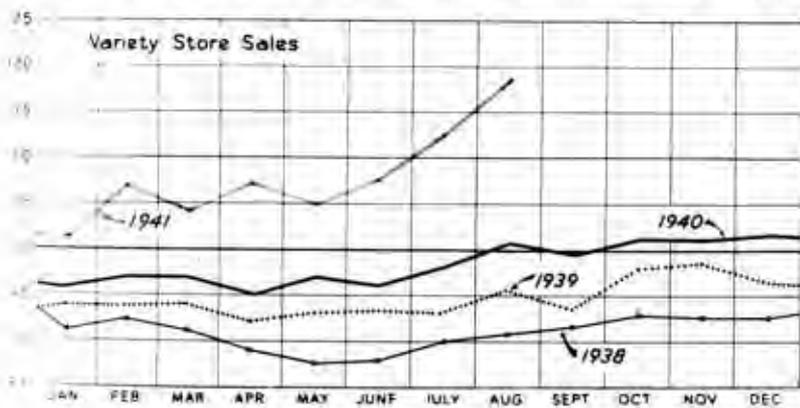
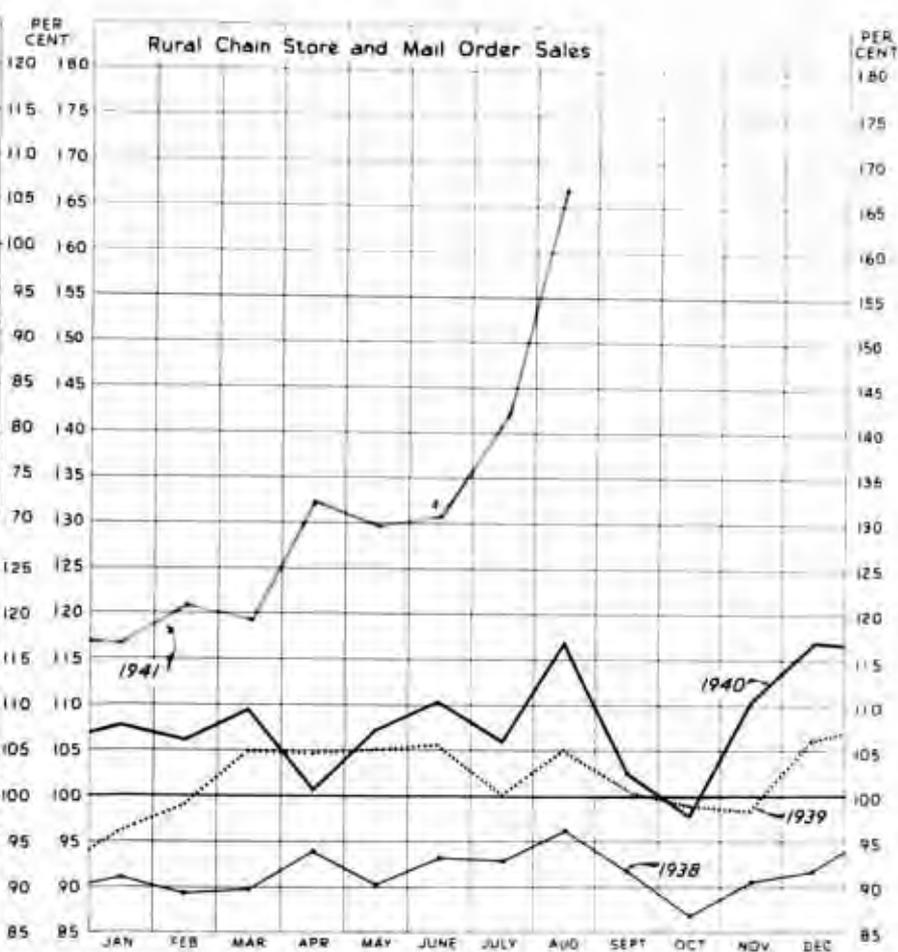
FREIGHT CAR LOADINGS



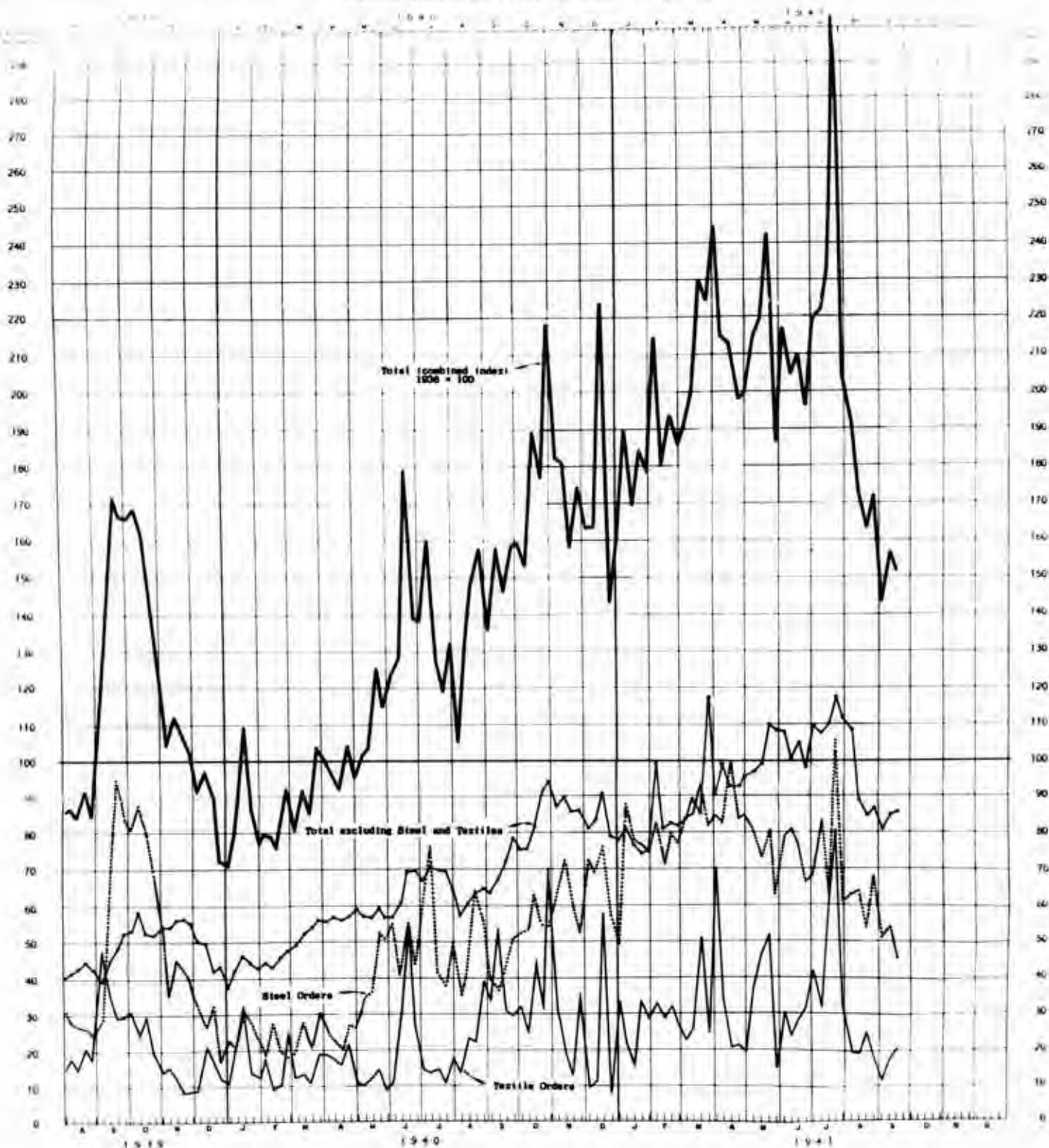
RETAIL TRADE

Urban and Rural Sales of General Merchandise

1929 = 100 ADJUSTED

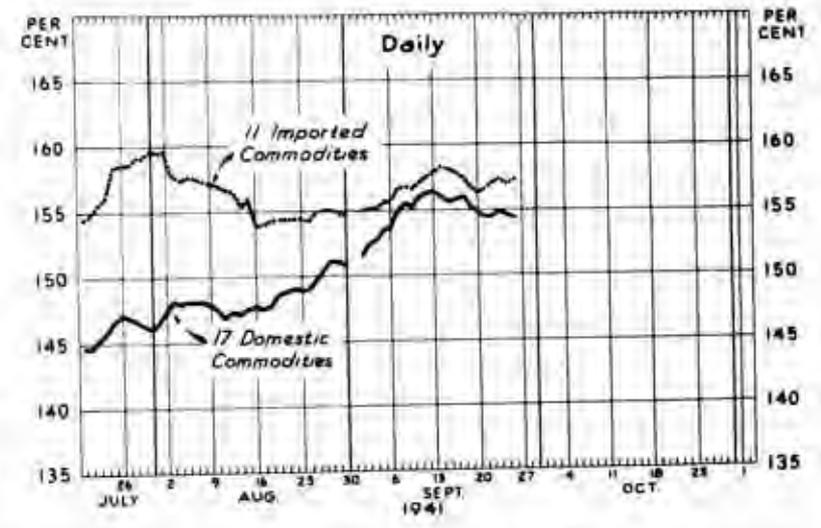
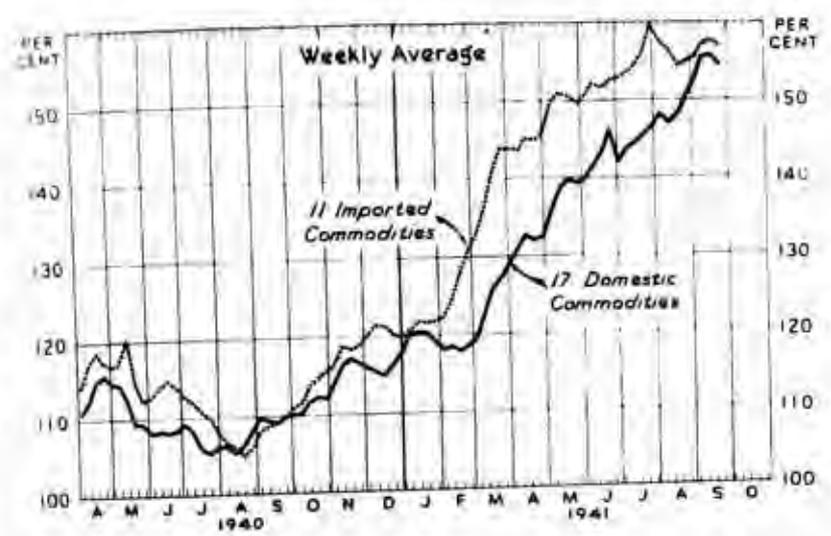


INDEXES OF NEW ORDERS
Combined Index of New Orders and Selected Components

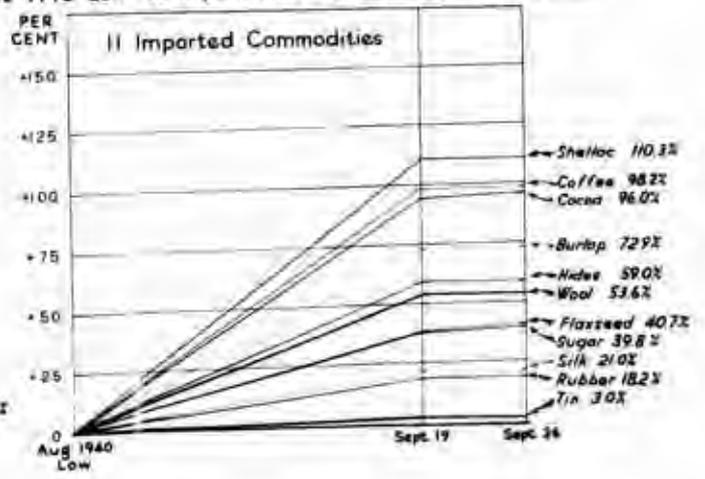
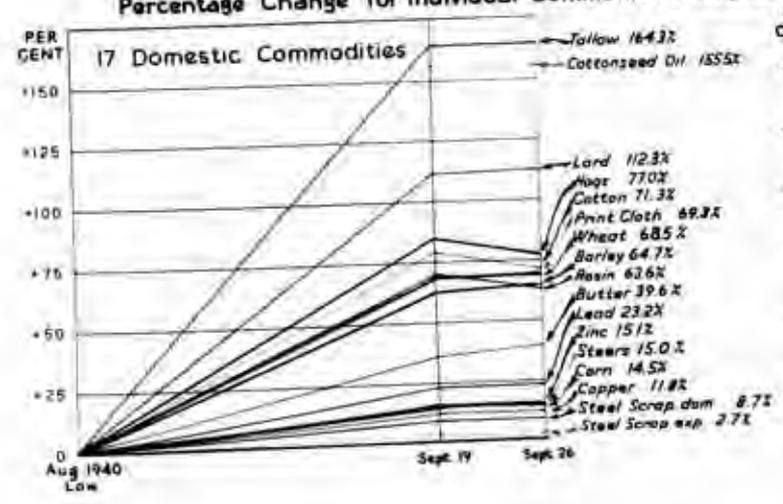


MOVEMENT OF BASIC COMMODITY PRICES Domestic and Imported

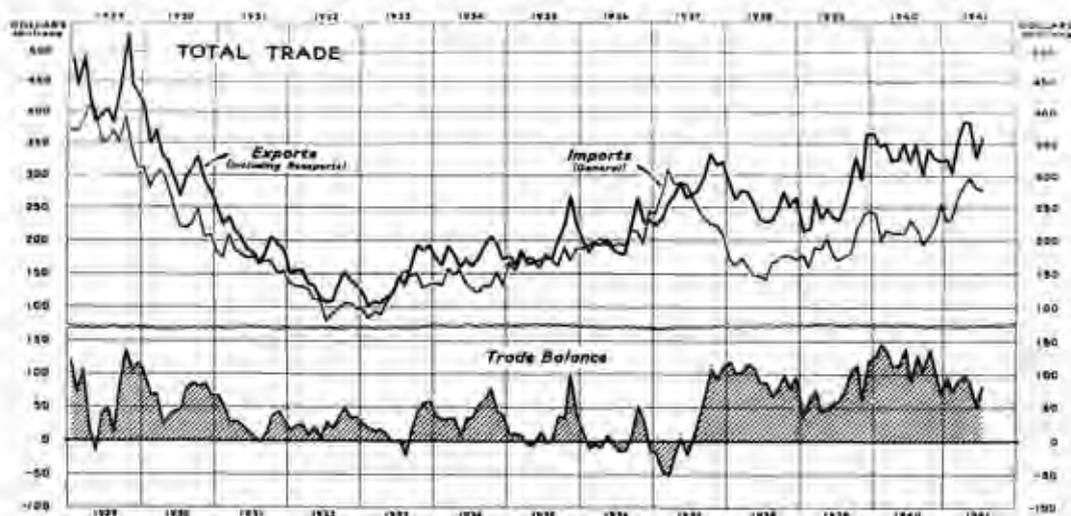
AUGUST 1939 = 100



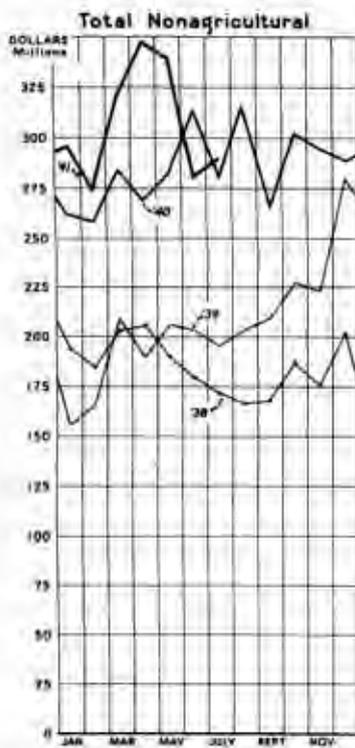
Percentage Change for Individual Commodities. August 1940 Low to September 19 and to September 26, 1941



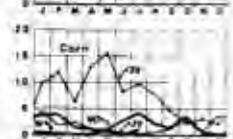
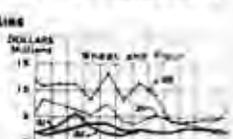
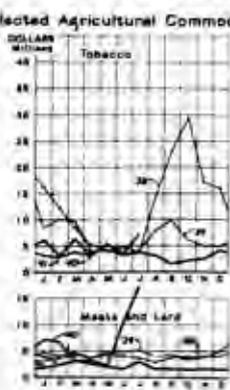
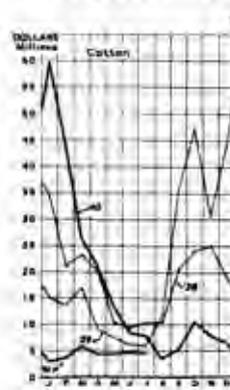
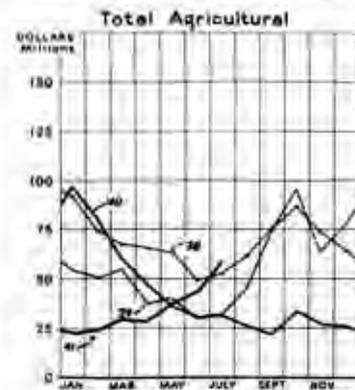
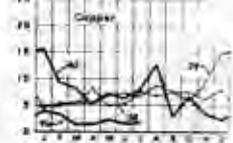
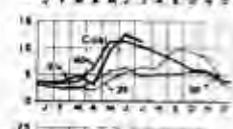
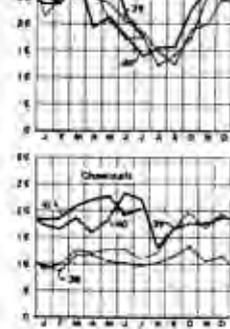
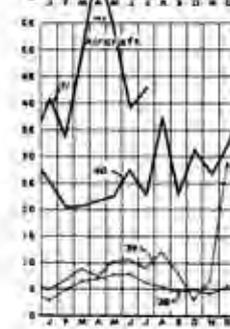
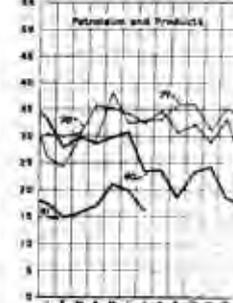
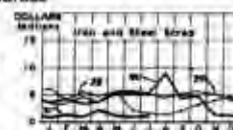
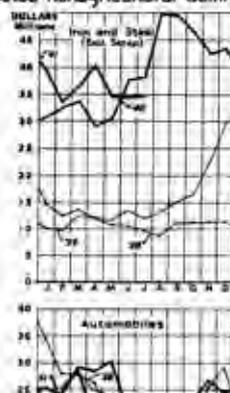
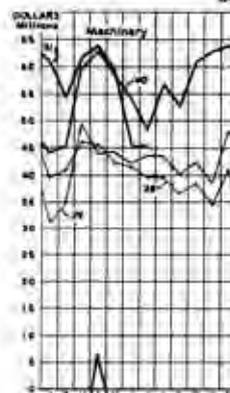
U.S. TOTAL TRADE AND EXPORTS BY COMMODITIES



EXPORTS OF U.S. MERCHANDISE



Selected Nonagricultural Commodities



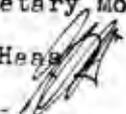
TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

77
DATE Sept. 29, 1941.

TO Secretary Morgenthau

FROM

Mr. Hays 

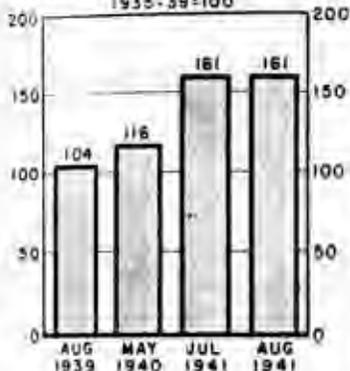
The attached report, mentioned in my memorandum to you of last Friday, was received today from Dr. Lubin. A new report should be out around the middle of this week.

**THE
ECONOMIC PICTURE**

SEPTEMBER 12, 1941

THE ECONOMIC PICTURE
September 12, 1941

INDEX OF
INDUSTRIAL PRODUCTION
1935-39=100



PRODUCTION of American industry in August was at about the same level as in July.

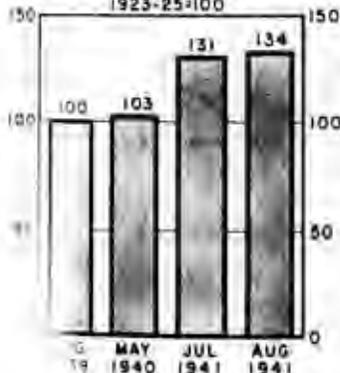
The output of steel, nonferrous metals, and lumber was virtually unchanged from the high July rate.

Increases in production were in machinery, aircraft, ships, and railroad equipment. Crude oil output was at a record high, and coal production was up.

Automobile plants, with reduced schedules for the change-over to new models, still produced 160,000 cars in August.

Cotton mills reduced activity slightly, and silk output was drastically curtailed.

INDEX OF
FACTORY EMPLOYMENT
1923-25=100



EMPLOYMENT in all occupations, including farming, was up 100,000 in August.

In factories, employment increased by about 265,000 men.

PRIORITY UNEMPLOYMENT was reported in silk mills, where about 25,000 workers were laid off between August 2, when the freezing order was issued, and August 30.

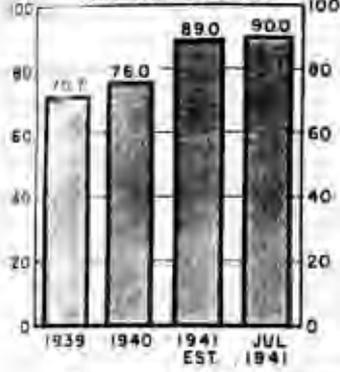
| | Reduction | |
|------------------------|---------------------|---------|
| | Number of Employees | Percent |
| Full-fashioned hosiery | 12,000 | 12 |
| Silk throwing | 10,000 | 45 |
| Silk weaving | 1,000 | 6 |

Much greater reduction is expected in September.

Some consumers' durable-goods industries -- vacuum cleaners, aluminum ware, refrigerators -- also cut employment because of shortages of metals and key chemicals.

NATIONAL INCOME

(BILLIONS OF DOLLARS)



NATIONAL INCOME has been rising steadily for 16 months.

In July national income was at the rate of \$90 billion a year. For the whole year 1941 it is estimated at \$89 billion.

The greatest 1941 gains in income so far are to farmers and to wage earners.

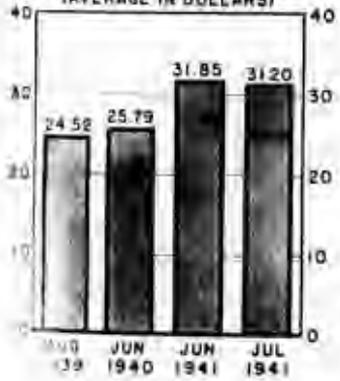
PAYROLLS in manufacturing, mining, and construction were 37 percent greater than in the first half of 1940. All wages and salaries were about 20 percent greater.

FARM INCOME has increased much more than usual in the past 2 months, with prices received by farmers up by 11 percent since June.

Total cash farm income may be nearly \$11 billion for 1941, including benefit payments. This is more than 20 percent above 1940, and almost as high as in 1929.

WEEKLY EARNINGS IN FACTORIES

(AVERAGE IN DOLLARS)



WORKERS' EARNINGS AND REAL INCOME this summer are at the highest levels on record.

Factory workers' weekly earnings have risen nearly 30 percent since the outbreak of war. The cost of living has so far advanced by only 7 percent. Thus, there has been an increase of 23 percent in real weekly earnings of factory workers.

Hourly rates are up 11 cents an hour, from 63.4 cents in August 1939 to 74.4 cents in July 1941. This is due to overtime, to the great expansion in the high-wage durable-goods industries, and partly, to increased wage rates.

Big wage increases are so far notable in steel, coal, automobiles, shipbuilding, and aircraft, but these are now leading out into other industries.

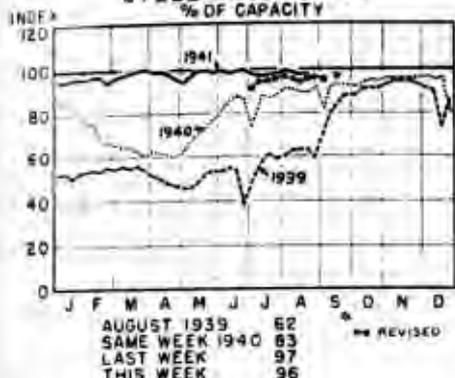
PRICES are skyrocketing in BASIC COMMODITY markets. They have gone up nearly 4 percent since late August; are now 56 percent above pre-war levels.

The rise is greatest in domestic agricultural products, which have advanced 16 percent since August 25. Cottonseed oil is up 1 1/2 percent; spot cotton, 1.6 cents to 17.7 cents; cash wheat at Kansas City, 10 cents a bushel to \$1.16 1/2.

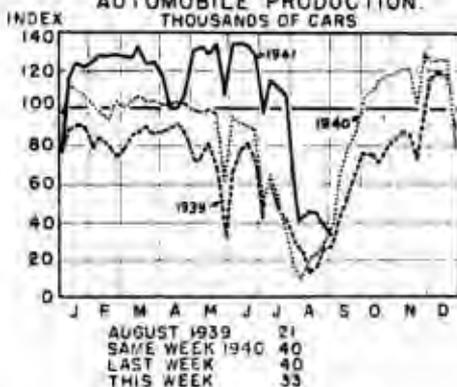
Industrial raw materials are little changed. Prices of many of them -- such as metals, tin, rubber, silk, and burlap -- are controlled.

GRAPHIC REPORTS OF THE WEEK

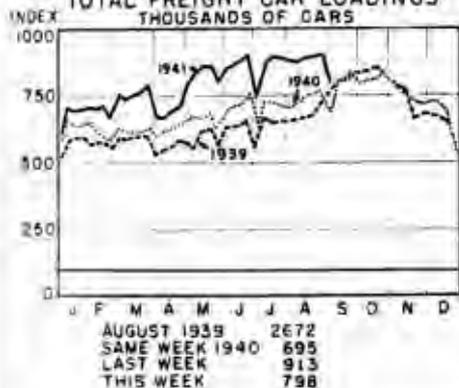
STEEL PRODUCTION
% OF CAPACITY



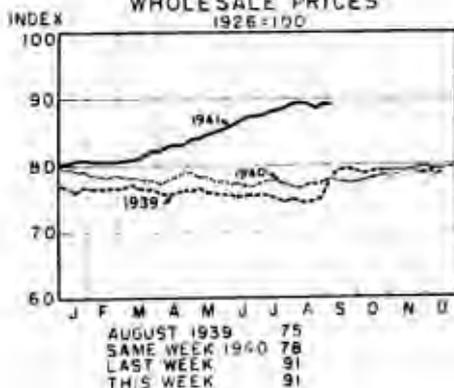
AUTOMOBILE PRODUCTION
THOUSANDS OF CARS



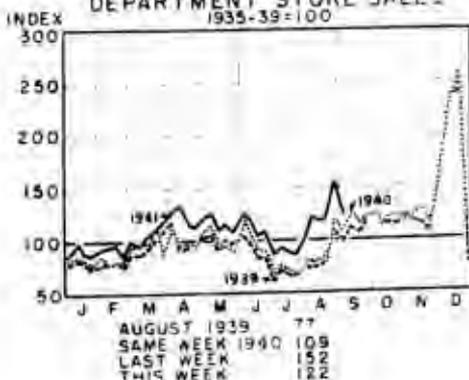
TOTAL FREIGHT CAR LOADINGS
THOUSANDS OF CARS



WHOLESALE PRICES
1926=100



DEPARTMENT STORE SALES
1935-39=100



"This week" refers to the week ending September 2.

September 29, 1941
2:15 p.m.

EXCESS PROFITS - SIX PERCENT

Present: Mr. Blough
Mr. O'Connell
Mr. Kades
Mrs. Klots
Mr. Gaston
Mr. Kuhn
Mr. Schwarz
Mr. White

Mr. Blough: All of this is in the room. Let me ask you a question, Roy. The others are coming in at 2:30. How long would it take you - supposing I said, "Now, this six percent, over and above, you see - now, how long to work out all the inequities and to give the little fellow a credit and this person and that. How long would it take you?"

Blough: That could never be done, Mr. Secretary, of course, in a hundred percent fashion. To do it as well as it could be done, I should think we would want six weeks to two months or longer.

Mr. Blough: I see. That is a very good answer. That is why I didn't want anybody else around, you see. You are doing fine. (Laughter) Let me ask you this, Mr. Bones. I gave you a notice - last night with this terrifically sick headache I went down to lie down in the house. Mrs. Morgenthau said, "What did you say you were doing?" I said, "I was talking to Roy Blough to get him started on this."

What are, I ask you, some of the salient points that the man in the street would understand that we would have to study?

Howe: Now, so far as that man in the street understanding, I didn't quite catch that. I have here two pages and there are two more coming, and they should be here in a couple of minutes in which those are outlined and, without going into them in detail, I can outline them very briefly.

H.M.Jr: Go ahead.

Howe: I would say there are four questions, four big questions. The first question is, what is invested capital?

H.M.Jr: Go ahead, Roy.

Howe: Well, I would say out of four important questions, the first question that you - that would have to be worked out is, what is invested capital? If we are going to limit profits to six percent of invested capital, what is invested capital? and in that there are certain very difficult problems.

First, if I started a corporation in 1890, which is unlikely, and put in a certain amount--

H.M.Jr: I have heard all that. Let me interrupt you.

All right, "Mr. Morgenthau, why didn't you know about the difficulties of invested capital? You have been advocating that as a basis now for the last two years, so that is nothing new."

Howe: We did know about it, and it is not nearly as serious a difficulty when you have a ten percent upper limit instead of six, and

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when you have rates which we have never recommended above sixty-five and our rates recommended last year only went to fifty on the very top return of over thirty percent of invested capital. So that what is an admitted difficulty with any excess profits tax based on capital becomes of vital importance when you plan to take everything over six percent.

H.M.Jr: That doesn't help me a bit. I have got to be terribly - that doesn't help me in what I want.

Blough: Well, now, possibly I misunderstood what you wanted. If you want something to help you, we will work out - it depends on what you want to do.

H.M.Jr: Well, let me - in order to save time, and I don't have to do it twice, I will get the other people in.

(Secretary sends for Mr. Gaston, Mr. Kuhn, Mr. Schwarz, and Mr. White.)

This is the thought that I had in mind, simply say, "Now, look, gentlemen, I said the other day - I was asked the question, how much excess profits?" I answered, as a rule of thumb, "Everything above six percent on invested capital." Now I have asked - this is my thought - my tax experts - is that what you call yourselves?

Blough: Other people call us that. We don't like the name.

(Mr. Gaston and Mr. Kuhn entered the conference.)

H.M.Jr: Hello. Sit down. I have asked my tax experts -

why not wait one minute and then we won't have to do it all over again.

(Mr. White and Mr. Schwarz entered the conference.)

E. W. Jr:

Anyway, gentlemen, this is what I asked for. Each fellow will get his turn to talk. What I would like to do, with your help, between now and four o'clock, is write something out in my own handwriting, whereby I will say, "Now, gentlemen, since testifying last Wednesday our Tax Division have been studying this suggestion of mine, this rule of thumb of mine, that we take all profits over and above six percent on invested capital, and they inform me that it will take them at least a couple of months in order to make an intelligent study, and a study so that this plan can be an equitable - as equitable as possible. Inasmuch as - I am going to give you what I have in my mind. Inasmuch as it is going to take a couple of months, and they usually understate the length of time rather than overstate it, from past experience - " which is true.

Glough:

Sure, it is true.

E. W. Jr:

"I feel that I would like to reassure the people to this extent, to say that we will study it for the balance of this year and will not be prepared to present a new tax bill--"

Schwarz:

During this calendar year.

E. W. Jr:

Now--

Schwarz:

Pardon me.

E. W. Jr:

"Until the first of January, and at that time

I will follow my usual procedure, that I will sit down with Senator George and Mr. Doughton and any gentlemen they care to bring, and lay all the facts that we have studied in the Treasury before them for their advice."

Now that is something that I have been thinking about, and this is largely a matter of public relations. That is why I have got three newspapermen here. I will start with the senior, Mr. Gaston, and we will go around the room. That is the sort of thing I had in my mind.

Gaston: Well, my feeling about this is that I wouldn't put out anything that looks like a correction at this time. I don't believe - you will get questions on this thing. I don't believe I would volunteer anything on it.

H.W.Jr: Well, it is easy enough to get a question. Well, Herbert, can I--

Gaston: Yes.

H.W.Jr: We do have this, and this thing is bothering me. We do have, for instance, a Navy contractor coming over and saying, "I am about to take a three million dollar contract, but I am not going to take this thing until the Treasury tells me where I stand." Now, the thing is so bad on the contractor, and it is awfully easy to get a goat at this time. I don't want to be that goat. I understand there are several of them in correspondence with us, you see. The people are excited.

Now, if they felt that this thing was going to be very carefully studied for two or three months by the Treasury, and then I will follow the usual procedure sitting down. At least they know I am not going to do this thing -

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not going to rush it. There won't be any more tax bill on 1940 taxes.

Easton: I think they ought to be told that in response to questions, yes. I think it is all right. I don't think you need to write anything out. I wouldn't make it at all look as though it were a prepared statement because I think the thing is so simple it doesn't need to be written out at all. I would make it perfectly offhand in response to questions.

H.W. Jr: What would you say? What kind of question would you want and how would you want, and how would you answer it?

Easton: Well, the question is, is there going to be any new tax bill this year? A new corporation tax bill this year? "Why, no, I don't think so. In an offhand statement of my belief before the Committee - of course, it is a thing that takes a lot of study. I don't think we could possibly get a new bill before the first of the year."

H.W. Jr: You will get a chance at rebuttal, Harry?

White: I see the need, possibly, for reassuring some people. I don't like to include in your statement that "of course, this thing needs a lot of study," because the statement has been made, and "The time to study is before a statement has been made," is what others might say, and I don't think you need to accept that. I think it would be possible in response to a direct question: "Is there going to be a tax bill this year?" to say, "No," "and is the Treasury preparing a draft of a bill on this six percent?" You say that your staff has been working and is working to work out the details of a bill of that kind, but it is a long process, but in any

case the - they are not awaiting Treasury action, that that is a matter for Congress; and, "Off the record, boys, I don't expect that Congress will take this up this year even if they take it up next year."

H.W. Jr: What do you mean, "They are awaiting action"?

White: I mean Congress is not going to take this up the moment he completes a study of it. That isn't what is holding the thing up. I think I would attempt to give the impression, which is true, that this is a matter for Congress. "The statement of six percent is my view of the general principle which should guide our action on that matter." I don't think I would be apologetic. I don't think I would say that it will take several months for them to work out the details. After all, if these men are worried about that, they are not worried about what happens in the next few months. What they are worried about is the profits that they may not get next year and the year after.

H.W. Jr: Yes, but there is one thing at least, Harry, which I can lay to rest and which I would like to and which has been raised. This is not something which I expect - which I expect to apply to 1940 business.

White: I would say that definitely. That I would say.

H.W. Jr: That was the impression of the people who are writing, that this was to be superimposed on 1940 taxes.

White: On 1941, that is.

H.W. Jr: 1941, yes.

White: Well, you could say that. I mean, it would

seem to me that you can say anything in that line so long as you are, (a) not apologetic, (b) make it appear that upon further study you might withdraw. Beyond those two things, you can say anything you like.

H.M.Jr:

Roy?

Blough:

I didn't quite catch the last. You mean he should not indicate that you might withdraw?

White:

He should not indicate that he would withdraw from his adherence to the general principle. If there is any emphasis to be placed on his further remarks, any expansion, it should be in the nature of, well, that is a general approach, obviously. When you get to writing a tax bill, there are all kinds of conditions that have to be met, all kinds of inequities that have to be ironed out, and all kinds of exceptions that have to be made, but the statement of a general objective, a general principle, stands as my philosophy.

Gaston:

I would be very careful. I would agree wholly with that. I would be very careful not to give any indication that you are backing up from your position.

H.M.Jr:

Do you think my position is all right?

Gaston:

Yes, and I think you should stick to it.

H.M.Jr:

Listen, the only people for me now are the Non-Partisan League. I would have been the last person to have suspected you of being a Non-Partisan Leaguer. It is a very interesting thing, because I made the prophecy here over the weekend that if I hadn't said this thing Nye and Wheeler and the next thing - I think I said it to you - that the next thing they would be attacking,

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they said that the moving picture people wanted to help England in order that they could get their money out of England for moving pictures. So I said the next thing they would attack would be the war profit motive. Now, they haven't done it yet, but if I did nothing else, it removed that very important segment of the front.

- Gaston: Of course, I don't think you will get any six percent bill, and I don't think you do either, but I think it is a good thing to have said to indicate your line of intentions.
- W.C.Jr: That is what Walter Winchell said last night.
- Wites: Mr. Secretary, I think you are going to continue to get attacks - a criticism from various sources including those who for one reason or another don't want to expand their plant or undertake Government contracts, but I think you are going to get that unless you completely recede from your position.
- W.C.Jr: No, I am not going--
- Wites: I think it would be a grave error --
- W.C.Jr: Even the Chairman of the Utah Construction Company has let me down.
- Wites: Has let you down?
- W.C.Jr: Sure.
- Gaston: Today?
- Kuhn: Did he oppose it on the Hill?
- W.C.Jr: Yes.
- W.C.Jr: He wants higher taxes, but not quite that high.

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- Gaston: I would hate to volunteer anything that would look as though you were crawling down.
- H.M.Jr: The other day I wanted to get over my point, and I told Chick to ask them a question, and the boy did, and I got over this whole story, idea, about whatever I said--
- Schwarz: Taking the profit motive out of war.
- H.M.Jr: It was good enough that the Post ran it verbatim.
- Gaston: There is no reason why we shouldn't make a direct positive answer to the question: "Is there going to be any new piling of taxes on '41 income?" "No, it wouldn't be fair."
- Schwarz: The question, Herbert, will be: "How are you coming on your bill?" because you have told them that there is a bill.
- H.M.Jr: "I have told my tax section to do it, and I have had a conference with them today, and I find that they can't - they certainly can't get ready before the new bill comes up for administrative changes."
- When does that start?
- Blough: As I understand it, they are planning to have that started - introduced before the end of October.
- Gaston: There is no hurry about it anyway, because you are certainly not going to make it apply to '41 income, and there is plenty of time for a bill which applies to - you are not going to make it apply to - yes.
- Blough: Retroactively.

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- Gaston: Retroactively, and there is plenty of time for a bill which will apply to the following year.
- White: And your division is working out the details, as you said, in order to be ready should Congress call for such a bill.
- Schwarz: The outstanding question that we are getting is, will it be retroactive, even if it is next spring?
- H.M., Jr: Yes.
- Gaston: You can give them something really definite then and shoot it right at them frankly and that is a good story.
- H.M., Jr: I can if the President doesn't throw me down. I don't think he will. Well then, let him take the brunt. He won't. I am safe.
- Plough: I think this sounds very good. I felt fairly happy when you were making your statement as long as you stuck to generalities. I felt a little less happy when it came to specifically saying a hundred per cent and so on, because while six per cent is enough --
- H.M., Jr: Who asked me the question that day? Who was the fellow?
- Plough: Williams.
- H.M., Jr: Was that the result of you (O'Connell) and Harry having lunch with him? Why did he ask that.
- White: It may be.
- H.M., Jr: You know, I thought of that the other night. I said, "Who was the last person who Williams

saw," and I said, "It was White and O'Connell, and that is where the damn question was planted. (Laughter)

Wite: I wouldn't be surprised.

Gaston: You would think they would give you some intimation.

H.M.Jr: Well, they would if they were palsey-walsey.

Wite: But you see, we know what the Secretary will say because we know his heart is in the right place.

H.M.Jr: I woke up in the middle of the night and I said, "Who did Williams see last? It was Harry White and Joe O'Connell."

Wite: No, Joe dropped behind for a second or two, I don't know what he said.

H.M.Jr: All right. How far had we gotten?

Blough: As I say, I certainly would quite agree with your general statement, namely, that in times like these six percent is enough to receive. I would hardly be in agreement with either, (a) that six percent is enough to have in prospect for everybody in view of the risks which are involved, or (b) that you can take a hundred percent over that without having a lot of inefficiency and extravagance and so on. But it seems to me that your position is a fairly good one. Your statement was fairly general. We could allow six percent return on capital and still make provisions for a lot of things like personal contribution, the contribution of the owner-manager to the business by a salary allowance. You could even, I think, introduce, and not be inconsistent, a special

risk allowance of some kind in cases of specially risky businesses. I think you could get around this difficulty of no inducement by doing what the English have done, namely, providing that a portion of the tax should be--

I was about to say that it seemed to me your situation was not at all bad on this. By special allowances of the type I have mentioned, by perhaps doing as the British have done, providing for a return of a portion of the tax at the end of the war, by providing for making sure that this is an average of six percent over a period of years and not just six percent as of a specific year, by perhaps providing for a recasting of the profit picture at the end of the defense period after the slump, you can do--

H.W. Jr: What did you say the English did? You started to say.

Blough: The English put on a hundred percent tax - not above six percent but on profits above the present war level, and then they decided that was too much but rather than lower the tax, they left the tax at a hundred and then provided that twenty percent of that should be put up as a credit to be paid back afterward.

H.W. Jr: Well, according to the former manager of the New York Times Bureau in London, that isn't quite what happened. He said the Tory Party had a campaign pledge which was very interesting to me.

This is the Tory Party, a campaign pledge, that they would take everything over six percent. He said they had to go through with their pledge and that when they did there was such a holler that they had to throw in the twenty percent credit.

Blough: I think that is correct.

W.H.Jr: But that the Tory party should have such a thing and had it for years, to me is interesting.

W.H.Jr: They made it a General Motors Acceptance Corporation, six percent. Their six percent plan, you know, is between eleven and twelve.

W.H.Jr: It was done as a result of the same kind of hullabaloo that Nye and his party raised in this country. They had the counterpart of that in England and Chamberlain had to make such an undertaking before they went into the war. Was that right, Harry?

W.H.Jr: I don't know.

W.H.Jr: If he doesn't know, then you are right. (Laughter). Are you through, Roy?

W.H.Jr: Yes.

W.H.Jr: Well, all of those things you say, if I got into that today --

W.H.Jr: No, I don't want to get in that. I think you are perfectly justified in going along with the suggestions made here because I think we can follow through and give you something which will stick to your principle and, at the same time, not ruin the country.

W.H.Jr: Well, can you make it as good as the Tory party?

W.H.Jr: Well, that was bad, it seemed to me.

W.H.Jr: They are good boys. Now, Harry, you have got an answer.

W.H.Jr: It was something along the lines of this kind.

I think you can dispose of this question very briefly and very quickly by saying it isn't something that is coming up this year and sometime very soon, and it need not be months at all; I think you could get something satisfactory in a week or two, you could have a statement of "My tax philosophy with respect to earnings."

You don't have to write a bill. You can say, one, two, three, four, and then you can use these various aspects of the bill that you would, I am sure, approve of, which would be in harmony with your six percent and yet answer most of the criticism against it and that could be "My tax philosophy with regard to the six percent profits." In fact, it could either be the subject of another speech or it could be another statement, and I think it would be a very excellent thing.

H.M.Jr: Well, Lubin at lunch said two things which impressed me. One, you will never lick the high cost of living until you lick high profits. That was number one. And the other thing, he is very insistent that I talk to the two big labor organizations.

White: It would be an ideal place to develop it.

H.M.Jr: You just jumped the gun. If I was going to do it, Seattle would be a nice place. What is that, A.F.of L. or C.I.O.?

Kuhn: A.F.of L.

H.M.Jr: That would be a nice audience to do it. I didn't realize. Lubin says you can get on a plane here at five o'clock in the afternoon and be in Seattle at eight o'clock

the next morning. I didn't know that.

White: Now, in a speech of that kind, you see, you can have adequate time to pay your respects to the necessity for proper incentive. You can do it up brown.

H.M.Jr: Now, are you through, Harry?

White: Yes, I am through.

H.M.Jr: Well, you are through for the moment.

White: Through for the moment.

H.M.Jr: All right.

O'Connell: I think Mr. Gaston and Harry are not very far apart. It seems to me that you should say something very simple and the reverse of being apologetic because I think it was a very good statement, it seems to me, and one that you should be willing to defend and not at all appear to be on the defensive. On the exact language, I thought what you said when we started off was pretty good.

H.M.Jr: What was that?

O'Connell: The statement that you made to the group as we sat down. Incidentally, I think you may find, to your surprise, that you will get some support from some people other than the Non-Partisan League. Sumner Pike, Commissioner of SEC, who is not a radical, told me he thought it was fine and he was all for it.

H.M.Jr: Did he say so publicly?

O'Connell: I don't know, I suppose he would. Congressman

Williams, also, who was the one who brought that answer out, is in favor of your position on that.

H.M.Jr: Well, if some of those people would come out publicly, it would make me less lonesome. (Laughter).

O'Connell: I will see what I can do.

H.M.Jr: Well, you will all get a chance. I have got lots of time. Chuck?

Kades: I feel exactly the same way, that a short and quick answer to that question is the right way to handle it, because I think that there is a good deal of silent support for the cause that you made. Six percent on invested capital is a different thing today, with the huge amortization allowances that are being granted, than it was a year ago.

H.M.Jr: Let me ask you this and I will just show my ignorance. Am I not correct - I wouldn't make this statement today - that a very large proportion, I would say certainly ninety percent - let's say ninety percent without arguing. It may be ninety and it may be eighty percent - of the money which has gone in to private expansion has been advanced by the RFC. I mean, just --

Kades: That is right. I think it is about two thirds.

H.M.Jr: Well, as I say, the percentage is unimportant. But let's say seventy-five to ninety percent. And that then the man writes off one fifth each year.

Kades: That is right.

Blough: They put the money up?

H.W. Jr: Wait a minute.

Blough: Excuse me.

H.W. Jr: I am just asking that, where the Government puts the money up.

Kades: The RFC puts it up in two ways. One way they advance it to the manufacturer and the manufacturer takes no risk at all because the RFC through one of its subsidiaries takes title to the plant and loans it to him. He has the free use of it at a nominal rent during the emergency.

Gaston: They lend the plant rather than the money?

Kades: That is right.

H.W. Jr: And at the end of the emergency, what hold has the man on the plant?

Kades: He has an option to buy at a price which is in the contract.

H.W. Jr: At his option?

Kades: That is right.

H.W. Jr: Is there any demolition clause in that, where they keep it?

Kades: No.

H.W. Jr: The RFC can say "If you don't want it, I want it"?

Kades: "If you don't want it we are going to give it to the War Department."

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- H.M.Jr: But there is nothing in there that they have to destroy it?
- Kades: No. On the contrary, they can buy it.
- H.M.Jr: But that is where the RFC lends the plant to the manufacturer?
- Kades: That is right.
- H.M.Jr: Do they charge him any rental?
- Kades: It is a nominal rental.
- H.M.Jr: What is the other plan?
- Kades: The other is straight loan. Either the RFC or private banks loan the manufacturer money and he builds a plant. Assuming that he is not reimbursed in the price of the product he sells, he is entitled to deduct one fifth of the cost of that plant every year.
- H.M.Jr: And at the end of five years --?
- Kades: He has it completely written off and the plant belongs to him.
- H.M.Jr: It belongs to him?
- Kades: Yes.
- H.M.Jr: Can he destroy the plant if he wants to at the end of five years?
- Kades: He can do whatever he wants with it.
- H.M.Jr: What is the thing Greenbaum spent so much time on?
- Kades: Determining whether or not the manufacturer

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has been reimbursed in the price of his product.

- E.S.Jr: That is the simplest explanation I have gotten yet.
- Elough: Because if he is reimbursed he can't take amortization.
- E.S.Jr: But isn't it the accusation that they get it both ways?
- Kades: Yes because the accusation is that the War Department is lenient in --
- H.M.Jr: Isn't that the thing that the Rosenman meetings - wasn't that the whole discussion, that they are getting the thing twice, where they put Greenbaum on the carpet?
- Kades: Yes.
- H.M.Jr: The fellow - OEM fellow put him on the carpet? Were you there?
- Kades: No but I heard about it.
- H.M.Jr: Isn't that the thing they accused them of, of getting it in the price of the article?
- Kades: That is right and also getting it in the amortization. He can get them both provided he protects the Government's interest by agreeing not to demolish so that he - it is very liberal.
- H.M.Jr: I just wanted it in my head. I don't expect to use it today. But when they talk about business initiative and plant expansion, it is just zero because the Government takes

the initiative. You either lend them a plant or you lend them the money, in three out of four cases.

Kades: That is right. The manufacturer isn't running any risk, as far as plant expansion is concerned today.

H.M.Jr: I am right, am I not?

Kades: That is right, a hundred percent.

H.M.Jr: I don't want to use it now but some day it may come up. This talk about risk and all that, as though the American business man, the great hero, is going out and risking his money, my eye. What?

Kades: That is right.

H.M.Jr: Now what about this thing? What about --

Kades: Today?

H.M.Jr: Yes.

Kades: I think -- that is why I think you should stand your ground and not give any ground at all. Simply say that there is nothing pending for - that will apply to 1941 tax.

H.M.Jr: Just say that?

Kades: Yes.

H.M.Jr: And nothing else?

Kades: No.

H.M.Jr: Do you want to say anything?

Kletz: No, I agree.

H.M.Jr:

Mr. Ferdinand H. Kuhn, Jr.

Kuhn:

I would always stick to the big principle in anything that you say about this because so much of the discussion has gone away from the principle, which is that nobody is to make an inordinate profit out of this defense emergency and Senator George and Doughton and everybody will have to be with you on that part of it.

Now, it is not as if this was something new but you have said this several times and I have found your statement to the Ways and Means Committee last spring.

H.M.Jr:

What did I say, Mr. Kuhn?

Kuhn:

In which you said, "We all want labor to earn fair wages, the farmer to have a proper share of the national income and business to make a fair profit. Please note that I used the term 'fair profit'. No business, no Americans, should make inordinate and excessive profits out of this national emergency.

"The Congress has tried to deal with the problem of defense profiteering through excess profits taxes. We all know how hard it is to devise any excess profits tax which is a hundred percent protection against defense profiteers but I hope that the bill to be written by this committee will be helpful in reducing the evil. The American people do not intend that any of their number shall grow rich and fat out of this country's danger. They will, in my opinion, support any fair and workable tax that will help to keep this from occurring."

Well, that is the principle - that is the

same thing that you stated to the committee up on the Hill last Wednesday.

W.H. Jr: Well, I don't think I would show that to the boys. That is an excellent statement. I don't think I would show it to them today because that sounds apologetic, don't you think so?

White: It is not the same position he is taking now. That is a question of war profits and the fundamental situation that the Secretary is now taking does not relate to war profits.

Schwarz: That is right.

White: It is a question of sacrifices on the part of all in time of war.

Kuhn: That is right, but when you talk of defense profits you talk not only of profits on defense orders but profits that come from the activity produced by defense orders.

White: Well --

John: But the principle seems to me the same and I think the Secretary --

Clough: I shouldn't agree the principle is the same at all.

John: You don't?

Clough: No. The company may have been making a lot and may continue to make a lot. Defense may have very little to do with it.

White: Coca Cola.

Clough: They are not defense profits and yet they ought to pay.

- Site: Just the same as the soldier. He was making a living before the war started and suddenly he finds himself earning twenty-one dollars a month. He can fall back on that. You demand sacrifice on the part of everybody.
- Site: Wasn't the Secretary's position the other day one of broad principle which Senator George and Doughton and so on wouldn't dare to challenge?
- Site: I am in agreement on that, that he can reiterate time and again that "I don't believe, while the soldier," etc., etc., that businessmen ought to be making more than six percent.
- Site: Don't you think that he should reiterate it?
- Site: The principle?
- John: The principle. Whenever this comes up for discussion on the detail.
- Section: I would keep this thing as simple and straightforward as possible, Ferdie, as simple and direct as possible, because there may be a smart reporter here. That is, he may start to ask you, pinning down now, whether you are talking about principles or something specific, the six percent tax and so on, and if there is somebody who is hostile and smart he might interpret it into a position of withdrawal, retirement, and we don't want that.
- John: No, I thought that it would be strengthened if the Secretary were to stick to that principle publicly.
- Connell: It seems to me that you have said twice last

week exactly what your position was and nothing needs to be said at this meeting today other than that there is not going to be a tax bill this year or that this tax that we propose will not be applied to 1941 income.

Easton: Can I leave?

H.C.Jr: Sure.

Wolke: Have a good time.

Edm: Do you want to say anything about small business?

H.C.Jr: No. I did at first, but in view of this conversation, unless somebody says something about the small business man, then I would say, "Don't make me laugh." The Treasury has always looked after the small business man and always will.

Edm: That is right.

H.C.Jr: See? And these crocodile tears for the small business man certainly give me the horse laugh.

Schwartz: We haven't heard any criticism from the groups of small business men.

H.C.Jr: These crocodile tears for the small business man. What?

Edm: I think a great weakness of the case against you is the crocodile tears about the small business man. The great strength of your case is your position toward small business.

Whiter: You know, that is misunderstood, that question of the small business man, and I don't think

you should be - recede on that. The small business man is not the one who suffers from this six percent. In fact, most small business men, if they took - as I take it your plan would permit - an adequate wage for their services, they never make more than six percent on their invested capital. That isn't where the inequities come on the small business man. The inequities come on the businesses of higher risk, if you can pick them out. The Lord knows how you can pick them out, incidentally. I would like to see Roy try.

Blough:

I agree.

Wall, Jr:

Well, now, let me just give Schwarz a chance.

Schwarz:

I would be careful, Mr. Secretary, this afternoon, not to say that there won't be any new tax bill this year but that this proposal that you have made is now being studied and it won't be ready for any consideration that might apply - any consideration by Congress that might apply to 1941 incomes. That is the principal point that we have been --

Wall, Jr:

You think there might be another tax bill?

Schwarz:

There might be and I don't think you should make a statement that would hold you responsible for Congress' action.

Wall, Jr:

Chick, suppose you have somebody ask me, is this thing going to apply to 1941 business, and my answer is no because I find after talking it over with our tax experts that they can't possibly get an equitable bill ready under several months.

Blough:

Why wouldn't your answer, Mr. Secretary, be

"no" for another reason?

H.M.Jr: Don't you like that? Is that a slur?

Blough: No, I don't mind that, but I think the real reason why it shouldn't apply to 1941 business is that before it is passed 1941 will be passed too and that you don't want a tax of that rigidity and size levied retroactively.

H.M.Jr: No, that isn't it. I am sorry. As a matter of fact, that tax division couldn't draft a bill under two months. Let's be honest with ourselves.

Blough: Well, we have got a draft, Mr. Secretary, but it isn't any good because we haven't solved these problems.

H.M.Jr: Then you haven't got a good one.

Blough: No, we haven't got a good draft and we won't have for two months.

H.M.Jr: Well, there you are. Nobody can draft a good bill that is going to take care of the people who should be taken care of under a couple of months.

Blough: I would repeat what I said at the beginning. I don't believe you can in any amount of study remove a great many inequities and hardships. I think in the course of a couple of months we can do probably as well as we could, however long a time you take.

H.M.Jr: I think I have got the answer. You see, you have got to look at this thing from the human standpoint. I said there is no reason why you can't introduce two tax bills. "Have you asked your people to start

a bill?" I said yes. The last tax bill - how long did it take to prepare the last one?

Blough: The last bill, we went before the Committee on the 24th of April.

H.M.Jr: But before that?

Blough: The bill started on Pan-American Airways on the 26th of November or thereabout, and you --

H.M.Jr: And when were you ready?

Blough: I don't know as we ever did get ready. The thing began to shape up and I think it was in fairly definite form by about the middle of March or thereabout.

H.M.Jr: Well, does anybody see anything apologetic in saying that in order to do a good, equitable job, it takes a couple of months?

Blough: And we are asking for a lot more than the bill did last year.

H.M.Jr: And therefore I would like to let the taxpayers of America know that I don't propose to raise this question on 1941 income.

Schwarz: I think that is O.K. That is what they want to know. That would squelch a lot of the criticism.

White: I don't know. I am a little bit troubled about the tone and the implication. I want to let the taxpayers know two things. In the first place, it appears as though there has been tremendous pressure brought to bear on you and you have been forced to

make that public statement.

In the second place, it seems as though when you are ready in two months this thing is going through. I rather like your original statement, the briefest statement, that this is not going to apply. You don't have to give any reasons why. In your opinion or definitely, this isn't going to apply to 1941. In fact, I think your answer could be reduced to a "no". Let somebody ask you, "Do you propose this tax bill to apply to 1941 incomes?" No, let somebody else say, "Is the tax bill ready?"

You can say, "Oh, well, you know how tax bills are. It usually takes a few months to whip them into shape. Even then we don't know when Congress will be ready for it." And I would drop it.

Winn: That is right.

Blough: That is right.

H. H. Orr: What do you think?

Klotz: I agree a hundred percent with Harry. I would bring out the fact that it will not apply this year.

H. H. Orr: Well, if everybody is satisfied, then have somebody ask me the question, is it in my mind that this should or should not apply --

Schwartz: I think it is important that you indicate that it wasn't originally, the question wasn't raised.

H. H. Orr: No, I didn't say that. I said you could

have two tax bills. Don't say that, that is going too far. Just say, "Mr. Morgenthau, this suggestion of yours, is that to apply to 1941 income or not?" I can say, "No, it is not."

Schwarz: That is perfectly adequate, perfectly O.K.

H.C.Jr: Now that the stock market is closed, everybody can be excused.

Hahn: Will that make them happy?

Schwarz: Sure.

H.C.Jr: Just a second. You fellows (Kades, Kuhn, Schwarz, O'Connell) might as well sit here. This is the matter of this disagreeable thing in Detroit.

September 29, 1941

Memo To Secretary Morgenthau

I am enclosing the papers that I mentioned in our telephone conversation this morning.

1. A clipping from the "DETROIT PRESS", dated September 25, 1941.
2. A memorandum in regard to Roy Small.

P.S.Y.

Encls.

UNCLE SAM COCKS AN EAR

City's Juke Boxes Ring Gong Selling U.S. Defense Bonds

BY JACK PICKERING

(The News-Tribune)

The story of the Secretary of the United States Treasury trying to win a \$100 bet in Woodward Ave. hot-dog stands, and revelation that a Detroit-born idea is spreading over the nation were made known Wednesday night.

The story came out when it was learned that Roy Small, conciliator for Local 737, United Phonograph Operators Association, established in conjunction with the CIO, would leave by plane for Washington Thursday morning.

Local 737, in cooperation with the United Music Operators Association of Michigan (in ordinary language, the operators of coin-music machines, or juke boxes) conceived the idea of putting a song called "Any Bonds Today" on all Detroit juke boxes as the No. 1 tune.

Operators know that any tune played by the No. 1 button of a music box is played more often than any other. The operators and the phonograph operators' local to-

gether arranged to have "Any Bonds Today" put in the preferred spot on all 5,100 of the music boxes in Wayne, Macomb and Oakland Counties.

The tune has been so effective in prodding the sale of defense bonds that word spread to Washington, and was one of the factors which brought Henry Morgenthau, secretary of the treasury, to Detroit to find out why Michigan was leading all other states in sale of defense bonds.

When Morgenthau arrived, Frank N. Ishby, chairman of the Michigan defense-savings campaign, offered Morgenthau \$100 if he could find a juke box on which "Any Bonds Today" was not the first tune.

Morgenthau took him up. The Treasury Chief, Ishby and Giles Kavanagh, collector of customs in Detroit, along with two or three others, went to stands buying hot

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NOTE WITH CONFIDENCE FOR JAMES E. FRAZER—COUNCILOR A.J.V.

Juke Boxes Tops at Selling Defense Bonds

Continued from Page One

dogs and dropping nickels in the juke boxes. In all, they visited a dozen or so small places with machines. It cost Morgenthau a pocketful of nickels, but the campaign of spreading the tune had been so thorough that he didn't find a machine without the tune. Ishby, of course, kept his \$100.

National entertainment-weekly magazines, including *Billboard*, with a full-page editorial, have noted the effective sell-bonds-with-music campaign in Detroit, and Small and other CIO officials learned Wednesday that Indiana was preparing to copy the idea.

Small will fly to Washington for further talks with Morgenthau, and it was learned that Small might be "loaned" by the CIO to the Treasury Department to help make the music-box drive a national campaign.

Two companies already have offered their help, the J. P. Seeburg Corp. and the Radio Corp. of America.

September 28, 1941

The Detroit Free Press today prints an article in which it states that ROY SMALL, Conciliator for Local 757 United Phonograph Operators' Association, established in conjunction with the CIO was to leave for Washington today. The article further infers that during Secretary Morgenthau's recent visit to Detroit, he apparently had conferences with Roy Small and that this trip to Washington on the part of Small is for the purpose of having further conversations with the Secretary for the purpose of accepting an appointment to utilize the advertising possibilities of the music boxes for the promotion of the sale of bonds and stamps on a nation-wide scale. It appears, according to this article, is going to loan the services of Small to the Treasury Department. The article in question is prominently featured on the front page and the name of Mr. Morgenthau and Small are closely linked as originators of this publicity feature.

Roy Small's name arrested my attention immediately in connection with some of the underworld activities in Detroit. Informants at the CIO headquarters revealed that Small is definitely regarded for a high appointment in the Treasury Department. It did not take me very long to identify him as one of the notorious racketeers and banderers of this community. His present position with the United Phonograph Operators' Association is in itself no less of a racket set-up by Small for the purpose of competition with a similar racket established by the AFL. Both of these organizations have been putting up strenuous efforts to monopolize the Juke Box industry in Wayne County, Michigan. Roy Small is an operator and is listed on the CIO rolls as a conciliator. My understanding is that his conciliation consists of paying to the union a certain fee for each box for the privilege of displaying the CIO union labor on that box.

The ethics of this proposition, I realize of course, is a purely financial matter, but what concerns me more than anything else is Roy Small's criminal record and the possibilities that the records may fall into the hands of Henry Ford, Harold Smith or Walter Lindbergh and the subsequent use that they can make of the records upon Mr. Morgenthau.

As a matter of fact, while I was inquiring at police headquarters for Small's record, I was informed that some one from the Ford organization beat me to it over the telephone by about thirty minutes. I don't believe they got it over the telephone, but I certainly believe that they can and will get it.

Aside of his police record, Small has been associated with several racketeers during their heyday in Michigan, and was banished from that jurisdiction for racketeering.

His police record reads as follows:-

Arrested for Larceny by Trick, July 28, 1926 Case discontinued.

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Arrested 10-16-35 Charge-pandering-complaining witness Betty Cook-
Court File No. 53013. Case discharged by Judge
Sweeney.

Arrested 3-31-37 Charge-pandering-warrant No. A 13998-Discharged
by Judge Stein. Police officer Mrs. Olinski who
handled this case stated that a raid was made
upon a house of prostitution operated by Roy
Small and that the case was dismissed on account
of witnesses disappearing. She secured state-
ments from two girls who were inmates in that
house and that Small was arrested upon the
premises.

This is the kind of record that would certainly be utilized by
the Nazis in this town, who have been stressing particularly
an immorality alleged by them to be prevalent among the Jews,
and living this as the reason why Hitler has been so opposed
to Jews.

September 29, 1941
3:10 p.m.

RE DEFENSE SAVINGS BONDS

Present:
Mr. Graves
Mr. Cairns
Mr. Kades
Mr. O'Connell
Mr. Kuhn
Mr. Schwarz
Mrs. Klotz

H.V.Jr: Well, for Frank Iseby to send a man like this fellow Small down here is outrageous.

Kuhn: Did he present him to you in Detroit?

H.V.Jr: Oh, yes, sure.

Schwarz: He was convicted on that charge, Mr. Secretary?

H.V.Jr: No.

Klotz: The witnesses walked out on him.

H.V.Jr: They disappeared. This is one of the great things he had done, you see. He started right in telling me about it as soon as I had got there. He wanted me to meet these union fellows the next day.

Kuhn: Is that an AFL or CIO union?

H.V.Jr: CIO.

Kuhn: He wanted to put our bond song in every juke box in the State of Michigan, and did it in Wayne County. He came here to try to get the thing done nationally

W.M.Jr: And we paid him to come here.

Wahn: We paid his expenses?

W.M.Jr: Yes.

Wahn: That makes it better, doesn't it?

Wahn: His plan was still good.

W.M.Jr: Ferdie, you are a man after my own heart, because you fought me on it right to the bitter end.

Wahn: No, I was only afraid of the Treasury buying three hundred thousand records.

W.M.Jr: Ferdie was opposed to it. It was all right.

Wahn: As long as I found it wouldn't cost us anything, it was all right.

(Mr. Graves and Mr. Cairns entered the conference).

W.M.Jr: Well, what is the story?

Graves: Well, we know no more about the criminal record than appears in this letter, because we haven't yet heard from Detroit. Chief Wilson phoned out there right after our talk, but he has had no report. In fact, he didn't ask for one before three thirty, because he gave this man that much time to get it. But I think we can assume the accuracy of this record. Now, I don't think there is any --

W.M.Jr: Have you talked to Iseby?

Graves: I couldn't find Iseby. Iseby was not in his office. I still have a call in for him.

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I may get him. But Mr. Cairns and I have discussed this together and we don't believe there is any occasion for you to speak about this at press conference. After all, we never appoint anybody in the Defense Savings staff except after an investigation, and to say that you did have it in mind to appoint this man - you wouldn't have appointed him in view of his record, because an investigation would have brought these facts to life, so that the worst anybody could criticize the Treasury Department for would be one, our meeting this man in Detroit and two, our inviting him to come here for a conference. I see nothing about either of those things that constitutes any reflection whatever on you or on the Department. Nobody could make any case against the Treasury unless we had actually hired this man. That we couldn't have done.

- H.M.Jr: Listen, fellow. Have you ever heard of a fellow by the name of Pegler?
- Graves: Yes.
- H.M.Jr: Pegler has made a story out of as much as one tenth as much as this.
- Graves: Yes, but he could make no story out of this that would reflect on this Department.
- H.M.Jr: I disagree with you.
- Graves: What could he say?
- H.M.Jr: He could say that Mr. Morgenthau invites a fellow who in 1937 was up for pandering and brings him down here to advise him on how to sell Defense Savings Bonds.
- Graves: Well --

G.M.Jr: And of course Mr. Morgenthau knew what his record was because look at the vast detective organization he has got, so he knew, but he never paid any attention to that, so he went ahead just the same. You have read Pegler.

Graves: Well, of course Pegler is apt to say anything that is extreme and --

G.M.Jr: I know, and so is Mr. Ford and so is Father Coughlin, and so is - well, half a dozen other fellows.

Let me say what I would like to do. What I would like to do is this, and I certainly wouldn't say it until I was sure that this record is right, that upon investigation, the Treasury finds that Mr. Small's record was such that we cannot use him in our Defense Savings Bond work. Give it enough legalistic language so that I - but I wouldn't be even too much afraid to be sudden - I mean I wouldn't make it so legalistic, but I would like to come out and say point-blank, and get there first - I don't want to say it was brought to my attention. I will simply say, following our usual procedure of investigating all people that we employ, we find that Mr. Small's record is of such a nature that we have decided that we cannot use him in connection with our Defense Savings Bonds. Now, what the hell is the matter with that?

Graves: I think this is the matter with that. I don't think it has been in the papers anywhere that we ever did contemplate using him except in an advisory capacity. The only reference that I knew of is this reference here in the Detroit paper where this paragraph here, "Small will fly to

Washington for further talk with Morgenthau, and it was learned that Small might be loaned by the CIO to the Treasury Department to help make the music box drive a national campaign." It has appeared nowhere that we intended to offer this man a job or a connection.

Watts:

Why do you have to say anything about his record at all? Why not just make some sort of a statement, saying that he is not going to be used? You don't have to give an explanation.

Schwarz:

I could tell them orally, Mr. Secretary, to the Detroit and Michigan people.

Calms:

Why don't you notify this man right away? Is he waiting to hear from you?

Graves:

Oh, no.

H.M.Jr:

Listen, gents, now get this thing straight. I am not going to wait to be attacked. I want to disown this fellow. Now, it is just a question of how to do it. Even though I don't sell another record to the juke boxes, I want to disown him. Now, that I am determined to do. Now, it is just a question of what is the best way to do it. I am not going to wait to be attacked. I think it is an outrageous thing of Frank Iseby to wish a man like this on me, and I am certainly not going to - I did consort with this fellow unknown and now I want to wash my hands of him.

Watts:

I don't think I would speak of his past record.

H.M.Jr:

You are right. All we can say is we have decided not to use him. You are perfectly right.

- 6 -

- Klotz: That can be done.
- W.M.Jr: I think you are perfectly right. We can simply say that we are not going to make use of the services of Mr. Small.
- Schwartz: That is much better.
- W.M.Jr: I think you are absolutely right, Mrs. Klotz. What Mrs. Klotz suggested, we would just announce we are not going to make use of Mr. Small's services.
- W.M.Jr: Why don't you have a reporter ask you a question?
- W.M.Jr: That would be much better.
- W.M.Jr: You can say, "Absolutely not," period.
- W.M.Jr: That is following Mrs. Klotz' suggestion.
- Schwartz: It is up to anybody else to pursue it further, but you have already divorced yourself from any association with him. If you start talking about a man's record then it puts you in a vulnerable position.
- W.M.Jr: Well, it puts all future applicants to the Treasury in a dangerous position.
- Schwartz: Well, it also raises the question of why did we go this far without having learned more about the man.
- Klotz: supposing they ask you the question, "Well, why not?"
- W.M.Jr: When did you study law?
- Klotz: Well, I have been sitting in so many conferences.

- H.M.Jr: What is the answer to that question?
- Schwarz: We have made a careful investigation.
- Traves: You couldn't do that now. If you want to say that, Chick, we have to go ahead and complete our investigation. I think all the careful investigation would be to look up the Detroit police record.
- Belmont: When will we get that?
- Traves: By three thirty.
- O'Connell: I think you could just say, we decided not to use him.
- H.M.Jr: I think that is right. Just say we are not going to use him. We don't care to go into it. I just don't care to go into it.
- Wain: I still think there is something in Harold's point. The Detroit paper also stated the nature of Small's connection here with the Treasury. He wasn't to be used by us in any way. He was doing something on his own, a volunteer service which he came down here to discuss with us. That is all.
- Traves: As I remember what you said to this man --
- H.M.Jr: Excuse me. Ferdie hasn't read the thing. Ferdie, read the thing that was sent to me and let Schwarz read it. You will get the implication back of that thing, both of you will. You read it, too, Chuck. You will get what is behind it.
- Traves: I remember what you said to the man was that you would like to have him come to Washington to go over with us a plan for extending that Wayne County activity to the rest of the country. That is as far as you ever committed yourself.

- 8 -

- H.M.Jr: Harold, listen, I have been in the Government service eight years, and you have been in it twenty-eight years but the one thing that normally - I always say in Washington you get at least one or two warnings. I don't want to even wait for one. I don't want to wait to be attacked on this fellow. I simply want to come up and say the normal thing would be for somebody to say, "Well, are you using this man?" "No, we just decided not to use him."
- Graves: I certainly can see no objection to that.
- H.M.Jr: Then if somebody attacks me I will say, "I announced on September 29 that we were not making use of Mr. Small's services."
- Graves: If somebody in your press conference could ask that, your answer then could be "No, we are not going to use him."
- Calma: But you don't have to wait for verification if you don't give any reasons.
- Klots: That is right.
- H.M.Jr: No, I am not going to give any reasons.
- Graves: That is perfectly all right, but for you to bring this up yourself, right out of thin air, would be terribly bad, in my opinion.
- H.M.Jr: Well, we can get the question, "Are you going to use --"
- Schwarz: "Is Mr. Roy Small going to be appointed to the Defense Staff in Michigan?"
- H.M.Jr: Yes.
- Kuhn: Was there ever any question of his being appointed to the Defense Savings Staff?

- 7 -

- E.M.Jr: Well, just some question, "Are you going to use him in connection with that?" The plan was, we were going to use him to help sell the thing nationally, not just at Detroit. The man was brought down here to help us get all of the - all of the juke boxes and he did help us. That is the joke of it.
- Graves: Well, no more than to make a plan. If this thing happens, that plan collapses and we will have to make another plan.
- E.M.Jr: That plan collapses?
- Graves: Yes, because Small was to be used as an important cog in that --
- E.M.Jr: How was he going to be used?
- Graves: Contacting his organization throughout the whole country. That was Small's part in that.
- E.M.Jr: Well, I would drop the plan.
- Graves: Of course we will drop it, but nothing actually has been accomplished.
- Klotz: If they ask that question and you answer it, does it necessarily mean that they will make use of it, that they will print it?
- Schwartz: Not necessarily, but the record is there.
- E.M.Jr: They will use it. They will send it back to Detroit. Chick will tell them that this is for the Detroit papers.
- Schwartz: Yes.
- E.M.Jr: And the Ford organization, whoever is watching that, he will see it in the papers and say,

"Oh, oh, Morgenthau was too smart." Or Father Coughlin, who is terrifically anti-labor - Father Coughlin was so anti-labor he will say, "Well, Morgenthau is too -" here Father Coughlin, for instance, if he writes the thing attacking me, I will say, "Here are the stenographic notes, and you have got to retract this thing," and I will go to the Archbishop of the district and tell him Father Coughlin has got to publish a retraction in the paper, because I said it, you see.

Schwarzs

If you make this statement you will have taken the wind out of any story.

H.M.Jr:

Then if they do it, if they attack me, I can do what we did before, prepare the letters for a basis of the suit, which was written, and I sent it to the Cardinal in Chicago and I sent it to the Bishop in Detroit, and a copy to what-is-his-name, and just as soon as they saw I was getting ready for a suit, Father Coughlin backed out. Were you in on those things?

Cairns:

No.

H.M.Jr:

And I made them back down, I think it is twice now. But then my record is clear. Otherwise he would say, "Well, Morgenthau never said he did." Am I right on the slander?

Cairns:

Oh, yes. If you don't go into any reasons today --

H.M.Jr:

But I meant if Father Coughlin - supposing he devotes a page, how I employed this panderer to help me sell things.

Cairns:

Well, there you have him.

- 11 -

H.M.Jr: And if I say here that - "Are you going to use Mr. Small's services?" "No, Mr. Bones, we have decided that we are not going to use Mr. Small in connection with any Treasury work."

Cairns: "Anywhere in the United States."

H.M.Jr: "Anywhere in the United States." Isn't that the basis, if they attack me?

Graves: That is basis - you have a sufficient basis for --

Cairns: Without that.

Graves: If you didn't employ him.

Cairns: By making the statement, you have a psychological advantage.

H.M.Jr: When I can go to court, can't I?

Cairns: Yes, but you will need --

H.M.Jr: Joe?

O'Connell: I say in answer to a question you should say that you won't use him. That is all.

H.M.Jr: Kades?

Kades: I think you should, Mr. Secretary. I was just asking Ferdie whether it would be possible to say that you are not and don't intend to use him because we have simply been speaking about intending to use the services anywhere, and he thinks it would be possible.

H.M.Jr: I will simply say, "I have no intention of

using Mr. Small anywhere in the United States in connection with any - I don't intend in any way to employ Mr. Small."

Spears:

I wouldn't overstate that, Mr. Secretary, I would not over-emphasize that, because if you do, then people are going to smell a rat.

Schwartz:

I would answer just a direct question.

H.M.Jr:

"I don't intend to employ him."

Schwartz:

You might want to say you found it is not necessary to employ him.

H.M.Jr:

No.

O'Connell:

No.

Zohar:

No, you are not employing him.

H.M.Jr:

Am not and don't intend to.

Yaden:

I think there is an additional reason, Mr. Secretary, beside the possibility of Pegler or somebody picking it up. It seems to me that an ordinary person in Detroit reading that in the newspapers will say, "What kind of fellows are going to be used in the Defense Bond program?"

H.M.Jr:

I am glad you put it on the higher plane, Chuck.

Schwartz:

The implications in that story are even though they might have been planted by him and his group that he is going to be connected.

H.M.Jr:

Well, I don't know whether he gave it out or whether it is Frank Iseby.

- 13 -

Kuhn: You remember Small's line here the other day, about how juke boxes had been tainted with racketeering and how the juke box industry was so anxious to get away from this --

Klotz: Maybe he has turned over a new leaf.

Kuhn: to get away from this taint, that they want to show what good fellows they can be?

Eairns: Don't forget he was acquitted of these three charges.

Graves: Case dismissed. He was never tried.

Klotz: Well, the witnesses ran out on him.

Eairns: Well, that is what the blotter shows. It is probably true.

H.V.Jr: It says here, "Small will fly to Washington for further talks with Morgenthau. It was learned that Small might be loaned by the CIO to the Treasury Department to help in the music box drive. Two companies have already offered their services to help." I think that is all right. Are you satisfied?

Klotz: Yes.

H.V.Jr: I am satisfied.

Klotz: If Mr. Graves is.

Graves: Yes, I am, entirely, if there is a question. All I objected to was your making more out of this than I think you should, by bringing it up yourself.

H.V.Jr: O.K., Counsellor.

Graves: Fine.

H.M.Jr: Listen, Counsellor, at three thirty, between three thirty and four, if you should hear anything more on his record, let me know, will you?

Graves: Well, if it is simply a verification of the record, I won't bother.

H.M.Jr: But if the man is a lilly --

Graves: Oh, yes.

H.M.Jr: I have been done a great harm, injury.



TREASURY DEPARTMENT
WASHINGTON

130

September 29, 1941.

MEMORANDUM FOR THE SECRETARY:

Complying with your note of this morning, we have done the following since Mr. Isbey's visit on Thursday:

Schools

The opinion here (including Odegard) is that Isbey's school plan needs much revision before we can properly suggest it for other States. It smacks too strongly of straight sales promotion. We are accordingly proceeding with the preparation of material which can go out to all States, suggesting a program for the schools in connection with Defense Savings, which will be primarily educational and only secondarily selling.

I believe that this can be ready for distribution shortly.

Labor Unions

We have authorized Mr. Isbey, as an experiment, to hire on his rolls a group of five or six Union workers to be used in promoting interest in the salary allotment plan among employee groups in Michigan. Further activity will depend upon the outcome of this experiment. We hope that we may find material in this way to put on our staff permanently for use in other States

GRAVES.

September 29, 1941

131

My dear Mr. Barnard:

I beg to acknowledge receipt of your letter of September 25th enclosing copy of your letter to Mr. E. K. Rand, of Harvard.

I am delighted that you will be with me, starting on October 6th, and I feel that together we can render a service to our country in these most difficult days.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Chester I. Barnard,
540 Broad Street,
Newark, N. J.

File to Miss Conway

CHESTER I. BARNARD
840 BROAD STREET
NEWARK, N. J.

September 23, 1941

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

Sir:

Confirming our conference and my conversation with you by telephone this afternoon:

I shall report for duty at your office on October 6. I proposed to give you my entire time except for the ninth of October, when I have an engagement I can not properly avoid.

My Board has granted me leave with pay.

You asked me to send you a copy of the statement which I wrote for the Harvard Committee. I am enclosing the statement and the letter which elicited it. I have been told that it was published in March or April in a Sunday edition of the New York Herald Tribune but I have never seen it, nor heard any comment about it.

Yours respectfully,

Chester I. Barnard.

COPY

133

107 Lake View Avenue
Cambridge, Mass.

January 21, 1941.

Chester E. Barnard, Esq.
540 Broad Street
Newark, New Jersey

Dear Mr. Barnard:

I am writing to you on behalf of our Committee on Defense of Harvard to inquire if you would be willing to make a statement -- not too long -- for us of your views on the probable conditions of business in our country in case Hitler should subdue Britain but not attempt an invasion of the U.S.A. We are specially concerned with the tone of "appeasement" manifested among certain business men, who think that our commercial and financial success would not be seriously injured if Hitler's Germany controlled a new Europe.

I have secured a statement against "appeasers" from my friend, Thomas W. Lamont, and we are anxious to add to that similar declarations from other men of eminence and then to unite them in one communication to be disseminated as widely as possible.

If you are willing to let us have such a statement, the Committee will be most grateful. Let me add the hopes expressed by your friend, Miss Gladys W. McCafferty, who is a member of the central committee of our organization.

Sincerely yours,

(Sgd) E. E. Rand

Professor of Latin
Harvard University

COPY

134

January 27, 1941.

Professor E. K. Rand,
107 Lakeview Avenue,
Cambridge, Massachusetts.

Dear Professor Rand:

In reply to your letter of the 21st instant, I submit the statement following this paragraph. It seems to me unsuited to the propaganda of the Committee on Defense, of Harvard; but you may use it, if you wish, in whole but not in part.

Decisions relating to the possibility of a German defeat of Britain, not to be followed by an attempted German invasion of the United States, should be based upon our estimate of the interests of our children's children, not upon our immediate interests, with as little admixture of present sentiments as may be. The scale of world-wide interdependencies is too large for any shorter focus, and the conditions are too cloudy for a longer one.

I at present believe their interest would be best served by a coherent formal organization of the world politically and economically; and that any method of accomplishing this will have become by the second generation preferable to failure. The methods now possible seem to be three, each involving force of arms at least initially: (1) organization under the hegemony of Germany and her allies; (2) a similar authoritarian organization under Great Britain and the United States; and (3) a world federal government (not league) democratic in ultimate orientation under the leadership of Great Britain and the United States.

The defeat of Great Britain by Germany would appear to eliminate the second and third alternatives, the most promising for our people. The first would be incomplete, meaning the commercial and political isolation of the United States. The dependence of the German people upon external supplies of raw materials for subsistence would constitute a persistent motive for the exclusion of the United States from world commerce except on terms of Germany and her allies. It is possible for us to subsist in this degree of isolation, though it would restrict our welfare. The restrictions would be less onerous, but perhaps more irritating, than probable under continued world disorganization. Such conditions might be tolerable except for the constant threat of war for political reasons. This would certainly jeopardize our welfare.

Against such views are these, for example, among several other possibilities; (1) a successful but impoverished Germany could not exploit its victory fast enough to maintain its organization. It could collapse for many reasons. If it did, I believe

the world disorganization then resulting would be a calamity even to us. (2) The British might become totalitarian and a most dangerous and uncomfortable partner. This is an important possibility, also leading to disorganization. (3) The United States might become totalitarian, either fascist or communist variety. This would mean general impoverishment for this country. (4) a world organization, if achieved, would not endure on first attempt. This is probable.

Notwithstanding my opinions as expressed, I believe that neither I nor anyone is capable of a probably sound estimate of future conditions under the various alternatives which may now be contemplated. We are compelled to gamble rather desperately with the interests of our children and their children, not knowing what they will think, after we are gone, their interests are. I would gamble with the British, and attempt to set up a world government. However, the question of better or worse business as such for its own sake now or later seems to me of so little importance in comparison with the major issues that I am unable to discuss it. In fact, it is a question which has no sense for me.

It was pleasant to hear from Miss McCafferty by your letter. Please convey to her my best compliments.

Sincerely yours,

September 29, 1941

136 ✓

Dear Harry:

I am sending you herewith a complete copy of the correspondence that I have had with the President in regard to the Russian financial situation as it ties in with the English.

*(Ltr dated
9-25)*

To date, I have had no reply from the President.

After reading this correspondence, I would appreciate it if you would telephone me as I really think the English should have an answer.

Yours sincerely,

Honorable Harry Hopkins,
The White House.

September 29, 1941
3:55 p.m.

EMJr: Hello.

Harry
Kobrine: Oh, hello, Henry.

EMJr: Hello, Harry.

H: I've just read this letter.

EMJr: Yes.

H: From the British.

EMJr: Yes.

H: That's.....

EMJr: Kind of complicated, isn't it?

H: I'll say it's complicated.

EMJr: Yeah.

H: I can see the real complication gets into
this business of the British taking dollars.....

EMJr: Yeah.

H:from the Russians. And after we've
broken our necks to provide dollars for the
British to buy over here.

EMJr: And who gets the gold? I mean, they want the
gold.

H: They want gold, too. Yeah.

EMJr: I thought.....

H: I wonder how much of their stuff, actually
though, would come under that section of the
stuff.

EMJr: I don't know.

H: I think most of it - for instance, they're selling - they're sending them two hundred airplanes a month.

HMJr: Yeah.

H: Well, now, that would come under the section where they say that military supplies from the sterling area we shall not ask for payment for military supplies from the sterling area.

HMJr: Yeah. Well, two things.

H: Yes.

HMJr: One, don't you think that Averill Harriman ought to have that?

H: You mean the British one?

HMJr: No, the British memo to me.

H: Well, he's got the British - he knows what the British financial arrangements are with the Russians.

HMJr: Well, I wonder if he knows that they're putting a thing like that up to us.

H: But I don't think he thinks - I don't think he has any idea of the complications of this dollar business and gold business.

HMJr: Well, what.....

H: You mean, what we can say to him - you mean that apropos of the wire that went to him Saturday or Friday.

HMJr: Yeah.

H: Your wire.

HMJr: Yeah.

H: To let Harriman know that the British are

trying to get gold for certain types of purchases.

EMJr:

Yeah.

E:

Is that it?

EMJr:

Yeah.

H:

And won't he please pry loose that other answer to that wire.

EMJr:

Yeah.

E:

You don't want him to handle - do anything about the British thing, do you?

EMJr:

No, just that he knows, because he's - after all, he's on the spot. He's dealing with them every minute.

E:

Yeah.

EMJr:

And I kind of thought it was, oh, a little bit kind of pushing us.

E:

Yeah.

EMJr:

You know.

E:

Yeah.

EMJr:

But I've had no answer from the President.

E:

Uh huh. I haven't seen him. I suppose he took this to Hyde Park with him.

EMJr:

Yeah. And I'm not going to answer Bewley until I do hear from the President.

H:

No. I don't see how you dare.

EMJr:

No.

E:

Henry, I think the real implication in your letter,

apart from the detail of that British thing, is that I think that this thing - this whole dollar problem with Russia in the light, especially, of this British memoranda.....

HMJr:

Yeah.

H:

.....the whole thing are all hooked up together.

HMJr:

I think so.

H:

I don't see how you get away from them.

HMJr:

That's what I was trying to get over to the President.

H:

Yeah. What I think, the President should write you a letter saying that this all sounds a little complicated to me and I don't know how to answer you and I want you to handle all things concerning dollar relationships with the Russians and relate them in an appropriate manner to the British.

HMJr:

Well, that's what I'm doing for the British, the Chinese, and the Canadians.

H:

Well.....

HMJr:

And.....

H:

.....I can see here how the British might take your eye teeth while you're not looking.

HMJr:

That's right. Somebody ought to be in the position he knows the whole picture.

H:

That's right. That's right.

HMJr:

That was what I was trying to get over to him.

H:

Yeah. Well, that was perfectly clear to me that that ought to be done right away.

HMJr:

Yeah.

H: He's coming back when - tonight or tomorrow?
HMJr: I understood he is leaving there tonight.
H: Uh huh.
HMJr: Uh huh.
H: Well, let's see.....
HMJr: How are you feeling?
H: I'm feeling pretty good, Henry. I'm struggling with this Russian stuff, airplanes and tanks, and everything.
HMJr: Are you taking care of yourself?
H: Yeah, within limit. I go to bed early and try to.....
HMJr: Alone?
H: (Laughs) Yes.
HMJr: I see.
H: I usually do.
HMJr: (Laughs) All right.
H: I certainly do, Henry.
HMJr: Well, I've got to take your word for it.
H: Yeah. All right, Henry.
HMJr: All right.
H: All right, old boy.
HMJr: Good-bye.
H: Good-bye.

For Miss Chauncey

TREASURY DEPARTMENT

142

INTER-OFFICE COMMUNICATION

DATE September 29, 1941

TO Secretary Morgenthau

FROM Mr. Bell *MWB*

STRICTLY CONFIDENTIAL

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

| | <u>No. of Shares Sold</u> | <u>\$ Proceeds of Shares Sold</u> | <u>Nominal Value of Bonds Sold</u> | <u>\$ Proceeds of Bonds Sold</u> |
|--|---------------------------|-----------------------------------|------------------------------------|----------------------------------|
| Sept. 22 | 593 | 20,240 | 5,000 | 3,080 |
| 23 | 440 | 8,749 | 31,500 | 16,780 |
| 24 | 180 | 11,186 | 11,000 | 7,286 |
| 25 | 10 | 1,088 | N11 | N11 |
| 26 | 10 | 1,330 | N11 | N11 |
| 27 | N11 | N11 | N11 | N11 |
| | <u>1,233</u> | <u>42,593</u> | <u>47,500</u> | <u>27,146</u> |
| Sales from Feb. 22, 1940 to Sept. 20, 1941 | <u>9,809,153-1/2</u> | <u>280,387,849</u> | <u>45,093,716</u> | <u>37,057,781</u> |
| Total Feb. 22, 1940 to Sept. 27, 1941 | <u>9,810,386-1/2</u> | <u>280,430,442</u> | <u>45,141,216</u> | <u>37,084,927</u> |

TREASURY DEPARTMENT

143

INTER-OFFICE COMMUNICATION

DATE September 29, 1941

TO Secretary Morgenthau

FROM Mr. Bell *awb*

STRICTLY CONFIDENTIAL

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

| | <u>\$ Proceeds of Shares Sold</u> | <u>\$ Proceeds of Bonds Sold</u> | <u>Total</u> | |
|--|---------------------------------------|--------------------------------------|--------------------|--------------------|
| Sept. 22 | 20,240 | 3,080 | 23,320 | |
| 23 | 8,749 | 16,780 | 25,529 | |
| 24 | 11,186 | 7,286 | 18,472 | |
| 25 | 1,088 | Nil | 1,088 | |
| 26 | 1,330 | Nil | 1,330 | |
| 27 | Nil | Nil | Nil | |
| | <u>42,593</u> | <u>27,146</u> | <u>69,739</u> | |
| Sales from | | | | |
| Feb. 22, 1940 to | | | | |
| Sept. 20, 1941 | <u>280,387,849</u> | <u>37,057,781</u> | <u>317,445,630</u> | |
| Total | | | | |
| Feb. 22, 1940 to | | | | |
| Sept. 27, 1941 | <u>280,430,442</u> | <u>37,084,927</u> | <u>317,515,369</u> | 317,515,369 |
| \$ proceeds of non-vested securities sold | | | 400,000 | |
| Sept. 15, 1941 to Sept. 20, 1941 | | | | |
| \$ proceeds of non-vested securities sold | | | <u>233,200,000</u> | |
| Sept. 1, 1939 to Sept. 13, 1941 | | | | |
| \$ proceeds of non-vested securities sold | | | <u>233,600,000</u> | <u>233,600,000</u> |
| Sept. 1, 1939 to Sept. 20, 1941 | | | | |
| | | | <u>GRAND TOTAL</u> | <u>551,115,369</u> |
| 9 Units sold from Aug. 18, 1941 to Sept. 27, 1941 for | | | | \$42 |
| 11 Shares Stock Dividend sold from Aug. 18, 1941 to Sept. 27, 1941 for | | | | \$123 |
| 35 Rights sold on Sept. 22, 1941 for | | | \$47 | |
| 55,537 Rights sold from July 24, 1941 to Sept. 20, 1941 for | | | <u>\$102,543</u> | |
| 55,572 Rights sold from July 24, 1941 to Sept. 27, 1941 for | | | | <u>\$102,590</u> |

September 29, 1941

CONFIDENTIAL

Dear Mr. Knabe:

Permit me to acknowledge, on behalf of Secretary
Mergenthau, the receipt of your letter of September 25, 1941,
enclosing your compilation for the week ended September 17,
1941, showing dollar disbursements out of the British Empire
and French accounts at the Federal Reserve Bank of New York
and the means by which these expenditures were financed.

Faithfully yours,

(Signed) D. W. DELL

Under Secretary of the Treasury

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

lap-9/29/41

COPY

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Federal Reserve Bank of New York

September 25, 1941

CONFIDENTIAL

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

I am enclosing our compilation for the week ended September 17, 1941, showing dollar disbursements out of the British Empire and French accounts at this bank and the means by which these expenditures were financed.

Faithfully yours,

(Signed) L. W. Knoke
Vice President

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

Enclosure

COPY:lap-9/27/41

ANALYSIS OF BRITISH AND FRENCH ACCOUNTS
(In Millions of Dollars)

Week Ended Sept. 17, 1941.

Series
Continued

| PERIOD | BRITISH ACCOUNTS | | | | | | | | FRENCH ACCOUNTS | | | | | | |
|--------------------------------------|------------------|------------------------|--------------|---------------|--------------------------|-------------------------------|-------------------|---------------------------------------|-----------------|------------------|--------------|---------------|---------------|-------------------|--------|
| | Total Debits | Gov't Expenditures (a) | Other Debits | Total Credits | Proceeds of Sale of Gold | Proceeds of Other Credits (b) | Other Credits (c) | Net Incr. (+) or Decr. (-) in Balance | Total Debits | Expenditures (d) | Other Debits | Total Credits | of Gold Sales | Other Credits (e) | |
| First year of war (8/29/39-8/28/40)* | 1,795.2 | 800.8 | 3,167.6 | 1,829.8 | 1,356.1 | 58.0 | 490.1 | + 35.0 | 866.3 (a) | 415.6 (c) | 448.7 | 1,098.4 | 900.2 | 195.1 (e) | +293.1 |
| 1940 | | | | | | | | | | | | | | | |
| Aug. 29 - Oct. 2 | 516.8 | 244.8 | 72.5 | 308.9 | 391.5 | 6.0 | 31.4 | - 7.9 | 5.6 | 4.4 | 4.2 | 1.3 | - | 1.4 | - 7.2 |
| Oct. 3 - 30 | 196.7 | 157.8 | 28.9 | 198.5 | 160.5 | 6.0 | 32.0 | + 1.8 | 0.5 | 0.3 | 0.2 | 0.9 | - | 0.8 | - 0.2 |
| Oct. 31 - Nov. 27 | 241.0 | 201.1 | 39.9 | 259.5 | 210.0 | 18.0 | 31.5 | + 18.5 | 0.8 | 0.1 | 0.7 | 0.7 | - | 0.7 | - 0.1 |
| Nov. 28 - Dec. 31 | 224.8 | 208.8 | 27.8 | 198.0 | 111.8 | 26.0 | 60.6 | + 36.6 | 2.1 | - | 2.1 | 0.6 | - | 0.6 | + 1.1 |
| Week ended through Dec. 31, 1940 | 2,782.3 | 1,425.6 | 1,356.7 | 2,793.1 | 2,309.8 | 106.0 | 676.6 | + 10.8 | 878.3 | 421.4 | 456.9 | 1,098.4 | 900.2 | 198.2 | +293.1 |
| 1941 | | | | | | | | | | | | | | | |
| Jan. 8 - 29 | 197.4 | 162.7 | 34.7 | 259.9 | 176.2 | 52.0 | 31.7 | + 62.5 | 1.7 | - | 1.7 | 0.5 | - | 0.5 | - 1.8 |
| Jan. 30 - Feb. 26 | 164.6 | 137.8 | 26.8 | 101.4 | 26.6 | 26.0 | 48.9 | + 83.2 | 0.2 | - | 0.2 | 0.2 | - | 0.2 | - |
| Feb. 27 - Apr. 2 | 229.7 | 157.6 | 32.1 | 237.9 | 103.7 | 72.0 | 62.2 | + 8.2 | 0.7 | - | 0.7 | 1.6 | - | 1.6 | + 0.1 |
| Apr. 3 - Apr. 30 | 126.0 | 101.9 | 24.1 | 276.9 | 125.6 | 15.0 | 78.3 | + 98.9 | 0.9 | - | 0.9 | 0.9 | - | 0.9 | + 0.1 |
| May 1 - May 28 | 122.6 | 90.6 | 32.0 | 91.0 | 6.3 | 32.0 | 52.7 | + 31.6 | 0.4 | - | 0.4 | 0.8 | - | 0.8 | + 0.1 |
| May 29 - July 2 | 140.5 | 113.8 | 26.7 | 105.1 | 1.9 | 11.0 | 92.2 | + 35.4 | 21.5 | - | 21.5 | 0.9 | - | 0.9 | + 2.1 |
| July 3 - July 30 | 101.4 | 75.6 | 28.3 | 61.5 | - | 6.0 | 55.5 | + 39.9 | 0.5 | - | 0.5 | 0.3 | - | 0.3 | + 0.2 |
| July 31 - Aug. 27 | 131.7 | 92.2 | 39.5 | 149.2 | - | 4.0 | 145.2 | + 17.5 | 1.0 | - | 1.0 | 0.5 | - | 0.5 | + 0.1 |
| Second year of war (8/29/40-8/27/41) | | | | | | | | | | | | | | | |
| Aug. 28 - Oct. 1 | | | | | | | | | | | | | | | |
| Oct. 2 - Oct. 29 | | | | | | | | | | | | | | | |
| Oct. 30 - Dec. 3 | | | | | | | | | | | | | | | |
| Dec. 4 - 31 | | | | | | | | | | | | | | | |
| WEEK ENDED: | | | | | | | | | | | | | | | |
| Aug. 27 | 36.5 | 22.5 | 14.0 | 5.2 | - | - | 5.2 | -31.3 | - | - | - | - | - | - | - |
| Sept. 3 | 34.5 | 29.9 | 4.6 | 9.0 | - | 2.0 | 7.0 | -25.5 | - | - | - | 0.1 | - | 0.1 | +0.1 |
| 10 | 31.9 | 20.0 | 11.9 | 11.7 | - | - | 11.7 | -20.2 | - | - | - | 0.1 | - | 0.1 | +0.1 |
| 17 | 26.3 | 18.0 | 8.3 | 32.0 | 19.6 | - | 12.4 (f) | + 5.7 | 0.1 | - | 0.1 | 0.2 | - | 0.2 | +0.1 |

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

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

(See footnotes on reverse)

England (through June 19, 1940) 27.6 million
Ireland (since June 19, 1940) 45.0 million

Week ended Sept. 17, 1941 \$ -
Cumulation from July 5, 1940 \$162.7

million
million

* For monthly breakdown see tabulations prior to April 25, 1941.

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

Week Ended Sept. 17, 1941.

Strictly
Confidential

| PERIOD | CREDIT | | | | | | | | | DEBIT | | | | | | |
|--------------------------------------|--------------|-----------------------------------|--------------|---------------|------------------------|-------------------------------------|----------------|---------------|---------------------------------------|--------------|-----------------------------------|--------------|---------------|------------------------|---------------|---------------------------------------|
| | Total Debits | Transfers to Official British A/C | Other Debits | Total Credits | Proceeds of Gold Sales | Transfers from Official British A/C | | Other Credits | Net Incr. (+) or Decr. (-) in Balance | Total Debits | Transfers to Official British A/C | Other Debits | Total Credits | Proceeds of Gold Sales | Other Credits | Net Incr. (+) or Decr. (-) in Balance |
| | | | | | | For Own A/C | For French A/C | | | | | | | | | |
| First year of war (8/29/39-8/28/40)* | 323.0 | 16.6 | 306.4 | 504.7 | 412.7 | 20.9 | 36.7 | 32.4 | +181.7 | 31.2 | 3.9 | 27.3 | 36.1 | 30.0 | 6.1 | + 4.9 |
| 1940 | | | | | | | | | | | | | | | | |
| Aug. 29 - Oct. 2 | 44.5 | - | 44.5 | 45.9 | 16.4 | - | 27.5 | 0.2 | - 0.4 | 8.7 | 2.5 | 6.2 | 8.0 | 6.7 | 1.3 | - 0.7 |
| Oct. 3 - 30 | 26.7 | - | 26.7 | 28.6 | 14.0 | - | 14.3 | 0.3 | + 1.9 | 10.1 | 7.5 | 2.6 | 7.9 | 6.5 | 1.4 | - 2.2 |
| Oct. 31 - Nov. 27 | 35.2 | - | 35.2 | 69.6 | 49.2 | - | 16.7 | 3.7 | + 34.4 | 3.1 | 0.6 | 2.5 | 3.6 | 2.1 | 1.5 | + 0.5 |
| Nov. 28 - Dec. 31 | 48.0 | - | 48.0 | 60.6 | 42.5 | - | 13.7 | 4.4 | + 18.6 | 4.8 | - | 4.8 | 6.8 | 4.8 | 2.0 | + 2.0 |
| War period through Dec. 31, 1941 | 477.2 | 16.6 | 460.6 | 707.4 | 534.8 | 20.9 | 110.7 | 41.0 | +230.2 | 57.9 | 14.5 | 43.4 | 62.4 | 50.1 | 12.3 | + 4.8 |
| 1941 | | | | | | | | | | | | | | | | |
| Jan. 2 - 29 | 33.7 | - | 33.7 | 33.9 | 16.9 | - | 15.0 | 2.0 | + 0.2 | 4.8 | - | 4.8 | 6.8 | 5.1 | 1.7 | + 2.0 |
| Jan. 30 - Feb. 26 | 31.1 | - | 31.1 | 24.3 | 14.3 | - | 6.8 | 3.2 | - 6.8 | 5.0 | 1.7 | 3.3 | 3.2 | 0.6 | 2.6 | - 1.8 |
| Feb. 27 - Apr. 2 | 60.9 | - | 60.9 | 46.0 | 23.1 | - | 19.1 | 3.8 | - 14.9 | 5.6 | 0.8 | 5.0 | 13.7 | 12.5 | 1.2 | + 7.9 |
| Apr. 3 - Apr. 30 | 34.9 | - | 34.9 | 35.9 | 12.5 | - | 10.5 | 12.8 | + 1.0 | 2.6 | - | 2.6 | 5.9 | 4.6 | 1.3 | + 3.1 |
| May 1 - May 28 | 39.2 | - | 39.2 | 26.6 | 15.8 | - | 0.5 | 9.3 | - 13.7 | 5.4 | - | 5.4 | 4.9 | 4.1 | 0.8 | - 0.5 |
| May 29 - July 2 | 45.2 | - | 45.2 | 48.2 | 16.3 | - | - | 31.9 | + 5.0 | 10.1 | - | 10.1 | 5.8 | 4.5 | 1.3 | - 4.3 |
| July 3 - July 30 | 30.6 | - | 30.6 | 21.2 | 15.2 | - | - | 6.6 | - 8.8 | 6.4 | - | 6.4 | 6.1 | 4.8 | 1.3 | - 0.1 |
| July 31 - Aug. 27 | 32.5 | - | 32.5 | 23.6 | 10.0 | 3.4 | - | 10.2 | - 8.9 | 5.2 | - | 5.2 | 8.3 | 6.6 | 1.7 | + 3.1 |
| Second year of war (8/29/40-8/27/41) | | | | | | | | | | | | | | | | |
| Aug. 28 - Oct. 1 | | | | | | | | | | | | | | | | |
| Oct. 2 - Oct. 29 | | | | | | | | | | | | | | | | |
| Oct. 30 - Dec. 3 | | | | | | | | | | | | | | | | |
| Dec. 4 - 31 | | | | | | | | | | | | | | | | |
| YEAR ENDED: | | | | | | | | | | | | | | | | |
| Aug. 27 | 10.2 | - | 10.2 | 2.9 | 1.5 | - | - | 1.4 | - 7.3 | 2.1 | - | 2.1 | 0.7 | 0.2 | 0.5 | - 1.4 |
| Sept. 3 | 2.6 | - | 2.6 | 26.7 | 0.1 | - | - | 26.6 | +24.1 | 0.9 | - | 0.9 | - | - | - | - 0.9 |
| 10 | 3.5 | - | 3.5 | 3.4 | 2.9 | - | - | 0.7 | - 0.1 | 1.0 | - | 1.0 | 0.1 | - | 0.1 | - 0.9 |
| 17 | 5.8 | - | 5.8 | 4.4 | 3.5 | - | - | 0.9 | - 1.4 | 1.4 | - | 1.4 | 0.2 | - | 0.2 | - 1.2 |

Weekly Average of Total Debits Since Outbreak of War

Through Sept. 17, 1941 @ 7.4 million

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

Treasury Department
Division of Monetary Research

149

Date September 30, 1941

TO: Secretary Morgenthau

From: H. D. White

Digest of British Newspaper
Clippings

This digest of clippings was done as an experiment by Mr. Barth. We think it is first rate. If you agree and are interested, we will turn over the clippings to him as they arrive and let him put them together into a readable story.

September 22, 1941.

To: Harry W. White

Re: Alan Barth

A glance at English newspapers furnishes some interesting sidelights on the impact of the war upon the daily lives of an embattled people. The normal patterns of their existence has been altered in innumerable details which, when separated from their context may seem unimportant, but which when taken together suggest profound and deep permanent changes in social organization.

The rationing and distribution of food under wartime conditions has been especially responsible for shifts in their habits. To a considerable degree, the purchasing of food -- from raw agricultural produce to the cooking and eating of a meal -- has been taken over by the Government. The extent to which this is true can be discerned from a news story in the Daily Express which commences: "Attempts to explain that competition from Lord Bolton's 'ritish' restaurants is threatening the existence of 5000 privately owned one-shops, have asked the Food Minister to receive legislation."

Production and distribution in accordance with need, rather than in accordance with ability to purchase, has in large measure become the rule in England. The principle is, of course, implicit in any system of rationing. But the principle must have achieved a high degree of acceptance when The Daily Herald can inveigh editorially as follows: "In shops in the West End of London there were yesterday on sale peaches at 5s. each, grapes at 17s. 3d a lb., melons at £2 each. The same sort of thing can be seen in a score of other cities and towns. Stupid, vulgar, trivial? Stupid and vulgar certainly. But trivial, no.... For it is a symptom of something radically wrong in our war-time economy.... These are days of shortage of labour, shortage of fuel, shortage of transport; of urgent need of all of them for essential and vital war services. And yet labour, fuel and transport are being used to produce, not munitions, not essentials of food and clothing and heating and service, but melons at £2 apiece. Either that -- or shipping is being used to import them. Is not that a sign and a symptom of something radically wrong?"

An account in the news pages of The Daily Herald of the conference at Llandudno of the Transport and General Workers' Union affords further illustration of this trend. Some of the resolutions offered at this meeting and calmly reported in the press would have been denounced as anarchy by some of our conservative newspapers over here. One resolution adopted called for nationalization of all forms of transport at the earliest possible moment. Its proponent, a Mr. Arthur Deaking, acting general secretary of the union, insisted that the transport problem would never be solved without elimination of the profit motive. Private enterprise, he said, had similarly proved a failure with inland waterways. The conference demanded the rationing of all foods, control of prices, control of catering establishments, more communal feeding centers and adequately supplied canteens for workers. "Food is a munition of war," said one speaker, complaining that "at present it is possible for rich people and others who can pull strings not only to get more than their share, but to corner the more nourishing foods."

There is still looting of food in England as the complaints of the Transport Workers indicate. But the penalties for being caught at it are extremely steep. A Food Order

issued in August by Lord Woolton provides that, from a date to be fixed for each food, no trader may, except under license, sell any of the specified foods, and no trader may buy any specified food unless the seller holds a license to sell it. Since the outbreak of the war, all food retailers have been required to be licensed by Local Food Control Committees if they sold any of some 30 specified foods including bread, cakes, confectionery, fish, fresh fruit, milk, meat, poultry and all the principal provision and grocery items. In July alone, food prosecutions over the whole of England totaled 2,348, the highest number of any month since the war began. Only 127 of these were unsuccessful.

A news story reports that, for refusing to sell tomatoes unless customers purchased something else, Frederick Herbert of Bethnal Green was sent to prison for one month and fine £35. A woman was fined £10 on each of two charges for not displaying price tickets on tomatoes and onions. The Evening Standard reports that "A section of the crowd at Salisbury racecourse on June 2 made a hostile demonstration against two men who sold oranges at an excess price." The offenders were fined £10 in each of four cases, selling oranges without a license, failing to exhibit a notice of maximum prices and two cases of selling oranges at an excess price.

On the other side of the ledger, The Daily Sketch reports that "Ten guineas were awarded against the Ministry of Food when summonses against an Ilford store and the manageress at its Rayleigh branch were dismissed at Southend."

One rather interesting device which has evolved out of the war's necessities is a "Shop while you Work scheme" for women war workers. Before going to work, women call at the grocers, leave an order, together with a certificate showing that they are doing a job of national importance and require special facilities for shopping. Their groceries will be ready for them to collect any time on Saturday up to 10 o'clock at night. Women war workers are reported in the papers to be delighted with the scheme.

An editorial in The Manchester Guardian throws a rather revealing light on the spirit in which such changes in the mode of living are accepted: "That seems a very shrewd example of wit and wisdom which led the London Divisional food officer to say yesterday that he would prefer the word "share" to "ration," because plenty of people were prepared to boast that they had secured more than their ration of food but not so many would boast that they had got more than their share ... The notion of a share as something which it is shameful to exceed goes deep."

October 1, 1941

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I gave a photostat of the memo signed by Hugh McDiarmid to Mr. Taylor, personal assistant to Mr. Morris Wilson.



TREASURY DEPARTMENT

156

PROCUREMENT DIVISION

WASHINGTON September 29, 1941

OFFICE OF THE DIRECTOR

MEMORANDUM TO THE SECRETARY:

In accordance with your memorandum of September 24, 1941, I talked with Captain Kintner who advised that the source of his information concerning an alleged "rake-off" from the English on a typewriter deal was Mr. Hugh McDiarmid, an employee of the Royal Typewriter Company.

Mr. McDiarmid's signed memorandum is attached, and he states, in substance, that Mr. Mosely, Purchasing Agent for the British Purchasing Commission, has favored personal friends with office supplies business to the exclusion of competitors, most of the business reportedly going to Don MacDonald, a personal friend of Mosely's.

It is understood that Mosely is an American employee of the British Purchasing Commission and that he purchases, with British funds, miscellaneous office supplies for use by the British Purchasing Commission organization.

If you wish, I will take this matter up with Sir Clive Baillieu of the British Purchasing Commission.

Clifton E. Mack
Clifton E. Mack,
Director of Procurement

E

September 30, 1941

This memorandum is in accordance with a request that the available information be furnished with reference to Mr. Mosely, Purchasing Agent for the British Purchasing Commission, 914 G Street NW., Washington, D. C.

Mr. Mosely, I understand, is the Purchasing Agent for office equipment and supplies for the EPC. There have been certain indications which raise the question as to the propriety of Mr. Mosely's purchasing methods which might be briefly summarized as follows:

Mr. Don MacDonald of the MacDonald Typewriter Company, 818 14th Street NW., Washington, D. C., is alleged to have been favored with business by Mr. Mosely because of personal friendship. MacDonald's own reputation is very shady. His concern sells typewriters and certain office equipment to the British Purchasing Commission. He apparently is very friendly with Mr. Mosely. While there is no specific evidence of any irregularity, it has been rumored that MacDonald has been able to get a substantial amount of business from the British Purchasing Commission and that competitors who have attempted to sell the EPC were unable to do so. It is further rumored that, after competitors attempted unsuccessfully to sell the EPC, Mr. MacDonald later bought the same machines from the same competitors and resold them to the EPC through Mosely necessarily at a higher price.

Mr. W. H. Wollowitz, president of the United Typewriter Company, 813 14th Street NW., visited Mr. Mosely approximately 10 days ago and told him that he would like to be considered insofar as any EPC purchases are concerned and wished to quote prices. According to Mr. Wollowitz, the remark made by Mr. Mosely that "MacDonald gets the business because he is a friend of mine." Mr. Wollowitz then commented in substance, "As a purchasing agent, aren't you interested in buying at the lowest competitive prices?" and Mr. Mosely is quoted as having replied, "Who is going to tell anyone about it?"

It was also rumored that Mr. Nye of the Allen Wales Adding Machine Co. has a "kick-back" connection with Mr. Mosely and Nye has made statements that he has been able to sell Mosely because of a "kick-back."

R. C. Sigloch, auditor for the Royal Typewriter Company, commented recently that Mr. Mosely was formerly employed by the Royal Typewriter Company in South Carolina and that he had difficulties with the Company which culminated in a threatened law suit. Further, that a bonding company that said Mr. Mosely's indebtedness to the Royal Typewriter Company has not been repaid by him.

Alarms of a similar nature with reference to alleged irregularities at the British Purchasing Commission have been so persistent that I feel it necessary, though distasteful, to present the matter to the attention of those charged with the administration of the lend-lease funds.


Hugh McDiarmid

A23

MEMORANDUM 158

FROM British Supply Council in North America

TO Mrs. Henrietta Klots

Compliments of E.N. Gray

STATEMENT NO. 34.AIRCRAFT SHIPPED TO U. K. AND OVERSEAS COMMANDS.

| | DESTINATION | ASSEMBLY POINT | By Sea Week Ended Sept. 6/41 | By Air Week Ended Sept. 28/41 |
|---------------|-------------|-----------------------|------------------------------------|-------------------------------------|
| | U. K. | U. K. | 3 | -- |
| Boeing III | U. K. | U. K. | 6 | -- |
| Boeing III | Middle East | Port Sudan | 2 | -- |
| <u>Boeing</u> | | | | |
| Boeing | U. K. | U. K. | 1 | -- |
| <u>Boeing</u> | | | | |
| Boeing III | U. K. | U. K. (via Gander) | -- | 28 * |
| <u>Boeing</u> | | | | |
| Boeing III | U. K. | U. K. (via Gander) | -- | 1 |
| <u>Boeing</u> | | | | |
| | | | 12 | 29 |

* The aircraft reported overline at destination
 The aircraft reported underlined at Dundalk.

British Air Commission,
 1st Mar 29, 1941.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

100

DATE September 27, 1941

TO Secretary Morgenthau
FROM Mr. Heas
Subject: Summary of Brookings Institution report on prices.

I am submitting herewith, in response to your request, a digest of the Brookings Institution report on "Effects of the Defense Program on Prices, Wages, and Profits", by Meyer Jacobstein and Harold G. Moulton.

Conclusions in brief

This report, published in a 43-page booklet, presents the following conclusions:

(1) We are now at the stage where a vicious spiral of rising costs and rising prices threatens the living standards of vast numbers of people with relatively fixed incomes. The lack of a sound coordinated price policy has already resulted in such damage that cannot be repaired.

The 21 percent rise in wholesale prices since 1939 is primarily attributable to the great rise in farm prices and to increasing labor costs.

(2) A further extensive price rise can be prevented by the adoption of policies directed at the primary sources of price disturbance:

(a) The most important single step is "to reduce somewhat the prices of important agricultural products. This could readily be done by releasing to the market a portion of the crops now stored in Government warehouses." Farmers, nevertheless, could expect some increase in income as a result of the Department of Agriculture's expansion program.

(b) The second essential step is to control wage rates. This can be done, while safeguarding the recent improvement in the position of labor, if the forces responsible for rising living costs are checked. Labor may in any case expect some further expansion of earnings from increasing hours of work as defense needs become more intense.

(c) It would still be necessary, however, to make sure that Government fiscal and credit policies work in harmony with the program adopted.

(d) If stabilization of production costs should result in higher business profits, additional gains to stockholders can readily be prevented by taxation methods.

(4) The Administration's price control bill does not reach the heart of the present inflation process. "Unless the Government is willing to restrict further increases in the prices of agricultural products and wages, it will be impossible for the Office of Price Administration to keep the prices of manufactured products from rising." If a co-ordinated price program of the kind here indicated were put into effect, the whole price problem would be profoundly altered.

The developing price problem

The authors introduce their report by calling attention to the enormous increase in total production and income during the first year of the defense effort, which has brought appreciable gains to each of the three broad classes of the population — businessmen, farmers, and laborers.

Citing National City Bank tabulations, the profits of corporations representing 90 percent of all corporate income rose 19 percent in 1940 over 1939. More recent data for 200 leading corporations, representing one-fourth of the total corporate income, show a year-to-year increase of 16 percent in the 12-month period ended June 30, 1941, after allowances for taxes, although the increase in published earnings has levelled off since the beginning of 1941.

Labor has enjoyed more extensive gains. Average weekly earnings per worker in manufacturing industries, for comparison, rose 26 percent between July 1940 and June 1941, while total payrolls in those industries rose 55 percent. Real incomes of workers have risen at a much more rapid rate, taking into account the rise of only 4.7 percent in living costs during the period mentioned.

Farmers' cash incomes in 1941, on the basis of preliminary estimates of the Department of Agriculture, will show an increase of about 18 percent over the previous calendar year, almost entirely due to increased farm prices. In view of the fact that the cost of goods bought by farmers has shown a

relatively small advance, the increase in real incomes of farmers has been substantially greater.

In contrast to these gains, large numbers of people (particularly those with relatively fixed incomes) have suffered declines in real earnings as a result of rising living costs, increased taxes, and other factors. The same is true of numerous business enterprises that have not benefited from the defense program.

Origin of advance in prices

The report indicates that farm products have led the price advance, and the "Government policy with respect to agriculture has been primarily responsible for the great rise in raw material prices." It cites the striking fact that the smallest price increase has been in metals and metal products, which lie at the very center of defense demands, while the greatest increase has been in farm products, where large surpluses exist. Farm products have advanced 45.3 percent since August 1939, while metals and metal products have advanced only 5.9 percent. Had it not been for the agricultural program, prices of farm products "would not have shown any extensive general rise."

The full effect of recent advances in farm prices has not yet been manifest at the consuming end, partly because of the usual lag in retail prices and partly because only a small portion of the new crops has yet been marketed and processed. Yet the high cost of living is already being used by labor as an argument for another cycle of wage advances. As the effects of the recent price increases become cumulatively apparent, insistent demands may be expected this fall for higher wages and salaries in every field of industry.

The dominating influence of agricultural prices in the rise in raw material costs leads the authors to conclude that a reduction in these prices is the most important step necessary for price control. The sale of Government holdings would be one method of accomplishing this. If the Government were in due course to offer the warehoused surpluses for sale in the market "the rise would be checked or even turned into a decline." No other definite suggestions are made.

Wage rates must be controlled

Control of wage rates is considered the second inescapable necessity, if we are to prevent the operation of the wage-price spiral with which we are immediately faced. Attention

is called to the fact that if wages continue to advance, the resulting increase in prices of goods farmers buy will mean that farm prices must advance further to achieve the desired price parity. "There is no escape from the spiral of rising prices if the parity provisions of the law are enforced and if wage rates are not stabilized. Either the city worker must bear a higher cost of living or the farmer must give up parity."

Rise not due to general inflation

The wide variations in price movements of individual commodities is cited as additional evidence that the rise so far has been due to the individual factors mentioned, rather than to some general inflationary factor such as credit expansion or Government fiscal policy, although the latter factors may become more important in the future. Furthermore, the advance cannot be directly attributed to the increase in mass purchasing power, since the price rises began at the producing and not at the consuming end.

The authors criticize the belief held by some economists that our unemployed labor force and unutilized plant capacity would prevent any extensive price rise. "The prevailing belief in Government circles that price rises could not occur so long as there remained a large volume of unemployed labor and capital goes far toward explaining why no deep concern was manifested until fairly recently over the price question Had the nature of the price inflation process been clearly perceived, steps would doubtless have been taken at a much earlier date to control the sources of price disturbance."

Finally, the authors conclude that since the Office of Price Administration has no authority over the farm price program and no authority over wages, this agency is fundamentally impotent to handle the price problem; likewise the price control bill now before Congress embodies no adequate measures to meet the real issues.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE September 29, 1941

TO The Secretary of the Treasury
FROM J. L. Houghteling

I called on Sidney Hillman last Thursday, as you suggested, and was able to arrange for one of his deputies to take a group of Lake Superior copper miners to call on Clifton Lusk of the Procurement Division on Friday morning. All concerned report that a very satisfactory meeting took place. While this meeting naturally had no direct bearing on the Procurement Division's negotiation for the purchase of copper, Mr. Hillman felt that it would have a very beneficial psychological effect on a difficult labor situation in the Lake Superior district.





OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT
PROCUREMENT DIVISION
WASHINGTON

165

September 29, 1941.

MEMORANDUM TO MR. GRAVES:

Re: Aluminum Collection Campaign

As of today O.P.A. has allocated 11,929,918½ pounds to the smelters, of which Procurement Division has directed the smelters to ship 11,241,503½ pounds. The smelters however have shipped only 5,127,133.10 pounds.

The arrangement to dispose of this scrap was made between O.P.A. and the smelters and was to the effect that the smelters were to pay the prices fixed by O.P.A.C.S., and to pick scrap up at the various central concentration points. O.P.A.C.S. fixed the prices but since the date thereof the maximum price of virgin aluminum has been reduced by the Aluminum Company of America. As a result, and also because of the small percentage of aluminum in the scrap, the smelters claim that the prices which have been fixed are too high for them to pay without suffering substantial loss. They have therefore, for one excuse or another, refused to move the scrap.

O.P.A. has been negotiating with Metals Reserve Company to have that company purchase the scrap aluminum from the smelters at a price lower than the present maximum price, in which event the price to be paid for the various scrap metals by the smelters would also be reduced. Some time has been consumed on these negotiations and I was given to understand that they had been completed last Friday, but I was informed this morning that Metals Reserve Company has added a condition that O.P.A. will not reduce the maximum price on secondary aluminum below the prevailing price. The matter therefore is still under negotiation between O.P.A. and Metals Reserve Company.


Director of Procurement.

September 29, 1941

Mr. Hamilton

Mr. D. V. Bell

Will you please send the attached cable to the American Consul, Hong Kong, for Fax from the Secretary of the Treasury.

(Message attached.)

(Cable No. 304, September 29, 1941)

Int: SWB

FD:lp-9/30/41

PM

GRAM

September 27, 1941

- P.M.

AMERICAN CONSUL,

HONG KONG, (CHINA) VIA N.A.

204.

FOR FOR FROM THE SECRETARY OF THE TREASURY.

Your 584 of September 25 and joint statement.

NOTE The following program is being sent to you for your confidential study and comments.

1. In summary the following program is contemplated:

A. General License No. 53 will be amended so that: (1) Imports into China from the United States can be effected only if financed through dollars acquired from a SUBNOTE cooperating bank END SUBNOTE. (2) Exports from China to the United States can be effected only providing the proceeds thereof are sold to a SUBNOTE cooperating bank END SUBNOTE. (3) The term SUBNOTE cooperating bank END SUBNOTE shall mean any of those banks cooperating with the Stabilization Board of China, the names of which

appear

-2- #304, September 24, 8 P.M., to Hong Kong.

appear on Schedule A attached to General License No. 58. (Included on such Schedule A will be the names of all the banks licensed under General License Nos. 59, 60 and 61 together with such other Chinese banks, et cetera, as the Board may from time to time suggest. It is expected that the name of Banque Belge pour l'Étranger with offices in Shanghai and Tientsin will be added to General License No. 59 unless you advise to the contrary. Deletions from such Schedule will also be considered upon the Board's recommendation.) Thus the general license by express language will indicate that the banks must cooperate with the Board.

B. General License No. 64 will undergo similar revision to that referred to above for General License No. 58 or Chinese trade with the Philippines will be brought directly within General License No. 58 and excluded from General License No. 64.

C. A new general license covering remittances will be issued. Such general license will stipulate that: (1) Any bank in the United States can accept orders for remittances out of free funds or
out of

-3- 7304, September 21, 1944, to Hong Kong.

out of blocked accounts of all persons in China including Japanese. (2) The yuan or other exchange for effecting such remittances can be obtained only by payment of the dollar amount of the remittance into an account in the name of one of the SUBQUOTE cooperating banks ~~AND SUBQUOTE~~. (Such cooperating banks will be the same banks as referred to in General License No. 58.)

D. General Licenses Nos. 52 and 53 relative to remittances will be modified so as to be consistent with (3) above.

E. Either by a new general license or through the amendment of General Licenses Nos. 59 and 61 the transfer of blocked accounts of all persons in China including Japanese to any one of the cooperating banks will be freely permitted. The precise language of the license will probably follow along the lines of paragraph 3 of General License No. 60.

2. For your information the above proposals were based on the following considerations:

A. Recognizing your argument that speedy action is preferable to waiting for an ideal scheme, we suggest the foregoing program with the thought that

-4- #304, September 24, 8 p.m., to Hong Kong.

that if you concur it be put into effect at once.

B. It leaves unresolved the functions of the Chinese Foreign Exchange Control Agency or Commission and its relation to the Board but vests the Board with strong bargaining powers.

C. It is intended that through this program the Board will be better able to cope with the problems referred to in your recent cables and places the Control of all dollar exchange in banks cooperating with you. It is expected that the Board will no doubt wish to enter into arrangements with the cooperating banks whereby they will provide exchange along the lines prescribed by the Board and will either sell to the Board upon demand any foreign exchange accruing under this program which is not obligated under transactions entered into with your permission, or that the Board will retain the power to require one cooperating bank to provide un-needed foreign exchange accruing under this program to another cooperating bank needing such exchange. The precise terms of any arrangement along these lines are being left in the hands of the Board and the foregoing is merely offered as one possible line of approach.

D. This

-6- #304, September 29, 8 P.M., to Hong Kong.

D. This program leaves undecided the question of whether ultimately it will be preferable to have the American and British members added to the standing committee of the Commission or to have a joint policy committee established to serve as a link between the Commission and the Board. (See paragraph 8 of Joint Statement of Hall-Patch and Fox.)

E. The underlying philosophy of this program is that it is a provisional measure to be adopted pending a more careful consideration of all the problems involved. If at any time the Chinese Government or Commission indicates a desire to modify this program and offer a better suggestion, the proposal will receive prompt and sympathetic consideration. We feel that in the meantime this proposal is necessary from the point of view of administering United States freezing control and to protect the operations of the Stabilization Board in the interests of China.

F. It must be emphasized that the success of this program will require the Board to take a strong and firm position in dealing with the demands for exchange in the Shanghai market. The proceeds of
export

-6- #304, September 29, 8 p.m., to Hong Kong.

export bills and remittances, in effect, are being placed at the disposal of the Board and it is expected that the Board will take all necessary steps to see that dollars are not made available for excessive imports into Shanghai or for other inappropriate purposes. The Government in Washington will give all proper support to decisions of Board curtailing availability of dollar exchange.

3. We have thus far only advised the British of our contemplated action. You should advise other members of the Board of this cable, and we would like your comments and those of the other Board members as promptly as possible so that the program can be carried out without delay.

4. It is also desired that the appropriate authorities of the Chinese Government be informed of the proposed plan and that their reaction be ascertained. We leave it to your discretion to ascertain informally and in the most effective and prompt manner possible the views of such Chinese authorities.

5. In commenting on the foregoing it will facilitate matters if you will refer to this cable and the respective paragraph numbers involved.

6. Since

-7- #304, September 27, 9 p.m., to Hong Kongs.

6. Since drafting the foregoing we have received points 10 to 14 of your joint message, the cable quoting the Board's resolution of September 24, and your cables of September 27, and see no reason for changing the plan herein suggested. END QUOTE.

HULL.
(DA)

EA:GL:PAK
FE:JMJ:HMS

FE

EA

PA/H

A-A

PARAPHRASE OF MESSAGE RECEIVED

FROM: American Consulate General, Hong Kong, China.

DATE: September 29, 1941, 4 p.m.

NO.: 388

STRICTLY CONFIDENTIAL.

THE FOLLOWING IS FROM FOX FOR THE SECRETARY OF THE TREASURY.

The following report is in response to the Department's request. Reference is made to telegram No. 229, dated September 26, from the Department to Chungking.

The figures which follow are cumulative; the period being from August 18, 1941 to the close of business on September 27, 1941.

| <u>APPLICATIONS FOR*</u> | <u>DOLLARS:</u> | <u>ACTUAL PAYMENTS:</u> |
|--------------------------|-----------------|-------------------------|
| U. S. dollars | \$6,894,108 | \$6,545,407 |
| Pounds payments | 913,865 lbs. | 847,340 lbs. |

*approved by the Board

All of the payments/made against deliveries of Chinese National dollars (at the rate of 5-11/32) for U. S. dollars and 3-3/16 pence for sterling.

Adler and Fox are leaving for Chungking on Monday. Fox will return to Hong Kong in time to meet Niemeyer and Cochran.

893.51/7317

MAIL FAX

SOUTHARD

DEPARTMENT OF STATE
WASHINGTON

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Kindly refer to
LA 540.51 Frozen
Credits/3538

September 29, 1941.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses a copy of telegram No. 1364, dated September 25, 1941, 4 p.m., from the American Consulate General, Shanghai, China, concerning the Committee for the Assistance of European Jewish Refugees in Shanghai, which is in great distress because of the failure of the American Jewish Joint Distribution Committee, Incorporated, 100 East Forty-second Street, New York City, to obtain a permit under the freezing order to make its customary remittance of 25 to 30,000 United States dollars for September.

The Secretary of State would appreciate being advised as to what reply may be communicated to the American Consulate General at Shanghai.

Enclosure:

From Consulate General,
Shanghai, No. 1364,
September 25, 1941.

GS

GRAY

176

Shanghai via N. R.

Dated September 25, 1941

Rec'd 8:34 p.m., 27th

Secretary of State,

Washington.

1364, September 25, 4 p.m.

Representatives of the Committee for the Assistance of European Jewish Refugees in Shanghai have informed me today that the Committee is in great distress because of the failure of the American Jewish Joint Distribution Committee, Incorporated, 100 East Forty-second Street, New York City, to obtain a permit under the freezing order to make its customary remittance of 25 to 30 thousand United States dollars for September. The local committee is in urgent need of this remittance and I recommend that permit be issued with the least possible delay for telegraphic transfer of the September contributions and that arrangements be made for prompt remittance each month hereafter. Kindly inform me of action taken.

LOCKHART

KLP

Copy:bj:9-30-41

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177

PLAIN

Shanghai via N.E.

Dated September 29, 1941

Rec'd 7:20 a.m. 30th

Secretary of State,

Washington.

1388, twenty-ninth (SECTION ONE)

Following is a summary of regulations restricting the removal of commodities within occupied areas in the lower reaches of the Yangtze River jointly promulgated on September 26th by the Commander-in-Chief of the Japanese Expeditionary Forces and the Commander of the Japanese China Seas Fleet.

Preamble of the regulations states that the flow of commodities into and from "enemy territory shall as a matter of principle be cut off"; that "full control shall be imposed on the movement of certain specified goods into and out of Shanghai and on the export of such goods from the military occupied areas along the lower Yangtze and Whangpoo Rivers"; that "the removal of commodities from one place to another within the military occupied areas shall not be subject to restrictions export where special regulations have been made therefore"; and that "no permit for the removal of goods or similar documents shall be issued except by the organ authorized by the military and

naval authorities and with the approval of the Commander-in-Chief of the Expeditionary Forces and the Commander of the Japanese China Seas Fleet". The export from and import into the areas mentioned of the following commodities are subject to rigorous control by a system of permits:

Arms and ammunition, salt, opium and narcotics, motor cars and accessories, gasoline and petroleum, machinery, communications apparatus, medicines, rubber, rubber goods, cement, food oil, sugar, cotton yarn and textiles, wool yarn and woolen goods, rayon and rayon fabrics, candles, matches, soda, paper, tobacco, metals and non ferrous metals, silver dollars, coal and minerals, rice, wheat and beans, hemp, raw cotton and wool, hides and leather, cattle, tea, tung oil, bristles and casings, raw silk and cocoons, eggs and egg products.

LOCKHART

NPL

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PLAIN

Shanghai via N. R.

Dated September 29, 1941

Rec'd 8:36 a.m., 30th.

Secretary of State,

Washington.

1388, Twenty-ninth (SECTION TWO)

Very small quantities of certain goods for personal use may be transported in these areas without permit. The regulations further stipulate that only certain specified Japanese military and naval offices may issue permits; that "restrictions on exports, especially from Shanghai, shall be enforced by the gendarmerie with the assistance of the consular police, the Chinese police and the Chinese maritime customs; and that "those who violate or attempt to violate these stipulations shall be punished according to martial law".

These regulations become effective October 10, 1941 and are apparently designed to place practically all raw materials and goods of whatever description under the complete control of the Japanese authorities and further to restrict and regulate Shanghai's trade with the hinterland.

In a statement issued by the Ministry of Industry
of the

of the Nanking Regime regarding these regulations, he stated that following several months negotiations between the "National Government" and the Japanese authorities concerned a definite program for the "readjustment of control over economic resources in China had been decided upon" and that the Japanese authorities had agreed to remove "as soon as possible the restrictions hitherto imposed against the movement of commodities and capital from one place to another within the peace area". However, as regards the transportation of goods to and from Shanghai, it was stated that "restrictions will continue to be enforced as this matter is closely bound up with the question of export".

(END OF MESSAGE)

Sent to the Department, repeated to Peiping, Chungking, Hong Kong. By airmail to Tokyo and Nanking.

LOCKHART

HPL

Copy:bj:hr:10-3-41.

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PM

GRAY

181

Rome

Dated September 29, 1941

Rec'd 4:03 p.m.

Secretary of State,

Washington.

1511, September 29, 7 p.m. (SECTION ONE).

My 1510, 29th.

Announced in press communiques as "designed to limit any speculative possibility not consistent with the discipline of war" the following financial measures were adopted in the September 27 meeting of the Italian Council of Ministers:

One. A requirement that bearer shares of stock companies be registered incidentally carrying with it the application to registered shares of the 20 percent tax on dividends previously imposed on bearer shares only (Embassy's 1250, December 31, 1940, 10 a.m.)

Two. Modification of the special tax on profits from sales of stocks (reported in Embassy's 1064, July 22, 8 a.m.) including substitution of a uniform tax rate (charged as before to the seller) of 20 percent

of 20 percent on such profits for the previous graduated rate of from 10 to 50 percent depending upon percentage of profits; this "reduction" being accompanied (A) by the unification at 6 per mil of the normal "negotiation tax" (which previously was 6 per mil on bearer and 3 per mil on registered shares), and (B) by the establishment of a "negotiation surtax" charged only to the purchaser of 4 percent on the value of the securities purchased.

Three. Declaration of the nullity of acts for the transfer of real estate unless registered within required time limits and of any acts designed to evade registration requirements—obviously designed to defeat any attempts to sell without payment the taxes mentioned in the following paragraph.

Four. Increase of the basic registration tax on transfers of real estate from the former rate of 6 percent to 8 percent; and as regards the special registration tax of 60 percent of profits derived from real estate sales (see page 114 of Commercial Attache's annual report mailed August 26) establishment

establishment of a uniform exemption of properties valued at not more than 50,000 lire, thus eliminating the 300,000 lire limit formerly applicable in certain cases.

PHILLIPS.

KLP

SECRET

GRAY

Rome

Dated September 29, 1941

Rec'd 10:55 a.m. 30th

Secretary of State,

Washington.

1511, September 29, 7 p.m. (SECTION TWO)

Regarding the first measures it may be pointed out that the required registration of bearer stocks — which have constituted the principal medium of speculation on Italian bourses — does not technically obstruct dealings. Officer will, however, make it possible for the Government to learn (1) who are the principal owners of stock (useful for eventual new tax levies) and (2) who through their speculations are chiefly responsible for the conspicuous inflationary trend in quotations which threatens both the appeal of government bonds and the prestige of the lira. Efforts to check by taxation the internal flight of the lira in the form of stock speculation having signally failed (the stock index rose rapidly from 320 on July 18th, date preceding that of the publication of the decree heavily taxing speculative profits,

profits, to 450 on September 12) a perhaps stronger repressing influence is introduced in the potential identification of the speculators.

The remaining measures speak for themselves being clearly designed to supplement and render more workable decrees previously enacted or to prevent evasions. As pointed out by authoritative Italian commentators, the element of increased revenue is entirely secondary.

(END OF MESSAGE)

PHILLIPS

BB

Copy:hr:10-3-41.

TREASURY DEPARTMENT

186

INTER-OFFICE COMMUNICATION

DATE September 29, 1941

TO Secretary ¹⁰⁰³ Morgenthau
 FROM Mr. Dietrich

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

| | |
|------------------------------------|---------|
| Sold to commercial concerns | £21,000 |
| Purchased from commercial concerns | £ 4,000 |

Open market sterling remained at 4.03-1/2. The only reported transaction consisted of £10,000 sold to a commercial concern.

In a thin market, the Argentine free peso moved off to .2350, the lowest quotation in five months. Saturday's closing rate was .2359.

Although the Cuban peso reached a new high of 5/16% discount this morning, it subsequently returned to 3/8%.

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

| | |
|--------------------------|------------------|
| Canadian dollar | 11-1/8% discount |
| Brazilian milreis (free) | .0505 |
| Colombian peso | .5775 |
| Mexican peso | .2070 |
| Venezuelan bolivar | .2685 |
| Uruguayan peso (free) | .4400 |

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

The State Department forwarded a cable to us stating that the Chase National Bank, London, shipped \$62,000 in gold from England to its head office in New York, 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.

RESTRICTED

G-2/2657-220; No. 505 M.I.D., W.D. 11:00 A.M., September 29, 1941

SITUATION REPORTI. Eastern Theater.

Ground: Definite information is scant.

The Russians report fighting along the whole front.

Both Leningrad and Odessa are being stoutly defended.

There are indications that the Germans are preparing to launch a major attack against the Crimea.

Air: Both Moscow and Leningrad are reported bombed last night, with counter claims by the Russians of heavy German losses from antiaircraft fire and British aviation units.

II. Western Theater.

Air: British reports indicated a large-scale offensive having been put into effect. Western Germany was heavily attacked and particularly Italy's vulnerable industrial center. Genoa was the chief target. No German action in this theater has been reported.

III. Middle Eastern Theater.

Ground: In East Africa the garrison of Wolchefit (Volchevit), one of the few remaining Italian centers of resistance in the Gondar region of Ethiopia, has surrendered.

Air: Italian planes attacked Malta last night.

A British convoy in the Mediterranean was heavily attacked by Italian Air Force units from Sardinia. The British claim the arrival of the convoy with only one merchant ship lost. The Italians claim to have sunk three cruisers and to have damaged nine other vessels.

RESTRICTED

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, September 30, 1941.
9/29/41

Press Service
No. 27-81

The Secretary of the Treasury announced last evening that the tenders for \$100,000,000, or thereabouts, of 91-day Treasury bills, to be dated October 1, and to mature December 31, 1941, which were offered on September 26, were opened at the Federal Reserve Banks on September 28.

The details of this issue are as follows:

Total applied for - \$182,005,000
Total accepted - 100,045,000

Range of accepted bids:

| | | | | | | |
|---------|---|---------|-----------------|---------------|-------|---------|
| High | - | 100.001 | | | | |
| Low | - | 99.975 | Equivalent rate | approximately | 0.099 | percent |
| Average | | | | | | |
| Price | - | 99.984 | " | " | " | 0.062 " |

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

-000-

September 30, 1941
9:30 a.m.

GROUP MEETING

Present: Mr. Bell
Mr. Graves
Mr. Haas
Mr. Cairns
Mr. Gaston
Mr. Thompson
Mr. Kuhn
Mr. Schwarz
Mrs. Klotz
Mr. Morris
Mr. White

H.S.Jr: Herbert, what have you?

Gaston: I met Mr. Joe Ryan of the Longshoremen's Union who was very indignant about an alleged theft from a pier down on the New York waterfront which we are investigating. I don't think it amounts to much.

H.S.Jr: Anything else?

Gaston: No.

Cairns: Mr. Eccles testified that there should be a ceiling on farm prices, that surpluses should be used to keep prices down, farm prices, and that there should be discretionary power to fix farm prices between a hundred and a hundred and ten percent of parity.

H.S.Jr: Between a hundred and a hundred and ten?

Cairns: Yes.

- 2 -

H.M.Jr: He is cutting it kind of fine, isn't he?

Cairns: Well, he is following your lead except on that point.

H.M.Jr: Well, he didn't follow my lead on profits, either.

Cairns: No, I meant just the farm prices. That is all I have.

H.M.Jr: I can't make out just what Leon said at - about profits. I don't know whether he had a prepared statement or not. You see, the Wall Street Journal--

Bell: I think he made a speech, didn't he?

H.M.Jr: It says, "Eccles and Henderson oppose plan to limit profits."

(Mr. Morris entered the conference.)

H.M.Jr: Good morning.

Morris: Excuse me, sir.

Schwarz: Henderson simply doesn't want it in his bill.

H.M.Jr: Henderson supposedly is here for lunch.

Cairns: I have a memo.

H.M.Jr: Send it to me before lunch.

Would you (Bell) give Mrs. Klotz a list of who is coming for lunch today.

Cairns: That is all I have.

H.M.Jr: Ferdie, right after this meeting we will do our speech.

- Kuhn: I spoke to George already about that, and it will not require any serious change.
- H.M.Jr: I was right, wasn't I?
- Kuhn: "Many commodities continue to go up, but some of the food prices have--"
- H.M.Jr: Yes, but over-all commodities--
- Haas: The over-all commodity index is down slightly and the food component and the farm price component--
- H.M.Jr: It is much better than what I said, "The thing continues to go up since I talked."
- Kuhn: No, you said, "The continued advance in the price of many commodities may mean so and so," but you never said, "All commodities have gone up."
- H.M.Jr: All right. What else, Ferdie?
- Kuhn: That is all.
- H.M.Jr: Chick, arrange - have you got them, just the ones touching on the tax thing?
- Schwarz: I have them separate.
- H.M.Jr: All right.
- Haas: I talked to Draper again. He said he is going ahead a hundred and two percent. I told him that you would talk to him sometime. I don't think it would do any harm.
- H.M.Jr: I will do that. What is his name again?
(Mr. White entered the conference.)

- 4 -

Haas: Ernest Draper.

H.M.Jr: He is going to keep the boy down to one car?

Haas: I think so.

H.M.Jr: And try to get the boy a job?

Haas: He said he would.

H.M.Jr: And are you checking all price statements in my speech?

Haas: Giving it another check this morning.

H.M.Jr: Good. I was very disappointed in it - that super-confidential weekly letter that Lubin gives to the President. I don't think it is nearly as good as the one you give me.

Haas: Thank you.

H.M.Jr: I thought I was going to find something in it. There is nothing in there at all about munitions or anything.

Haas: Maybe that was an off issue. That is what I figured myself.

H.M.Jr: His charts aren't as good as yours or anything. I don't think it is nearly as good as the bulletin you have. I can say this much in the room. Lubin sends the President a weekly report and in it not one thing about armaments, was there?

Haas: Not in this one.

H.M.Jr: Not a thing.

Haas: He may have another report.

H.M.Jr: I am not supposed to see it. All right?

Leas: I am all right.

H.M.Jr: Harry?

White: I have nothing.

Norris: Nothing.

Schwarz: I think the stories are quite good now. John McCormack, New York Times, tipped me off last night that some of the boys were going to try to twist it, and I did some missionary work.

H.M.Jr: That they were going to twist it?

Schwarz: They wanted to interpret it as backing away completely. I reassured them they would be far out on a limb if they did.

H.M.Jr: Well, you see, the Tribune mixed my story up with--

Schwarz: With Eccles.

H.M.Jr: with Eccles. I love the editorial of the "wrong timing" in the Post. They don't have a man at night to check with the news stories.

Schwarz: The editorial was written earlier.

H.M.Jr: That is all right. You can forget about it now.

Anything else?

Schwarz: That is all.

H.M.Jr: Harold, I loved this, and whoever got that in, will you tell them, "Thanks," and I don't see

why we can't use that somewhere. (Showing Mr. Graves cartoon from the Washington Post.) I think it is grand. It is certainly something for the schools.

- Bell: Can't you get the original?
- H.M.Jr: You might get the original.
- Graves: I will try. They are getting these bond plugs in a great many comic strips.
- H.M.Jr: That was a particularly nice one.
- Gaston: They had a good little plug at the fight last night for savings bonds.
- H.M.Jr: Did they?
- Gaston: In one of the addresses.
- Schwarz: It was on the radio right afterward.
- H.M.Jr: Did they? I didn't hear it.
- Graves: You remember that at our lunch with the Bankers at Detroit a man from the Manufacturers--
- H.M.Jr: A little louder.
- Graves: A man from the Manufacturers National Bank raised a question about a case pending here in the Foreign Funds Control.
- H.M.Jr: Yes.
- Graves: Subsequently he wrote me a letter attaching one to you which I sent to Mr. Pehle, and Mr. Pehle has now supplied a memorandum of a draft of a reply to that.
- H.M.Jr: What does it say?

- 7 -

Graves: Well, the case is one of many that are held up pending determination of a policy, which has got to go to the Inter-departmental Committee, according to Mr. Pehle's memorandum.

H.M.Jr: But this was from last May?

Graves: Yes.

Pehle says that it is not true that any promises were ever made as was said by our banker friend, that the case would be disposed of in a few days.

On aluminum, Mr. Mack has given me a memorandum, and I have talked with him too. The total accumulation of aluminum in that drive was eleven million three hundred thousand pounds, of which Mr. Mack has given shipping orders for all but just a fragment. The billing and the shipment of about half is held up because of some disagreement between the smelters and Opacs on the question of price. That is now being thrashed out, and Mr. Mack expects to have that settled so that he can go on with the billing and delivery of the balance within the next few days, so it isn't that the fiscal movement hasn't taken place.

H.M.Jr: Thank you.

Graves: I talked with Iseby late last night.

H.M.Jr: Oh yes.

Graves: And simply told him what we had found. He was shocked and chagrined. He knew nothing of this man's background. I suggested that he should go and see the Secret Service agent there who has the man's record and also talk

with Thomas of the Automobile Workers Union, who told our Secret Service people, or who has said to someone out there and it has come to the knowledge of our Secret Service people, that he wouldn't have any truck with this man, Small; and, of course, we are starting all over again on this record distribution thing so as to cut out Small.

H.M.Jr: Chick, be sure and see the Detroit papers.

Schwarz: I put in an order for special service on that.

Graves: That is all I have.

Schwarz: I talked to all three Detroit correspondents last night.

H.M.Jr: I talked to them at home last night about my going to these meetings, and I am willing to go to Seattle.

Graves: You are?

H.M.Jr: Yes.

Graves: Fine. We will make those arrangements. Your trip to Seattle will have to be within the next ten days or so.

- H.M.Jr: I thought there was two weeks out there.
- Graves: It runs from the fifth for about two weeks, beginning the fifth.
- Kuhn: Mr. Secretary, did you see that Dubinsky is not going to the Seattle meeting, because he is worried about racketeers in the A. F. of L. and because the Seattle meeting will do nothing to take a position on that? He and his union are boycotting it. The story was in PM on Sunday or Monday.
- H.M.Jr: What do you think of that?
- Graves: Well, maybe you would like us to check with somebody like Mr. Lubin about this thing before you make a decision.
- H.M.Jr: I spoke to Lubin at luncheon yesterday.
- Graves: What did he say?
- H.M.Jr: He said I ought to go.
- Graves: What do you think, Ferdie, about a further check?

- Kuhn: I think in view of that, the Secretary ought to think that over again, because if this is to be a whitewashing meeting for leaders who Dubinsky and a lot of other good people want to get out, I don't think the Secretary ought to be there. If there were no trouble brewing in Seattle, that might be a different story.
- Graves: Well, can we help to make a check on that, Ferdie?
- H.M.Jr: I tell you, if he is in town, an awfully sound fellow is the Vice President of RCA, who used to be Assistant Secretary, McGrady. I wonder if McGrady is in town? I think they sent him to England, didn't they?
- Klotz: Yes.
- H.M.Jr: I don't even know which union he was. Sammy Klaus is Dubinsky's nephew. You might ask Sammy Klaus what there is to it. Am I not right?
- Klotz: Well, I don't know what the relationship is, but it is something.
- H.M.Jr: He is his nephew.
- Graves: Of course, I was aware that there are liable to be fireworks at both of these meetings, but it seemed to me that here was one thing that there would be no fireworks about. The Secretary's presence there would be absolutely free from any connection with any of the fireworks.
- H.M.Jr: I will call up John Boettiger in Seattle and ask his advice.

Kuhn:

It is not that there will be fireworks. The complaint is that there will not be fireworks where there should be. The complaint is that they are suppressing an issue here and therefore the presence of any Cabinet officer at Seattle would help the people who want to suppress and make the thing seem more patriotic.

Greaves:

Well, we will check further then.

H.M.Jr:

Yes, you had better check.

(The Secretary held a telephone conversation with Mr. Ernest Draper of the Federal Reserve Board).

Bell:

Adolphe Berle wants to come over this afternoon at two thirty and talk about our Stabilization loan to Iceland. They are very hard put for dollars.

H.M.Jr:

He wants to freeze it, does he?

Bell:

He wants to freeze it, so I told him I would see him.

H.M.Jr:

You want to see him?

Bell:

I will see him, yes. You don't want to see him, do you, at this stage of the game?

H.M.Jr:

what are they going to put up as collateral, icicles?

Klotz:

Icicles. (Laughter).

Bell:

No, they are going to put up the possibility of getting dollars through Lend-Lease, (laughter) and repay the Stabilization loan.

H.M.Jr:

That is marvelous. That is the best one yet.

Call:

The amount of bids on Treasury Bills yesterday amounted to only a hundred and eighty-two million, down from four hundred and four million the week before. The rate went from .037 to .062. That, I take it, is the result of those large banks allowing the Bills to run off to get them in position to meet the November 1 increase in reserve requirements. You remember there were three large banks in New York which were deficient, but they had somewhere in the neighborhood of a hundred to a hundred and twenty-five million of Treasury Bills. They were allowed to run off.

Clark of San Francisco sends me a letter and a clipping from a Lincoln, Nebraska paper which quotes a man by the name of Nordskog, Andrea B. Nordskog. I don't know him, but he made a speech out there praising Lindbergh and in it he says that if there is a general run on Defense Savings Bonds, only one person out of sixty would get his money back. Now, that may spread, and I don't know what we can do to --

H.M.Jr:

Turn it over to Harold.

Bell:

... to counteract it. We really ought to watch it, I should think.

H.M.Jr:

Turn it over to Harold.

Bell:

There was a cable in from Fox in which there is one paragraph you may be interested in. I don't think you need to read the whole thing. I didn't send it to you last night because I didn't think it was worth it.

H.M.Jr:

Mr. Lauch Currie says he has lost face.

Bell:

Who has lost face?

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- H.M.Jr: Lauch Currie has because we have sent Merle Cochran to China in company with that Englishman.
- Bell: How does that make Lauch lose face?
- H.M.Jr: Well, I gathered that Lauch had opposed our sending anybody. I didn't know about it.
- Bell: No. He opposed his going.
- H.M.Jr: What is the name of this Englishman?
- Bell: Niemeyer.
- H.M.Jr: Niemeyer wanted to drag us in, and he feels not only that he will lose face, but that Fox will also. He was quite upset about it.
- Bell: He didn't say anything about it.
- H.M.Jr: It seems there has been all kinds of questions. I told him I knew nothing about it. There has been pressure from Niemeyer to drag an American in. He referred to some case, some cable, where they said that Fox was only a third-rater, and he feels that the English haven't handled themselves well over there and by our joining with them that we now drop to their level. So I told him that I frankly knew nothing about it and that the matter had been put up to me on the basis that, one, Merle Cochran needed a holiday and two, he needed to get away in order to have a tour of duty so that he could come back and stay here.
- Bell: Well, you said it would be a good thing for him to go over and get first-hand information on what was going on, yes. I never heard this, did you, Harry?

White: Hear what, Dan?

Bell: What the Secretary is saying about Lauch.

White: I didn't catch what he was saying.

Bell: Lauch was against anybody going with Niemeyer.

White: Yes.

Bell: And he thought it would bring us down to the level of the British.

White: I did know that. You did, too

Bell: No, I didn't know that. I knew that Lauch didn't want to go himself because he didn't like Niemeyer, but I didn't know that --

White: Don't you remember the position that Currie took in the discussion we had was that he didn't think anybody ought to go. You remember in a later discussion when we talked it over we thought that if Currie would go it would be all right, but nobody else. I thought that was the conclusion.

Bell: Well, we thought no one should go as an economist except Currie because it would detract from Fox. Now, Merle is on an entirely different basis, and not going as an economist, and not going as a part of the mission at all, but merely travelling on the same plane with Niemeyer. He isn't going to do any of this economic work at all. It wasn't set up that way.

H.M.Jr: Well, as I told Lauch, I didn't know. I couldn't know because nobody told me anything about it, that he wanted - had been putting up a fight against in any way supplanting or - Fox, you see.

Bell: Yes, that is right.

H.M.Jr: No one, either you or White, has ever mentioned it to me, so I couldn't know anything about it, but I am just reporting what Lauch mentioned to me, because that is what is the purpose of these nine thirty groups.

Bell: I think I mentioned to you that we wanted - the reason we didn't want to send anybody else to China was because it would detract from Fox's status, but that if Currie would go, who is the daddy of the whole Chinese economic mission, it would not detract from Fox, and you said it was all right to get Currie and I later told you that Currie did not want to go, and wouldn't because he didn't like Niemeyer, so I said, "Everything is out," then. Then later it came up that Merle would go on another status. He is not going in the same status that Currie would have gone at all.

H.M.Jr: No, but I didn't know that Lauch had been putting up a fight against sending anybody - any American there.

Bell: I think we have all done that. I mean, he hasn't been alone on that, on the economic mission.

H.M.Jr: If there is any damage done, it is done.

Bell: I don't think any damage will be done.

H.M.Jr: I don't know.

Bell: I don't think so at all.

H.M.Jr: I say, I am reporting my conversation.

Bell: You remember I told you that Mr. Hull wanted some information on the Standard Oil Company of New Jersey?

H.M.Jr: Yes.

Bell: He has asked for it officially, and here is a reply. Harry and I are due at the Appropriations Committee at ten o'clock. Can we be excused?

H.M.Jr: O.K.

Thompson: I have a revision of our circular assigning the various officers of the Department to the Under Secretary and the Assistant Secretaries. The only change is just to bring us up to date.

(Mr. Bell and Mr. White left the conference).

H.M.Jr: Assistant to the Secretary? Why this now?

Thompson: Well, we have been more than a year without a revision.

H.M.Jr: Well, let me go over it. I don't want to do it snappily. There is too much in there.

Thompson: Could I see you just a minute?

H.M.Jr: Sure. Is that all?

Thompson: That is all.

H.M.Jr: Do you want to give us a minute, Kuhn, and then we will go on the speech. Have you got the speech?

Kuhn: Yes, sir.

H.M.Jr: If you will wait outside, I will be with you in a minute.

September 30, 1941
9:50 a.m.

HWJr: Hello.

Operator: Governor Draper.

HWJr: Hello. Hello.

Ernest G.
Draper: Good morning, Mr. Secretary.

HWJr: Hello, Mr. Draper.

D: How are you?

HWJr: Fine.

D: Ernest Draper, to you.

HWJr: Right.

D: (Laughs)

HWJr: Ernest, I understand that you're going to interest yourself in that case in Pennsylvania.

D: Yes. We're getting right after that.

HWJr: Swell. I hope we can do something.

D: Well, now, I understand exactly how you feel and the only reason there wasn't any - there hasn't been any delay, but I just made a suggestion that according to the Federal Reserve they thought that if they could get Mrs. Cohen to write to them, then they'd have a paper to work on; but for one reason or another, that didn't seem to work out so we're getting in touch with Mrs. Cohen ourselves.

HWJr: Good.

D: And then we'll start the ball rolling. And as far as we're concerned, Mr. Secretary, we're going to put on all the pressure in the world to clean it up quickly.

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HMJr: I'm trying to get the boy a job.

D: Well, that's what we're after, too.

HMJr: Good.

D: Absolutely a remedial job and it's interesting to get into one of those things after all these talks about over-all monetary control.

HMJr: That's right. I always like to get right down to these cases.

D: Yes. Well, that's right. And we're sure behind you a hundred per cent on this.

HMJr: Three automobiles are two too many.

D: (Laughs) That's right, Mr. Secretary. Well, you'll hear from us very shortly.

HMJr: Okay.

D: Good. Good-bye to you.

September 30, 1941

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10 am

Mr. Kuhn went over this draft with Secretary, with Mrs. Klotz present.

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C
Draft of Secretary Morgenthau's Speech
to the American Bankers Association at Chicago,
October 2, 1941

Three weeks ago I said that we were in the early stages of a serious price inflation, and that we must deal with the danger at once. I said then, and I should like to repeat it 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 will haunt us and our children for years to come.

I outlined then a twin program for fighting inflation, on the one hand by reducing excess purchasing power in the hands of the public, and on the other hand 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 landlords, businessmen, bankers, or 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 our power.

The continued advance in the prices of many staples in recent weeks may mean that some people still doubt the Administration's unity of purpose in checking inflation. Yet you have seen the joint statement issued last week by the Federal Reserve System and the Treasury, dealing with the raising of bank reserve requirements to the limit of

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the law, and pledging full cooperation with the Office of Price Administration and the new Supply and Priorities Allocations Board. That joint statement was a reminder of the fact that the Government already has powerful weapons of control in its hands, and that if it needs more power it will ask Congress for whatever it needs, in the fight against rising prices and falling living standards. The Administration is just as determined to beat down the forces of inflationary evil as it is to defeat, at whatever cost, the forces of military conquest that are running rampant across the earth.

There is no need 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

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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 haven given further help in the sale of tax anticipation notes which 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, even though 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 very 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 immediately ahead, 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 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 25 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.

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We know now that the doubling of bank loans and investments from 1916 to 1920, and the resulting doubling of deposits in the same five years, contributed to the great increase in prices which brought such hardship to American consumers and such disastrous after-effects to American farmers.

We know now that the inflation of a quarter-century ago, with all of its injustices and dislocations, could to some extent 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 fallen from the top of a very high wall, and many years of effort were needed to pick up the pieces.

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It is our job at the Treasury and the Federal Reserve, 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.

That is why my first plea to you as bankers is that you scrutinize closely your own lists of applications for loans. Those lists contain within them much of the ammunition of inflation. You have in your hands, 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 any of the thousand and one materials now needed so desperately for our defense effort. If you can postpone all such

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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.

I hope that in the not too distant future the priority system will become so effective that the supply of all raw materials for all purposes will be under full control in the interests of national defense. That should mean that materials which must be used for defense purposes will not go into 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 stock of resources needed for the national effort.

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 country stands.~~

You see in your daily work men and women from many walks of life. You are in a key position to advise them, and your advice carries as much weight as that of a family doctor to his patient or a lawyer to his client. I know that in these serious times you will give the right kind of advice, and that your influence collectively and individually will be joined with that of your Government in its efforts to keep inflation in check.

There is a real need of convincing the average citizen, right now, that he will have to accept far greater taxation.

There is a real need of preparing him to make greater savings in his daily life to ensure the long-run survival and improvement of his standard of living. Above all, there is a real need of explaining to him that this war cannot be won quickly or cheaply or easily.

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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 public 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 utterly inadequate compared to the need. Perhaps "inadequate" is too mild and charitable a word. We are trying to make ourselves the arsenal of democracy by devoting only 20 percent of our factory and mining output to defense, only 30 percent of our output of durable goods, only 10 percent of our output of non-durable

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goods, and only 16 percent of our national income. That, surely, is very far from total defense or all-out effort.

The magnitude of the job we have set out to do has not yet been brought home to the American people. Let me give you a few simple illustrations. At present prices the cost of the total defense program as now planned will be more than 50 billion dollars. This is 10 billion dollars more than the original value of all building construction in the United States during the last twenty years. It is more than the total original value of all passenger automobiles now in use plus the total investment in American railroads.

There is no reason whatever for us to be discouraged over the mere size of the job ahead. In spite of a slow start, we are now on the road to an expansion of production which will confound those of narrow vision and little faith who cried,

"It can't be done." The capacity of America to produce over the long pull is almost limitless. We Americans can do any job that we set ourselves to do.

It is not so much the size of the undertaking as the limited time at our command which causes our economic system to heave and strain. To telescope such a vast construction or production job within, not twenty years or ten years, but within one, two or three years, is bound to affect profoundly every aspect of our economic and social life.

Under the impact of our comparatively modest defense expenditures up to now, 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?

It is imperative that we set aside a great part of that national income, and especially the increase in the national income, if we are to arm ourselves in time and also put an effective brake upon inflation.

One indispensable method of paying for defense without inflation is "all-out" taxation, a method that has not yet been tried in spite of the good start that Congress has made in raising \$3,500,000,000 in additional revenue. With the help of the new Revenue Act of 1941, our tax structure will yield almost fourteen billion dollars in revenue, but in my opinion it still contains many inequalities and many omissions which will have to be corrected next year.

The tax bill next year 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 raise the necessary revenue, place the necessary check upon inflation, and take the profit out of war.

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 shall have to come to you for funds and I know I can count on your wholehearted cooperation. The way to proceed now, however, is to finance our needs as long as possible without adding unnecessarily to bank deposits, to borrow instead from private investors, large and small, 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 two and one-half million individual investors. The result so far is certainly not below our expectations, but just as certainly it falls far 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 voluntary payroll allotment plans are now in operation in more than five thousand factories employing between five and six 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 can find no usefulness, for our present purposes, in the old Liberty Loan method of fixing money quotas for communities, trades, labor unions, school classes or individuals in this Defense Savings Program. I can see no value, either in

terms of economics or of morale, in high-pressuring people to take money out of bank savings accounts or out of life insurance. But I do see a great benefit, financial and moral, in persuading spenders to set aside, systematically, week after week, a part of their current income for their own good and their country's good.

The kind of spending that the Treasury is most anxious to divert into Defense Savings Bonds is the spending produced by pay increases and bonuses, and by dividend payments.

I should like to offer as a suggestion, for example, that every Christmas bonus in the United States be paid in Defense Savings Bonds or Stamps this year. The banks of America can start the fashion so that it will sweep the country. The total amount of such bonuses may be small, but there could be no finer example to the public, no more striking reminder of

the spirit of these times, no better safeguard for the days of economic strain that are sure to follow the war.

We at the Treasury believe that the voluntary 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 of voluntary cooperation, and I am perfectly confident that we shall reach vast numbers who are willing and eager to put their savings to work for their country.

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 in times like these.

There are no commissions for bankers in this work, and you have asked for none. But in order to enable you to give

wider distribution to Defense Savings Bonds, 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 us at the Treasury of any similar burdens which you feel may be hampering you in the sale of these bonds.

Wider savings and greater taxes will not, of course, be enough in themselves to cope with the inflation that now confronts us. I said earlier this morning that we might have to ask Congress for further power to curtail bank credit. 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

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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. I have already expressed the hope that the price control bill be passed without delay, as an essential step in combating inflation.

Of course, such a combination of emergency taxes, priorities, savings and price-control will cause some inconvenience; of course it will cause some hardship, some sacrifice. We are now engaged in a world struggle that will call for all our energies and all the qualities that have made America great. As a result of that effort we are compelled to fight another enemy, the enemy of inflation, on the home front. How can we hope to win 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 our major source of weakness today in building our defenses, for it saps our will and clouds our minds, and blinds us to the stupendous size of the job that confronts us.

We can conquer inflation on the home front if we act now, just as 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 have a deep and abiding faith in the common sense of the American people.

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September 30, 1941
10:25 a.m.

Operator: I'll try to get him now.
HMJr: Oh, gosh. It holds me up so.
Operator: Do you want his assistant?
HMJr: What?
Operator: His assistant?
HMJr: No, get him. I'll have to talk to him.
Operator: Right.

10:30 a.m.

HMJr: Hello. Hello.
J. Douglas Brown: Hello.
HMJr: Brown.....
B: Yes, sir.
HMJr: Morgenthau talking.
B: Yes, sir.
HMJr: I've just gotten word that I'm expected over at the White House at twelve o'clock.
B: Yes, sir.
HMJr: And to be perfectly frank, I can only take one person.
B: Yes.
HMJr: I think I ought to take Blough.
B: Yes, I think so, too, sir.

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HMJr: So I always think that the most courteous way is to be perfectly frank.

B: Absolutely.

HMJr: I appreciate tremendously you're willing to go.....

B: Yes.

HMJr:but I'd have to explain, and I don't think it's - I should.....

B: I think you're a hundred per cent right.

HMJr: Do you really?

B: Absolutely, because he has the up-to-date facts far, far more than I have.

HMJr: Right. Well, thank you so much.

B: Thank you, sir. Good-bye.

HMJr: Good-bye.

September 30, 1941
11:25 a.m.

HMJr: Hello, Miss Elliott. Hello.

Harriet Elliott: Hello.

HMJr: Miss Elliott.

E: Yes, sir.

HMJr: This is Henry Morgenthau.

E: Yes.

HMJr: Miss Elliott, in the first place, I want to thank you for all the trouble you and your people have been taking to help me on my various speeches.

E: Well, we were just delighted if we could be any help at all.

HMJr: Now, after lots of thought and consultation, I decided that in talking to the American Bankers that they were not a very good example of the American housewife.

E: (Laughs)

HMJr: And that therefore I would sort of take a little different tone than I did at Boston.

E: Yes. Well, I think as of the publicity, I think your Boston speech was excellent.

HMJr: Well, that's very nice of you.

E: The Southern papers carried - I was in the South at the time - and they carried great sheets of it. I was delighted.

HMJr: Now I'm just as much interested or more interested, if possible, in the American housewife, and I need your help and I'd like any suggestions and I'll be making other speeches, but this one is to the banker and

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not to his wife.

E: Yes. All right.

HMJr: Thank you so much.

E: All right. Well, we were delighted to help and don't hesitate to call on us at any time that we can help.

HMJr: And you know Mrs. Roosevelt - I've got her interested now.

E: Good.

HMJr: And she's going to town on this.

E: Fine.

HMJr: But that's just between us.

E: Yes.

HMJr: But I mean, she expects to make it one of her major projects.

E: Oh, I'm so glad. And I'm so glad that she's gone over everything to do that.

HMJr: Well, she's going to town on this.

E: Fine.

HMJr: You'll hear from her direct.

E: Good.

HMJr: Yes.

E: All right. Well, thank you so much.

HMJr: Good-bye.

E: Good-bye.

September 30, 1941

MEMORANDUM FOR THE SECRETARY

Subject: White House Conference on Social Security,
Tuesday, September 30, 1941.

The conference lasted approximately 40 minutes, beginning at approximately 12:20 p.m. Present were the President, Secretary Morgenthau, Secretary Perkins, Mr. Harold Smith, Director of the Budget, Mr. Paul V. McNutt, Administrator, Federal Security Agency, Mr. Arthur Altmeyer, Chairman, and Mr. George E. Bigge and Mrs. Ellen S. Woodward, members of the Social Security Board, Mr. Lauchlin Currie, and Mr. Roy Blough. The following report of the conference is from memory and is accordingly subject to error in details.

The President said he hoped everyone was in agreement so that it would not be necessary to take much of his time. Mr. McNutt handed the President a copy of the recommendations of the Social Security Board which the President read. Mr. McNutt suggested that Secretary Morgenthau and Budget Director Smith would no doubt have some comments to make from the fiscal point of view. The President said the objective of the program was of course 100 percent, but where was the money coming from. Mr. Altmeyer said the proposals could be divided into those affecting the social insurances and those affecting public assistance.

The President started talking about public assistance. He said he had been giving the problem of the unemployables considerable thought over the weekend. Mr. Altmeyer said that the recommendations of the Board with regard to general relief were intended to reach the problem of unemployables. The President said there were a great many unemployables on WPA. Mr. McNutt stressed this idea and there was no disagreement expressed. The President said that he thought something should be done for the unemployables but he was opposed.

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to granting money to the localities. He said this resulted in the waste of a great deal of money by local politicians. Mr. Altmeyer replied that since the Act of 1939 the staffs in the States administering public assistance had been brought under Civil Service. The President said yes they had been brought under Civil Service but what difference did that make. Mr. Altmeyer said that it made a great deal of difference - that politics had been largely removed by bringing them all under the merit system. The President said probably the politics side of it had been improved but Civil Service was not always efficient.

The President then mentioned some administrative difficulties with general relief. He said what about the village drunkard - what will he come under? If he is sick he obviously should be taken care of by the town. Secretary Perkins said that the Federal supervisor would sit down with the local administrators and decide what category such persons as this should come under.

Mr. Altmeyer pointed out that at the present time the Federal Government does not contribute to general relief but matches other public assistance categories fifty-fifty and pays the whole bill for WPA. As a result the local authorities do their best to put all their relief cases on WPA and as few as possible on general relief. He said the idea of adding a relief category was to make the contributions of the Federal Government the same for all categories of public assistance and then take all unemployables off WPA and make it a genuine work program and not a partial disability relief program as it is to a considerable extent at present. The President said that it would be highly desirable to do that with WPA. There was general agreement.

Secretary Morgenthau stated briefly the contents of a memorandum that had been prepared stating his views and then handed it to the President, who read it. (A copy of this memorandum is attached.)

The President at one or two points in the conversation indicated a desire to take care of old age indigency by means of a general old age pension but did not press the idea far. He also indicated that he would like to see the payroll taxes meet the cost of the public assistance programs as well as the cost of the insurance programs. Secretary Perkins stated that in 1935 the Committee on Economic Security had suggested such a program to him and that he and the Secretary of the Treasury had vigorously opposed it. (Mr. Altmeyer indicated to me later that this was not quite an accurate recollection of the facts. The Committee on Economic Security had recommended an insurance program which would be partially financed by Federal appropriations. It was this element of general financing to which the President and the Secretary took exception. The financing of assistance out of payroll taxes was apparently not proposed.)

Secretary Perkins indicated that in her opinion the broadening and improving of the old age insurance program would strengthen the demands of the Townsend group for a general pension unless the old age assistance program is also improved. Mr. Blough, who spoke at the Secretary's direction, suggested that the enlargement of the old age insurance program to include a great many more persons should, in point of fact, reduce the pressure for public assistance. Secretary Perkins agreed that this would be the case in the future but said that the opposite would be true in the more immediate future since the insurance program would not come into immediate operation for the bulk of those over age 65.

Secretary Perkins also asked what Secretary Morgenthau's view would be on increases in a public assistance program if reductions could be made in WPA. Mr. Blough responded, at the direction of the Secretary, indicating that the latter would not oppose improvements and adjustments in the methods of granting relief but did feel that no substantial increase in the amount spent for relief purposes should be made and that, accordingly, approval of the proposed expansion of public assistance would have to depend on reduction in other Federal relief programs such as WPA.

There was some discussion of variable grants to increase Federal payments to the poorer States. Mr. Altmeyer and Mr. Bigge indicated that the Social Security Board felt that per capita income constituted the best measure of ability in the several States among a large number the Board had considered. The President pointed out some of the difficulties in measuring income but it was suggested (I think by Mr. Altmeyer) that the Department of Commerce was making these estimates and had been doing so for some time. The President said he thought the variable grant was the best way of handling the problem of poor States but that he had some question about the political problems involved. He wondered if the richer States like New York, Pennsylvania and California would agree to pay the bill when the poorer States received the benefits. Mr. McNutt (?) suggested that the congressmen should be willing to subordinate the specific interests of the States to the general welfare and said he thought that in some cases at least that would be the result.

At one point the President indicated that he had been thinking about a disability category for public assistance which would be narrower than the general relief category.

Very little was said about the expansion of the social insurances, the federalization of unemployment compensation, or the temporary disability proposals. The President broke up the meeting about 1 o'clock and suggested that there be another session in a few days. He suggested that in the meantime the different departments might discuss the matter further among themselves and try to arrive at a general agreement. He indicated that he thought a comprehensive program should go up to Congress rather than a patchwork program even though it might not pass.

After the meeting Secretary Morgenthau indicated that in expressing the Treasury view he did not mean that he would publicly resist the program of the Board. He wanted to set forth his own views but said that he would not go against whatever decision was arrived at.

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He said he thought that it was merely a pious hope to expect reductions in WPA expenditures to offset the proposed increases in Federal aid. He suggested the desirability of further conferences with the Social Security Board and it was decided that Mr. Blough should meet with Mr. Altmeyer the same afternoon. (See memorandum on that conference.)

Roy Blough

Comments on the Social Security Board's
1941 legislative proposal

It is my conviction that the Social Security program is one of the greatest bulwarks of our Democratic system. I can well see reasons for expanding the program in all the ways proposed by the Board. Although the expansion of a permanent program of this kind should rest primarily on other consideration, the timing of the adoption of such an enlarged program should be determined with due regard to the fiscal situation. This is particularly the case when we face the dangers of inflation.

With respect to the proposal to extend unemployment insurance, it is a happy coincidence that the improvement of the insurance plan harmonizes almost perfectly with fiscal considerations. The collection of the proposed additional taxes will be greater during the years of full employment and high wages such as are anticipated during the defense period and will be less during periods of greater unemployment and lower wages which may follow. Benefit payments on the other hand will be relatively small during the defense period and may be much greater thereafter. The proposed federalization of the system, expanded coverage, and more liberal benefits not only constitute an improvement in the insurance system but will enhance the desirable fiscal effect. For these reasons the Treasury Department is in favor of the Board's proposals with respect to unemployment insurance.

The proposals with respect to old age and survivor's insurance are likewise in harmony with the needs of fiscal policy. The extension of the coverage and the increase of the tax rates will enlarge the collection during the defense period. They will likewise make possible the expansion of protection to include permanent and total disability. In 1939 it was recommended for fiscal reasons that the increases in payroll taxes for old age and survivor's insurance should not take effect on January 1, 1940, as previously provided by law. At this time fiscal reasons give weight to the recommendation that rates be increased. The Treasury Department therefore supports the proposed revision in the old age and survivor's insurance program.

The result of these revisions in the unemployment insurance and old age and survivor's insurance systems will be to increase the rates with respect to payrolls from five percent to eight percent. The proposal for temporary disability and hospital benefits also proposed by the Board would involve an additional tax of two percent. Since in the case of benefits for temporary disability and hospital care the expenditures in any one year tend to approximate the income, there is no substantial accumulation of reserves. For this reason this type of program has relatively little effect on the flow of purchasing power and on the extent of inflation. In the light of the necessity for building a tax system which will have the maximum controlling effect on inflation it is questionable whether the levying of a two percent payroll tax for current expenditures is desirable at this time.

The proposals in the public assistance field involve increases in expenditures with no increases in revenue. In the light of the present fiscal situation all such additions to Federal expenditures especially for nondefense purposes should be carefully scrutinized and postponed unless there is a peculiarly urgent necessity. I realize that it may be found desirable to shift and adjust the public assistance expenditures without increasing the total cost to the Government. The principal additional item in the public assistance program is the introduction of grants to the States for general relief. This far-reaching proposal has received relatively little public attention and involves important problems of Federal-State relation. Since a large amount of Federal funds is involved, it seems desirable to postpone a basic change of this nature until after further consideration.

An Expanded Social Security Program

I. A Single Comprehensive Contributory Social Insurance Program. The great advantage of contributory social insurance is that it automatically relates benefits to income loss, automatically protects benefit rights, and automatically controls costs. The Board recommends a single national social insurance system which would involve:

- A. Liberalizing the present Federal old-age and survivors insurance system.
- B. Liberalizing unemployment compensation benefits.
- C. Converting the present Federal-State unemployment compensation system into a single national system.
- D. Broadening the insurance protection to include temporary disability, permanent disability, and cash hospital benefits.
- E. Combining all of the social insurances into one Federal Old-Age, Survivors, Disability and Unemployment Insurance system.
- F. Extension of social insurance protection to additional groups of workers, and in the case of old-age, survivors and permanent total disability insurance, to farmers, business men, and other self-employed persons as well.

The advantages of a single national social insurance system are:

1. A safer and sounder system, particularly in the case of unemployment compensation, because of the wider spreading of the risk and more effective utilization of reserves, which would be better able to cope with any post-defense depression.

2. A more effective United States Employment Service which is imperative because of the defense program.

3. Better protection for workers employed in more than one State.

4. Equalization of the cost of unemployment compensation and other risks in the various States.

5. Greater adaptability to most unforeseen changes in industrial conditions. This will be of special importance in the post-defense period.

6. Simplified and reduced reports from employers.

7. Simplified, more effective, and more economical administration.

The Effect on the Federal Budget. The immediate effort of these insurance proposals is to bring in much larger sums to the Federal Treasury. The increased benefit costs, so long as the defense program is carried on at its present level, will be much less than the increased yield of the present payroll taxes when applied to the extended coverage which is recommended. Moreover, the Board recommends that the present schedule of payroll taxes totaling 5% which automatically increase to 7% in January, 1943 be advanced to 8% in January, 1942. The Board also suggests it would be sound public policy to levy an additional 2% contribution while the defense program is being carried out. The net excess of contributions over benefits under the social insurance system for the four calendar years 1942-1945 would be as follows:

Under expanded program, if there is no increase in rate of contributions..... \$6 billion

Under expanded program, if combined rate of contributions is increased from 7% effective January 1, 1943 to 8% effective January 1, 1942..... \$9 billion

Under expanded program, if combined rate of contributions is increased from 7% effective January 1, 1943 to 10% effective January 1, 1942.....\$12 billion

The present situation as regards the unemployment compensation tax not only affords a unique opportunity to broaden the social insurance program, but makes it imperative to do so. Unless the social insurance program is broadened, Congress may reduce the basic unemployment compensation tax since the States have already built up reserve funds totaling over two billion dollars and are adding to this reserve at the rate of approximately 600 million dollars a year. Even if Congress did not act to reduce contributions, the States are already proceeding to do so through the operation of employer experience rating provisions.

II. An Adequate Public Assistance Program. No contributory social insurance program can provide protection for hazards that have already occurred, any more than fire insurance can cover a house that has already burned down. Therefore, public assistance is necessary to provide protection to those already old, disabled, or dependant for other reasons. The Board recommends:

A. More adequate old-age assistance. All except about 15% of the 9,200,000 persons over 65 years of age are either persons with independent means of support, or the wives of such persons, or are already

being cared for at public expense through old-age assistance, or in public institutions.

The two chief complaints regarding the present old-age assistance program are: (1) the needs test prevents some of the above 15%, who are dependent on relatives and friends, from qualifying; (2) the amount of cash assistance provided is inadequate.

The first complaint can be met through a simplified and liberalized eligibility test. The second complaint can be met through larger Federal grants to the poorer States where the cash assistance is inadequate.

The most scientific way of providing larger grants to the poorer States would be through a system of special Federal aid to low income States made in inverse proportion to the economic capacity of the States. This could be done on an objective basis by utilizing official figures on per capita income compiled by the U.S. Department of Commerce.

The eventual annual additional cost to the Federal Government would vary from \$30,000,000 to \$175,000,000 depending upon the exact matching formula adopted and its effect upon the State programs.

B. More adequate aid for dependent children and needy blind. Even greater need exists for helping the poorer States provide adequate assistance to dependent children and needy blind. This need also could be met through a system of special grants to low income States. In addition, the maximum matching provisions for aid to dependent children should more closely correspond to those for the aged and the blind.

The eventual annual additional cost to the Federal Government would vary from \$10,000,000 to \$60,000,000 depending upon the exact

matching formula adopted and its effect upon the State programs.

C. Federal grants for general relief. Federal grants to the States for general relief would relieve the wide disparity that now exists in the assistance given to needy persons who fall within the three existing Federal categories of the aged, blind, and dependent children, and the assistance given to those needy persons who do not fall within these categories. The adoption of a system of Federal grants-in-aid for general relief would help to make the Federal work programs more effective since they would be relieved of pressure to meet the needs of persons who may be cared for better in another way.

The annual cost to the Federal Government of such grants would vary from \$200,000,000 to \$350,000,000 depending upon the exact matching formula adopted and its effect upon the State programs.

III. Necessary Extensions of the Social Security Program Arising Out of Defense Activities. The large transfer of persons to the military and civilian establishments of the Federal Government gives rise to the following problems:

1. Protection of Accrued Social Insurance Rights. In the case of the Federal Old-Age and Survivors Insurance system, the Board recommends that that system be extended to cover all civilian employees and all military employees with the possible exception of officers in the regular military establishments for whom non-contributory retirement systems are already in effect. This proposal would automatically protect previously accrued rights and also permit the development of additional rights based upon government employment.

If no adjustment is made in the contributory government retirement systems now in effect there would be duplication but this is not altogether a disadvantage since when defense employees are separated from the service they would be entitled to a refund of the contributions they had made under the government retirement system which would help tide them over the interval between the government job and a private job. However, the Board believes that it is possible to work out an adjustment between the old-age and survivors insurance system and government retirement systems whereby government employees would receive greater protection than they are now receiving.

In the case of unemployment compensation, the Board recommends that any benefit rights that may have developed prior to entry into the military service of the government be frozen as of the time of such entry, but it does not recommend the extension of unemployment compensation to government employees, either military or civil.

2. A Federal System of Unemployment Allowances. The Board recommends that the Administration prepare but not submit for enactment into law until and unless the necessity therefor is demonstrated, a system of Federal unemployment allowances to be paid to persons entering the military service of the government if at the time large numbers are mustered out of the service a wide-spread condition of unemployment prevails. The Board would recommend that weekly unemployment allowances be paid at the rate of \$15 per week for a stated maximum period following separation from military service so long as the person mustered out of the service is unemployed and continues to register at a public employment office for work.

3. Dependents' Allowances. The Board recommends that the Administration prepare but not submit for enactment into law until and unless the necessity therefor is demonstrated, a system of dependents' allowances for persons entering the military service of the Government in large numbers having dependents are recruited into the service.

IV. Social and Economic Effects. The Social Security program recommended is intended to afford a minimum basic security upon which the people of this country could build a more complete security through their own individual efforts. Such a program should result in a decreased rather than an increased cost to the nation as a whole. All that such a Social Security program does is to distribute existing costs more evenly and equitably. This is true of both the public assistance and social insurance phases of the program, although it is more apparent in the case of social insurance. The more even and equitable distribution of costs which a Social Security program provides, has the effect of actually reducing total costs because it reduces destitution out of which flow untoward social and economic consequences.

A comprehensive Social Security program also has a stabilizing effect on general economic conditions. During a period of economic recession such a program helps to sustain mass purchasing power, since such larger sums are paid out in benefits than are received in contributions. During a period of economic improvement it helps curb inflationary tendencies, since such larger sums are paid in in contributions than are paid out in benefits.

V. Relation of Social Insurance to a National Savings Plan. If a national savings plan were inaugurated its effectiveness could be greatly

enhanced by the expanded social insurance system recommended. The protection which the social insurance system would afford individual workers would reduce to a minimum the necessity for refunding the savings of an individual worker prior to the completion of the defense program because of untoward individual circumstances. The benefit payments made under such a social insurance system would greatly increase during the period of decline in industrial activity thus combining with any savings system to maintain mass purchasing power.

The foregoing program of social insurances and public assistance would provide a sustained mass purchasing power of at least six billion dollars per year if we have a period of depression when our defense program tapers off, comparable in severity to the depression beginning in 1929. Among other forms of protection, it would enable the Government to pay 26 weeks unemployment insurance benefits without impairing the solvency of the insurance reserve fund, even though such a depression should begin during 1943. Such a program would provide a maximum amount of security for the individual at a minimum cost to the government. It is a safe program because it relates payments either to income loss or to need.

September 30, 1941

MEMORANDUM FOR THE SECRETARY

Subject: Conference with Mr. Altmeyer on Social Security proposals, Tuesday afternoon, September 30, 1941.

The conference took place in Mr. Altmeyer's office and lasted from 3 p.m. to nearly 5 p.m. Present were Mr. Altmeyer, Mr. Harold Smith, Mr. Leuchlin Currie, Mr. J. Douglas Brown, Mr. Wilbur Cohen (Mr. Altmeyer's assistant), and Mr. Blough.

The discussion related primarily to the two aspects of the social security program on which there was a difference between the Social Security Board and the Treasury, namely, enlarging public assistance and establishing insurance to provide hospital benefits and cash benefits for temporary disability (sickness).

1. Public assistance.

Mr. Smith seemed sympathetic to the idea of a general relief category for public assistance on the grounds that it would help clean up the mess now existing in relief and WPA and would provide more adequate care for a large group of citizens for whom little if anything is available in some States. Mr. Currie, while agreeing that the general relief category was desirable, expressed some doubt as to the timing, indicating that since this category had been left out of the picture during the depression when the need was great and the ability of the States to meet it was small, its introduction during the present emergency could hardly be justified now that the ability of States to meet the need is substantially greater.

Some discussion was devoted to the possibility of substituting for the proposed "general relief" category of public assistance a "physical disability" category analogous to the present category of aid to the blind.

Federal aid would be paid to States which gave public assistance to permanently disabled persons. This would be a logical expansion to go along with the proposed permanent disability benefits to be provided under the old age and survivors' insurance program. Mr. Altmeyer indicated that a "physical disability" category of public assistance was considered a sort of "second string" which the Board would recommend if its first recommendation were not accepted. Mr. Altmeyer emphasized the desirability of getting into operation the machinery for an expanded public assistance program before the stringent needs of the post-defense depression struck the country.

Mr. Altmeyer also pointed out that the addition of a general relief category to old age assistance would take care of the problem of the transient unemployed, which will become worse due to the migrations during and following the defense program.

2. Insurance to provide hospital benefits and cash benefits for temporary disability.

With respect to the program of hospital benefits and cash payments for wages lost due to temporary disability to be financed by a 2 percent tax on payrolls, Mr. Altmeyer emphasized the following points:

(1) The program would be definitely anti-inflationary during 1942. Since it would take at least a year to get the system under way before benefit payments were made, there would be excess collections of \$200 million. In the year 1942 when the inflation problem will require a large excess of tax collections over out payments. (He has a point here, since 1942 may be a critical year from the viewpoint of inflation. After 1942 the program would be neither anti-inflationary nor inflationary.)

(2) The addition of temporary disability would increase the self-policing character of the social insurances, making people more anxious to pay the taxes in order to get the benefits, thereby improving the operation of the system and bringing more money into the Treasury. (This appears to be a strong argument; in foreign social security systems the temporary disability features are considered very attractive to the worker and help popularize the whole program.)

(3) The proportion of employees' contributions to employers' contributions should be increased. If expansions of unemployment insurance and old age and survivors' insurance are the whole program, the workers will resist enlarged employees' contributions, e.g., for unemployment insurance. The presentation of a broad program of comprehensive social insurance, however, will make workers more willing to pay employees' contributions all along the line since they will get something new for their money, and there will be one general overall program. Mr. Altmeyer supports this contention with a letter dated July 28, 1941, addressed by William Green of the American Federation of Labor to Congressman Tolan, Chairman of the House Committee Investigating National Defense Migration. The following paragraph taken from that letter is pertinent:

"The American Federation of Labor has upheld employer contributions alone for unemployment compensation, believing that workers bear a sufficient burden in their loss of income uncompensated by insurance and that the expense of unemployment compensation is a legitimate business expense. We have always supported the contributory plan for old age and survivors' insurance. In a comprehensive plan, providing for general social insurance which will protect wage earners and their families against the financial burdens of ill health and disability as well as unemployment compensation we believe workers' contributions are entirely justified."

(4) Spreading the costs of sickness through insurance will make the workers' payments for this purpose more regular and less difficult for him to meet and will thus make him a better taxpayer and saver. (Granting the desirability of spreading the risks of sickness, this argument does not appear to be very significant.)

Mr. Altmeyer is very much afraid that in the absence of a program of this kind Congress will reduce the unemployment insurance tax. Representative Cellar of New York introduced a bill on September 15, 1941 (H. R. 5640) which would reduce the tax from 3 to 2 percent. The passage of this bill would reduce the amount of money coming into the Treasury either in taxes or in deposits to the unemployment trust fund by roughly \$300 million a year without any reduction in outpayments. Mr. Altmeyer believes that a strong social security program of the type proposed by the Board will, even if it does not pass, be effective in preventing such a reduction in tax.

Mr. Altmeyer appeared to be very much gratified that the Treasury was supporting a large part of the Social Security Board's program. He seemed to believe that the unemployment insurance and old age insurance tax increases alone have no chance of passage unless they are tied up with the additional protection of hospital benefits and cash benefits for temporary disability. In his opinion the question is not one of part of the program being passed by itself but of getting all of the program or none. He seemed discouraged with the prospects of passing the program unless very strong Presidential support was given, but said it was highly desirable to present the program to Congress with a united front.

Mr. Altmeyer has said he would like very much to have an opportunity to talk with you again about the proposals and the reasons why the Board would like to see its whole program presented to Congress.

Roy Blough



TREASURY DEPARTMENT
Washington.

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September 30, 1941

MEMORANDUM

For the Secretary's Diary:

Luncheon at the Treasury, September 30, 1941

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| Present: | Secretary Morgenthau | Mr. Joseph Weiner |
| | Mr. Donald M. Nelson | Dr. White |
| | Mr. Leon Henderson | Mr. D. W. Bell |
| | Mr. Marriner Eccles | Mr. Haas |
| | Mr. Ronald Ransom | Mr. Kuhn |

Mr. Nelson said that it was becoming more and more evident to him that priorities would have to be broadened to prevent the civilian economy from expanding. He cited the case of copper, in which total available supplies for one month were 133,000 tons, whereas the Army and Navy requirements for that month were 138,000. He also cited the case of Thomas Beck, president of the Crowell Publishing Company, who came to him for advice on whether to begin construction of a new 3 million dollar building for his publications in Rockefeller Centre, New York. Mr. Nelson said that he had told Mr. Beck not to start the building, as the materials would be needed for defense. Mr. Beck told him, however, that his contractor had promised to have all the necessary steel and other materials within five months.

The Secretary asked whether shortage of raw materials was the chief reason for the continued slow production on defense orders. Mr. Nelson replied that raw material was not an obstacle except in the cases of aluminum and magnesium.

The Secretary then asked what the real obstacle was. Mr. Nelson replied that it was the lack of a sense of urgency. The expansion of defense production, he said, had been started too late and too slowly. He cited the case of the Douglas Aircraft Company which had spoken to him on June 17th about the building of B-17 bombers and which was still waiting on September 30th for the letting of the contracts.

Mr. Nelson added, however, that there would have to be some allocations of materials for civilian purposes if the defense program itself were not to suffer. As an example he spoke of the petroleum industry which requires a certain amount of aluminum in order to keep warm and progressive. The aluminum, he said, was needed in the digging of wells and in the provision of new equipment.

Mr. Eccles suggested that the petroleum industry was really an adjunct to defense and should be treated accordingly. Mr. Nelson replied that this was the kind of case which his Board was now studying with a view to action in the near future. At present, he said, the petroleum industry can get no aluminum whatever.

Mr. Bell read the attached Report on the Control of Capital Expenditures, prepared by a committee representing the Treasury, the Federal Reserve and the price and priorities agencies. Mr. Henderson commented that his organization was already working on a three-point program made up of (1) curtailment or priorities (2) price control (3) credit control. All three methods, he said, seemed to him necessary.

The general opinion at the luncheon table was that the Report was good as a general statement, but needed now to be made more specific, especially on the second section dealing with inventories. Mr. Nelson said that his organization already had a list showing the exact inventory position of thousands of firms.

At the end of the luncheon Mr. Nelson said that he would like very much to consult with Secretary Morgenthau on these problems from time to time, and it was agreed that a similar luncheon meeting should be held approximately once every two weeks.

At the very start of today's luncheon there was much bantering about the Secretary's proposal for a six percent limit on profits. Mr. Eccles protested that he had been misrepresented in the press, and that he was not really so strongly opposed to a strict control of profits. Mr. Nelson said that he had opposed the Secretary's six percent plan because it did not provide any incentive to a manufacturer to expand production, but that he favored the Treasury's proposal of last summer, that is, of the summer of 1940, which attempted to fix a floor and a ceiling for profits.

Anyway, said the Secretary, we can't accuse President Roosevelt of being a dictator when his assistants disagree as freely as they did at the hearings on the price control bill.

F. K.

Report on the Control of Capital Expenditures

Conclusions

This Committee believes that excessive capital expenditure for construction and equipment, and investment in inventories puts pressure on prices, and that such expenditure may have to be controlled. With this object in mind it reached the following conclusions:

1. Prospective extension of priorities and allocations will have the effect of limiting capital expenditure on construction and equipment. This Committee recommends that such control be extended further wherever feasible for the specific purpose of limiting unnecessary and undesirable capital expenditure.

2. Prospective extension of priorities and allocations will include control of inventories of basic materials and their products. In some cases it may be desirable to extend priorities and allocations for the specific purpose of preventing excessive inventory accumulation. In addition, there will probably be a large number of commodities which cannot be controlled by priorities and allocations. For such commodities it may be desirable to establish financial and other means of controlling inventories. Because the accumulation of excess inventories presents a complex problem, this Committee recommends further intensive study of the question.

3. To achieve the most effective control of capital expenditure on construction and equipment, and investment in inventories, through priorities and allocations, it may be helpful to have a representative of the agencies concerned with price, credit, and fiscal policy act in an advisory capacity to SPAB.

Capital expenditure for construction and equipment

The primary objective of public policy at this time is the early and successful completion of our program of national defense. Expansion of many types of expenditure is necessary to carry out this program. But rapidly mounting expenditures for nonessential purposes impede the achievement of our objective by forcing up prices. To avoid this development it is necessary, along with other methods of control, to limit excessive capital expenditure and accumulation of inventories. The particular question which confronts this Committee is whether it is better to bring about this limitation by financial means or by control over the required materials.

In order to assure an adequate supply of materials rendered scarce by the defense program, OPM has already imposed general priorities over a wide area and specific allocations for some commodities. This control, instituted for other purposes, does to some extent limit capital expenditures wherever they involve goods subject to priorities. Allocations that supplement priorities are somewhat more effective in limiting capital expenditure. As hitherto operated, however, priorities and allocations would not provide sufficient control of capital expenditure.

It seems likely that the continued expansion of priorities will inevitably restrict a major portion of undesirable capital expenditures because any large capital outlay is almost certain to require some material or product which will be subject to priorities. Certain types of capital outlay, however, especially those in small amounts, may not be adequately regulated even under expanded priorities. Such unregulated capital expenditures may be controlled through further extension of priorities for this specific purpose or through financial means.

Control through priorities would appear to be preferable because a priorities system is already in operation and is necessary in any event. On the other hand, financial control of capital expenditure would inevitably have to consider the same complex factors that determine the granting of priorities. It is preferable to avoid duplication and conflict by depending exclusively upon a comprehensive system of priorities. This will make possible a more prompt and thorough integration of the community's resources. The Committee recommends that priorities be extended wherever feasible for the specific purpose of limiting unnecessary and undesirable capital expenditure. The Committee believes that this can be done on a scale sufficient to obviate the need for financial control of capital expenditure.

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Accumulation of Inventories

Control of capital expenditure for inventories presents a more difficult problem because of the variety of commodities, the large number of producers and dealers, and the various purposes for which inventories are accumulated. In some instances, larger inventories are required for processing and selling the increased volume of production. It is essential, however, to prevent accumulation of inventories in anticipation of remote needs or as a hedge against inflation. The attempt to build up excessive inventories results in pressure upon prices and, more important, restricts the flow of goods available for current use.

No one method of control by excessive accumulation of inventories appears feasible to us. For many basic commodities inventory control is an indispensable part of priorities. This same method of control is likely in any event to be further extended in the near future to additional materials. Whether it is desirable to regulate the remaining commodities by further expanding priorities for this specific purpose or through financial means is mainly a question of administration. In some cases control by an extension of priorities alone may be effective. In other cases it may be necessary to use a combination of priorities and financial controls. Under any circumstances, bank credit should not be made available for acquiring inventories not needed to produce and market the current flow of goods.

Excessive accumulation of inventories is an urgent problem. Because of its importance and its complexities the Committee strongly recommends the immediate study of concrete plans for controlling inventories.

Cooperation with SPAB

The purpose of the priorities imposed by SPAB has been the most effective utilization of scarce materials for the furthering of the defense program. This Committee has recommended that priorities be used also as a means of restricting undesirable capital expenditure

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and excessive investment in inventories. This, however, involves the extension of priorities for a new purpose. It may be helpful, therefore, to have a representative or representatives of the agencies concerned with price, credit, and fiscal policy advise SPAB in these matters.

Frank R. Garfield
Clayton Gehman
E. A. Locke, Jr.
Walter Salant
Henry H. Villard
E. M. Bernstein

September 30, 1941
3:42 p.m.

RMJr: Hello, Mr. Watt.

Robert J.
Watt: Mr. Secretary, what I wanted to call about
was, President Green is in Chicago today.....

RMJr: Yeah.

W:on his way to Seattle.....

RMJr: Yeah.

W:and he called me about an hour ago and
asked me to transmit for him to you an invi-
tation - a cordial invitation - to be with
us at the Convention in Seattle next Thursday -
or Thursday the ninth or Friday the tenth of
October.

RMJr: I see. Thursday the.....

W: The ninth or tenth, whichever day was most
convenient to you.

RMJr: Yes.

W: Now, if either of those days are convenient,
Mr. Secretary, then I'd like to send down by
messenger some time this afternoon an invi-
tation to attend the Convention from President
Green.

RMJr: Well, let me just ask you a minute - are you
going to be there - am I not right - you're
going to be there for two weeks, aren't you?

W: Yes. But to be truthful about it, Mr. Morgen-
thau, the first week is the best week.

RMJr: It is.

W: In other words, after the first week - you see
it opens on the morning of the sixth.

RMJr: Yes.

W: And really after Friday, the tenth, it's only rarely a speaker is on because they pitch in with a degree of seriousness into business.....

HMJr: I see.

W:on Monday of the second week.

HMJr: Uh huh.

W: And it would be preferable if you could so arrange your schedule and if it was convenient for either Thursday or Friday.

HMJr: Well, is Friday a good day or is that.....

W: Friday is a very good day.

HMJr: Or is that too late?

W: Oh, no, no.

Thursday or Friday are both very good days. Very good, indeed. And, oh, if you just couldn't find it convenient, it could be arranged the following week. However, I want to be perfectly frank and tell you that the first week is the best. I'm personally going - I'm flying out there on Tuesday night.

HMJr: I see.

W: I can - I find that I can leave here at five-thirty and pick up a sleeper plane in Chicago and be there at nine-thirty in the morning.

HMJr: That's on the seventh.

W: I'm leaving here on Tuesday, the seventh. And I'll be there on the morning of Wednesday, the eighth.

HMJr: Well, what I would do - if I do - I'd leave here on the night of the eighth.

W: Yes, yes. Well, if you do that - if you do

that, Mr. Morgenthau, when you arrive there, if you'll just - if you'll just - it's at the Olympic Hotel, Seattle.....

HMJr: Yes.

W:and if you'll ask anyone for me, I'll be around there.

HMJr: Fine.

W: Just ask anyone for Robert J. Watt or Bob Watt, very few people know me by Robert. (Laughs)

HMJr: Well, what time of day do you think you'd like to.....

W: Any time at all. Any time at all.

HMJr: Well, when do you have your best meetings?

W: The best - I would say, to be perfectly truthful - I would suggest, if you can, Thursday forenoon.

HMJr: Thursday forenoon.

W: Say about eleven o'clock.

HMJr: What time does the plane get in?

W: The plane gets in at nine-thirty-seven.

HMJr: Well, that would give me time enough.

W: Yes, it would. Just be - just be fine. And that's really no - if you didn't make it on Thursday morning at eleven o'clock, then I would say the afternoon about two-thirty or three.

HMJr: Well, I think I'd rather do it in the morning.

W: Yes. Yes.

HMJr: Well, I think that would be fine.

W: Well, all right, then, Mr. Secretary. I'll have - this afternoon I'll have an invitation from President Green delivered at your office by messenger.

HMJr: Thank you so much.

W: All right. And you - will you arrive there just - when you get up to your room, just call for me and I'll be glad to then make arrangements with President Green in regard to when you can speak.

HMJr: Thank you.

W: All right. Thank you.

HMJr: Good-bye.

W: Good-bye.

September 30, 1941

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4:30 pm

Final draft from which reading copy
was typed and sent to Secretary's
house.

~~Draft of~~ Secretary Morgenthau's Speech
to the American Bankers Association at Chicago,
October 2, 1941

at that
Three weeks ago, I said that we were in the early stages
of a serious price inflation, and that we must deal with the
danger at once. I said then, and I should like to repeat it
at the very start of this talk today, that if we do not check
the spiral of rising prices, and check it now, the conse-
quences will haunt us and our children for years to come.

I outlined then a twin program for fighting inflation,
on the one hand by reducing excess purchasing power in the
hands of the public, and on the other hand by increasing the
supply of goods, like farm products, which do not compete
with the over-riding needs of our national defense effort.

at that
-c
I had a meeting
with [unclear] on Monday
with [unclear] at [unclear]

- 2 -

I said then - and I meant it as earnestly as I have
ever meant anything in public life, ^{and very deeply about it -} 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 landlords, businessmen,
bankers, or 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 our power.

~~The continued advance in the prices of many staples~~
in recent weeks may mean that some people still doubt the
administration's unity of purpose in checking inflation.
Let you have seen the joint statement issued last week by
the Federal Reserve System and the Treasury, dealing with
the raising of 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 was a reminder of the fact that the Government already has powerful weapons of control in its hands, and that if it needs more power it will ask Congress for whatever it needs, in the fight against rising prices and falling living standards. The Administration is just as determined to beat down the forces of inflationary evil as it is to defeat, at whatever cost, the forces of military conquest that are running rampant across the earth.

There is no need 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 ^{make it possible for} 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, even though 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 very glad to be with you this morning, to thank you personally for all that you have done.

D-C

But the most important task of American bankers lies immediately ahead, 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 head.

Many of you will remember, from your own experience, ^{of twenty-five years ago,} that inflation is just as damaging to bankers as to farmers, wage earners or businessmen. ~~We had a price inflation 25 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.~~

L-C

We know now that the doubling of bank loans and investments from 1916 to 1920, and the resulting doubling of deposits in the same five years, contributed to the great increase in prices which brought such hardship to American consumers and such disastrous after-effects to American farmers.

We know now that the inflation of a quarter-century ago, with all of its injustices and dislocations, could to some extent 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 fallen from the top of a very high wall, and many years of effort were needed to pick up the pieces.

B-C

It is our job at the Treasury and the Federal Reserve, 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.

That is why my first plea to you as bankers is that you scrutinize closely your own lists of applications for loans. Those lists contain within them much of the ammunition of inflation. You have in your hands, 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 any of the thousand and one materials now needed so desperately for our defense effort. If you can postpone all such

- 8 -

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.

I hope that in the not too distant future the priority system will become so effective that the supply of ^{practically} all raw materials for all purposes will be under full control in the interests of national defense. That should mean that materials which must be used for defense purposes will not go into 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 stock of resources needed for the national effort.

Another essential service which you can perform is, quite simply, to teach the people of your communities the risks about inflation and defense financing, and about

DC

~~the situation in which this country stands.~~

You see in your daily work men and women from many walks of life. You are in a key position to advise them, and your advice carries as much weight as that of a family doctor to his patient or a lawyer to his client. I know that in these serious times you will give the right kind of advice, and that your influence collectively and individually will be joined with that of your government in its efforts to keep ^{the cost of living} ~~inflation~~ in check.

There is a real need of convincing the average citizen, right now, that he will have to accept far greater taxation.

There is a real need of preparing him to make greater savings in his daily life to ensure the long-run survival and improvement of his standard of living. Above all, there is a real need of explaining to him that this war cannot be won quickly or cheaply or easily.

D-6

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 public expenditure that has ever been pumped into the arteries of our economic system.

Defense expenditures have now risen slowly to a billion ^{more than} and a quarter dollars a month. They will soon be a billion and a half, but even then they will be utterly inadequate compared to the need. Perhaps "inadequate" is too mild and charitable a word. We are trying to make ourselves the arsenal of democracy by devoting only 20 percent of our factory and mining output to defense, only 30 percent of our output of durable goods, only 10 percent of our output of non-durable

goods, and only 16 percent of our national income. That,

surely, is very far from total defense or all-out effort.

¶ Nobody can emphasize too often or too strongly the

~~The magnitude of the job we have set out to do has not~~

~~yet been brought home to the American people,~~ *which we* ~~Let us give~~ *have set out to do.*

you a few simple illustrations. At present prices the cost

of the total defense program as now planned will be more than

50 billion dollars. This is 10 billion dollars more than the

original value of all building construction in the United States *since 1927.*

twice as much as the total investment in American railways. It is ~~double~~ twice as much as
~~being the last twenty years. It is ~~more~~ than the total~~

produced in this country during the past fourteen years.
~~the total~~ original value of all passenger automobiles ~~now in use plus~~

~~the total investment in American railroads.~~

¶ Yet there is no reason whatever for us to be discouraged

over the mere size of the job ahead. In spite of a slow start,

we are now on the road to an expansion of production which will

confound those of narrow vision and little faith who cried,

"It can't be done." The capacity of America to produce over the long pull is almost limitless. We Americans can do any job that we set ourselves to do.

It is not so much the size of the undertaking as the limited time at our command which causes our economic system to heave and strain. To telescope such a vast construction or production job within, not twenty years or ten years, but within one, two or three years, is bound to affect profoundly every aspect of our economic and social life.

Under the impact of our comparatively modest defense expenditures up to now, our national income has increased by ^{fourteen} ~~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?

It is imperative that we set aside a great part of that national income, and especially the increase in the national income, if we are to ~~save ourselves in time~~ and also put an effective brake upon inflation.

One indispensable method of paying for defense without inflation is "all-out" taxation, a method that has not yet been tried in spite of the good start that Congress has made in raising \$3,500,000,000 in additional revenue. With the help of the new Revenue Act of 1941, our tax structure will yield ^{about} ~~about~~ fourteen billion dollars in revenue, but in my opinion it still contains many inequalities and many omissions which will have to be corrected next year.

The tax bill next year 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 raise the necessary revenues, place the necessary check upon inflation, and take the profit out of war.

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~~

~~shall have to come to you for funds and I know I can count~~
whenever we have to come to your banks for funds.
on your wholehearted cooperation. The way to proceed now,

however, is to finance our needs as ^{far} long as possible without adding unnecessarily to bank deposits, to borrow instead from private investors, large and small, 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 two and one-half million individual investors. The result so far is certainly not below our expectations, but just as certainly it falls far 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 voluntary payroll allotment plans are now in operation in more than five thousand ^{companies} ~~factories~~ employing between five and six 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 can find no usefulness, for our present purposes, in the old Liberty Loan method of fixing money quotas for communities, trades, labor unions, school classes or individuals in this Defense Savings Program. I can see no value, either in

D-C

terms of economics or of morale, in high-pressuring people to take money out of bank savings accounts or out of life insurance. But I do see a great benefit, financial and moral, in persuading spenders to set aside, systematically, week after week, a part of their current income for their own good and their country's good.

The kind of spending that the Treasury is most anxious to divert into Defense Savings Bonds is the spending produced by pay increases and bonuses, and by ^{increased} dividend payments.

I should like to offer as a suggestion, for example, that every Christmas bonus in the United States be paid in Defense Savings Bonds or Stamps this year. The banks of America can start the fashion so that it will sweep the country. The total amount of such bonuses may be small, but there could be no finer example to the public, no more striking reminder of

the spirit of these times, no better safeguard for the days of economic strain that are sure to follow the war.

We at the Treasury believe that the voluntary 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 of voluntary cooperation, and I am perfectly confident that we shall reach vast numbers who are willing and eager to put their savings to work for their country.

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 in times like these.

There are no commissions for bankers in this work, and you have asked for none. But in order to enable you to give

wider distribution to Defense Savings Bonds, 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 us at the Treasury of any similar burdens which you feel may be hampering you in the sale of these bonds.

Wider savings and greater taxes will not, of course, be

enough in themselves to cope with the inflation that now

confronts us. ^(A) ~~I said earlier this morning that we might have~~

~~to ask Congress for further power to curtail bank credit.~~

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

Insert A - p. 17.

You have seen the joint statement issued last week by the Federal Reserve System and the Treasury, dealing with the raising of 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 was a reminder of the fact that the Government already has powerful weapons of control in its hands, and that if it needs more power it will ask Congress for whatever it needs, in the fight against rising prices and falling living standards. It ~~has already asked~~^{is still asking} for additional power through the price-control Bill, which I hope will be passed by Congress without delay.

In addition, I have already suggested an extension of the social security program as a possible method of absorbing several ~~an~~ billion dollars of next year's national income and thus building a ~~stronger~~ further ~~base~~.

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. ~~I have already expressed the hope that the price control bill be passed without delay, as an essential step in combating inflation.~~

Of course, such a combination of emergency taxes, priorities, savings and price-control will cause some inconvenience; of course it will cause some hardship, some sacrifice. We are now engaged in a world struggle that ^{demands} ~~will call for~~ all our energies and all the qualities that have made America great. As a result of that effort we are compelled to fight another enemy, the enemy of inflation, on the home front. How can we hope to win unless we first throw onto the rubbish

keep all ideas of business as usual, pleasures as usual and comforts as usual? In my opinion, complacency is our major source of weakness today in building our defenses, for it saps our will and clouds our minds, and blinds us to the stupendous size of the job that confronts us.

We can conquer inflation on the home front if we act now, just as 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 machines. I am confident about the outcome on both fronts, because I have a deep and abiding faith in the common sense of the American people.

September 30, 1941
4:35 p.m.

HMJr: Hello.

Operator: All right.

HMJr: Hello.

Jesse Jones: Hello.

HMJr: Hello, Jesse.

J: Henry, have you heard about the gold?

HMJr: Well, I've sort of heard it third-hand.

J: I see.

HMJr: But I don't know whether I've got it right.

J: Yeah.

HMJr: I heard you did something.

J: I mean that - that they're going to - I mean are they going to send you some gold?

HMJr: Oh, no, I was told third-hand that you were going to let them have a lot of money.

J: May I call you back in just a minute, Henry?

HMJr: Yeah.

J: Thank you

4:50 p.m.

HMJr: Hello.

Operator: Go ahead.

Jones: Hello, Henry.

HMJr: What did you do, loan them a hundred million?

- 2 -

J: (Laughs) Yeah, I just had to get off the phone.

HMJr: What?

J: Yeah.

HMJr: You were calling me.

J: Yeah, I was calling you.

HMJr: Yeah.

J: To know whether or not you'd heard whether they were going to ship you any gold.

HMJr: No, I haven't heard.

J: They're going to use up our money mighty fast.

HMJr: Well, I'd heard that you'd loosened up a little bit, but I didn't hear it from the Russians.

J: No. Well, they originally wanted ten million first and then ten on the first of October.

HMJr: Yeah. What have you done?

J: Well, we've been a couple of hours with them this afternoon.

HMJr: I see.

J: The situation is this. They've submitted a list of things that they've bought that they want to pay for, and it does not include any tanks nor any airplanes or things that will be most effective.

HMJr: Yeah.

J: And I've talked with Hopkins and he's very anxious to get them some tanks and airplanes.

HMJr: Yeah.

J: And he thinks he can get them if you allocate it.....

HMJr: Yeah.

J:in a very few days. So that we've been going over this list. They've been hammering me yesterday for thirty million dollars, and I don't want them to get out of soap buying various and sundry things and then have them say, "Well -" when Hopkins tells them they can have some airplanes and tanks - they say, "Well, we've got no money to buy."

HMJr: Yeah.

J: Then they'll be right back in our laps again, don't you see?

HMJr: Yeah. Well, they will be anyway.

J: They will be anyway, but I'd like to - it's like death, I want to put it off just as far as I can - death and taxes.

HMJr: (Laughs)

J: I want to put them off as long as I can.

HMJr: I haven't heard you come out for my six per cent plan yet.

J: I did over there at Cabinet there the other day. I said if you'd guarantee it was six, I'd be with you.

HMJr: (Laughs) Well.....

J: I'll trade with you.

HMJr: Cabinet is almost like talking to the Press, but not quite.

J: That's right. Well, I was - I'm surprised

- 4 -

that you haven't heard that they're willing to ship some gold.

HMJr: No, I haven't heard a word from them.

J: Uh huh.

HMJr: Not a word. And I'm sitting here with my phone open.

J: I see.

HMJr: That's the situation.

J: Thank you very much.

HMJr: Thank you, Mr. Jones.

J: Good-bye.

Dr. White's dictated explanation:

Batches of mail come in and they are quickly examined to see what is important enough to call to your attention at once. We call your attention to some of the remainder and some is just filed. This particular cable was a reprint from an editorial and I did not think it important enough to call it to your attention at once.

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TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE September 30, 1941
late

TO Secretary Morgenthau
FROM H. D. White

Ambassador Winant wants your attention called to an editorial in the London Times of September 12 regarding the financing of British aid to Russia and also concerning Lend-Lease.

The point of the editorial is that the Times deprecates the fact that credits are being extended to Russia instead of subsidies or Lend-Lease. The Times argues that the British Government is making a mistake in taking steps to create post-war debts. The lesson of the last war, the Times says, is that these debts cause competition in the export markets and restriction of imports.

The editorial outlines the British fear of emerging from the war with a huge foreign debt.

C O P Y

DEPARTMENT OF STATE
WASHINGTON

In reply refer to
EA 861.24/614

September 15, 1941.

My dear Mr. Secretary:

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

Sincerely yours,

/s/ Herbert Feis

Herbert Feis
Advisor on International
Economic Affairs

Enclosure:

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

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

C
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Y

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ED

PLAIN

London

Dated September 12, 1941

Rec'd. 11:45 a.m.

Secretary of State,
Washington.

4940, Twelfth.

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

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

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

not be nearly so great as may appear on the surface. It must not be forgotten that a very large proportion of the loans made to foreign countries have resulted in loss for the investor through partial or complete default, and this has been especially true of the loans made after the end of the last war. Even from the business point of view it may prove more profitable in the long run to put valuable potential customers on their feet, without exacting a return, than it would be to load them with monetary obligations which they will ultimately be forced to repudiate, and which in fact they will not be able to discharge without ruining themselves and their neighbors.² Please send copy to Treasury and Hopkins.

VINANT.

MM

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

DEPARTMENT OF THE ARMY
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 WASHINGTON, D. C. 20315

TO THE SECRETARY
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29 1 29 1941

DEPARTMENT
 RECEIVED



TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON September 30, 1941

OFFICE OF THE DIRECTOR

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MEMORANDUM TO THE SECRETARY:

With reference to Senator Herring's visit to your office concerning the proposed purchase of 7,200,000 gallons of alcohol for the British, it was finally decided by S.P. that the British must have to furnish the molasses, accordingly, we took steps to make a contract for converting the molasses into alcohol.

Because of the keen competition and numerous inquiries concerning this order, formal purchase procedure was followed. Invitations for bids were issued and sealed bids received with the following results:

| | | |
|----------------------------------|--------|----------|
| U. S. Industrial Chemicals, Inc. | 20.08 | per gal. |
| Publiker Commercial Alcohol Co. | .03875 | " " |
| Gulf Distilling Corporation | .1025 | " " |
| Nahum Chapin Distilling Co. | .1950 | " " |
| Republic Chemical Corporation | .205 | " " |

The last conversion contract for the same quantity was with Publiker Commercial Alcohol Company at \$0.1125 per gallon.

I just received a telephone call from Senator Guffey's office advising that it was understood the Gulf Distilling Corporation was "out to get this business" and I advised that sealed bids had been obtained and that award would be made to the lowest responsible bidder.

Evidently, the active competition resulting from the entry into the picture of the Gulf Distilling Corporation, the concern whose behalf Senator Herring was active, was largely responsible for the decrease in price. While this Company created new competition their price was not low enough to obtain an order.

Award is being made today to the U. S. Industrial Chemicals, Inc. for 4,400,000 gallons, the amount offered by them, at \$0.08 per gallon, and the Publiker Commercial Alcohol Company for the balance of 2,800,000 gallons at \$0.03875.

Cliff H. Mack
Cliff H. Mack,
Director of Procurement

In accordance with your request, ²⁰³⁵
copies of this memorandum have been
given to Mr. Bell and Mr. Morris and
I have exchanged memoranda with Mr.
Hadley.

Prepared by: Mr. Sandelin
Mr. Murphy
Mr. Heas

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 30, 1941

TO Secretary Morgenthau

FROM Mr. Hass *JH*

Subject: Proposal for Offering 10- and 15-Year Treasury Securities on Each Quarterly Date

In accordance with your request, we have considered the advisability of the Treasury adopting a uniform policy of offering 10- and 15-year securities on each quarterly date. The balance of argument appears to be against such a proposal.

The principal argument in its favor is that it would impart an element of certainty to the Treasury's financing program and permit purchasers of Treasury securities to plan their subscriptions in advance, rather than be asked to make a hasty decision with respect to the purchase of a security, the maturity date of which was unknown prior to announcement.

Against this, however, may be offset the following disadvantages:

- (1) It would greatly increase the difficulty of pricing new securities. At the present time maturity and call date are the sensitive factors by which new issues are priced. If the coupon of a proposed security be considered as fixed, its initial premium may, nevertheless, be adjusted to any desired level with a fair degree of accuracy by moving the call date and/or maturity backward or forward, the unit of movement generally being three months. If, on the other hand, the maturity or call date were fixed, it would be very difficult to secure such an adjustment by alterations in the coupon -- the unit of change in this case being $1/8$ of 1 percent. This difficulty could, of

course, be avoided by offering new securities at prices above par. Such procedure would, however, involve difficulties of its own.

- (2) A concentration of new borrowing in the 10- and 15-year areas would tend to cause an over-supply of securities in these areas, and so to push the yields on such securities out of line with the remainder of the market. It should be noted in this connection that most purchasers of Government securities are endeavoring to secure a diversification of maturities. The achievement of such a goal by the whole market would, of course, be impossible under the proposed plan, but attempts by individual purchasers to do so would tend to throw yields out of line.
- (3) Unsettled markets at the time of quarterly financing dates might call logically for short-term financing, or for no financing at all. If the Treasury had committed itself to a plan of regular 10- or 15-year offerings at each quarterly date, it would in such cases be confronted with the dilemma of either going through with its program at the expense of putting out a sour issue, or, if it did not do so, of causing bearish comment to the effect that conditions were so bad the Treasury couldn't go ahead with its announced program.
- (4) A policy of the type suggested would bar the Treasury from utilizing particularly good markets to put out really long-term financing.
- (5) Ten-year securities, in particular, would be attractive to banks at the present time, so that the adoption of the policy suggested would interfere with the present Treasury policy of minimizing the sale of Government securities to banks.
- (6) From the long-term point of view, it may very well be that in a future possible depression the Treasury may be anxious to sell as many

Secretary Morgenthau - 3

securities to banks as possible, in order to avoid a deflation of bank deposits. This might call for a concentration on 5-year, or even shorter, maturities.

- (7) Borrowing during the next several years may be expected to be exceptionally heavy. If this borrowing should all be concentrated in 10- and 15-year maturities, it would result in a great bulge in our maturity schedule 10 and 15 years hence. Maturities during the period in which new 10-year securities would fall are already heavy, as is indicated by the following table showing the total amount of direct and guaranteed securities due and first callable 10-13 years and 15-18 years hence:

| | : First : callable | : Due |
|----------------------------------|-----------------------|-------|
| (Billions of dollars) | | |
| 10-13 years (October 1, 1951-54) | 3.5 | 8.8 |
| 15-18 years (October 1, 1956-59) | .9 | 2.4 |

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE September 30, 1941

TO Secretary Morgenthau

FROM W. H. Hadley

PROPOSAL: That the Treasury inaugurate a Fixed Financing Program wherein offerings are made on quarterly dates to mature on quarterly dates with maturities of 10 and 15 or 20 years on each offering.

CONCLUSION: That such a proposal should not be adopted.

ARGUMENTS FOR THE PROPOSAL:

1. Gives the Treasury a uniform maturity program after a period of about 15 years.
2. Gives all buyers an opportunity to work out uniform investment programs.

ARGUMENTS AGAINST THE PROPOSAL:

1. Limits flexibility of Treasury's borrowing program.
 - a. Unless the Treasury is willing to sell new offerings at a price other than 100, control over the amount of premium on each offering would be practically impossible since the coupon rate would be the only variable in setting terms.
 - b. Unsettled markets might call for short or no financing so that such a fixed program of necessity might be short lived.
 - c. Whereas extremely good market would permit long term borrowing and the treasury might wish to take advantage of such a market.
2. Tends to pile up maturities in the 10-15 year area which is already crowded. (See attached Table)
3. Short term financing would encourage bank buying which at present is not the announced policy.

ALTERNATIVE SUGGESTION:

A program of 10-year and 15 or 20-year offerings on each quarterly date might be attempted without committing the Treasury to adhere strictly to such a program. To announce a fixed policy would in effect tie the Treasury hands whereas the same result could be obtained by making offerings whenever practicable closely following such a plan. The market could draw its own conclusions as to whether this were to be a fixed policy.

QUARTERLY FINANCINGDates and Maturity Distribution

| Offering Date | <u>10 Year</u> | | <u>15 Year</u> | | <u>20 Year</u> | |
|------------------|----------------|---|----------------|---|----------------|---|
| | <u>Date</u> | <u>Outstdg. Matur. (millions)</u> | <u>Date</u> | <u>Outstdg. Matur. (millions)</u> | <u>Date</u> | <u>Outstdg. Matur. (millions)</u> |
| <u>1941</u> | | | | | | |
| Oct. | Sept. 1951 | C 755 | Sept. 1956 | C 982 | Sept. 1961 | 0 |
| Dec. | Dec. 1951 | C 1118 | Dec. 1956 | 0 | Dec. 1961 | 0 |
| <u>1942</u> | | | | | | |
| Mar. | Mar. 1952 | C 1024 | Mar. 1957 | 0 | Mar. 1962 | 0 |
| June | June 1952 | 0 | June 1957 | 0 | June 1962 | 0 |
| Sept. | Sept. 1952 | M 1186 | Sept. 1957 | 0 | Sept. 1962 | 0 |
| Dec. | Dec. 1952 | M 491 | Dec. 1957 | 0 | Dec. 1962 | 0 |
| <u>1943</u> | | | | | | |
| Mar. | Mar. 1953 | 0 | Mar. 1958 | M 1449 | Mar. 1963 | 0 |
| June | June 1953 | C 725 | June 1958 | C 919 | June 1963 | M 919 |
| Sept. | Sept. 1953 | 0 | Sept. 1958 | 0 | Sept. 1963 | 0 |
| Dec. | Dec. 1953 | (M 1118 (M 1786 | Dec. 1958 | 0 | Dec. 1963 | 0 |
| <u>1944</u> | | | | | | |
| Mar. | Mar. 1954 | M 1024 | Mar. 1959 | 0 | Mar. 1964 | 0 |
| June | June 1954 | (M 631 | June 1959 | 0 | June 1964 | 0 |
| Sept. | Sept. 1954 | M 1627 | Sept. 1959 | M 982 | Sept. 1964 | 0 |
| Dec. | Dec. 1954 | 0 | Dec. 1959 | 0 | Dec. 1964 | 0 |

M = Maturity
C = First Call

UNITED STATES SAVINGS BONDS

Comparative Statement of Sales During
 First Twenty-Four Business Days of July, August, and September, 1941
 (July 1-29, August 1-28, September 1-29)
 On Basis of Issue Price

(Amounts in thousands of dollars)

| Item | Sales | | | Amount of Increase or Decrease (-) | | Percentage of Increase or Decrease (-) | |
|-------------------------|------------------|------------------|------------------|---------------------------------------|------------------------|---|------------------------|
| | September | August | July | September over August | August over July | September over August | August over July |
| Series E - Post Offices | \$ 37,395 | \$ 38,116 | \$ 47,385 | -\$ 721 | -\$ 9,269 | - 1.9% | - 19.6% |
| Series E - Banks | <u>64,897</u> | <u>71,675</u> | <u>87,997</u> | - <u>6,778</u> | - <u>16,322</u> | - <u>9.5</u> | - <u>18.5</u> |
| Series E - Total | 102,292 | 109,791 | 135,382 | - 7,499 | - 25,591 | - 6.8 | - 18.9 |
| Series F - Banks | 17,313 | 18,866 | 24,420 | - 1,553 | - 5,554 | - 8.2 | - 22.7 |
| Series G - Banks | <u>103,078</u> | <u>117,942</u> | <u>150,636</u> | - <u>14,864</u> | - <u>32,694</u> | - <u>12.6</u> | - <u>21.7</u> |
| Total | <u>\$222,683</u> | <u>\$246,600</u> | <u>\$310,437</u> | - <u>\$23,917</u> | - <u>\$63,837</u> | - <u>9.7%</u> | - <u>20.6%</u> |

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

September 30, 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
(In thousands of dollars)

| Date | Post Office Bond Sales | Bank Bond Sales | | | | All Bond Sales | | | |
|----------------|---------------------------|-----------------|-----------|-----------|-----------|----------------|-----------|-----------|-----------|
| | | Series E | Series F | Series G | Total | Series E | Series F | Series G | Total |
| September 1941 | | | | | | | | | |
| 2 | \$ 3,021 | \$ 3,385 | \$ 1,182 | \$ 5,510 | \$ 10,077 | \$ 6,406 | \$ 1,182 | \$ 5,510 | \$ 13,098 |
| 3 | 972 | 1,933 | 585 | 5,790 | 8,308 | 2,905 | 585 | 5,790 | 9,280 |
| 4 | 1,365 | 2,540 | 645 | 4,846 | 8,032 | 3,906 | 645 | 4,846 | 9,397 |
| 5 | 1,852 | 3,689 | 1,162 | 10,486 | 15,336 | 5,540 | 1,162 | 10,486 | 17,188 |
| 6 | 1,419 | 3,144 | 707 | 4,666 | 8,516 | 4,562 | 707 | 4,666 | 9,935 |
| 8 | 2,858 | 3,032 | 521 | 3,549 | 7,102 | 5,890 | 521 | 3,549 | 9,960 |
| 9 | 973 | 2,013 | 528 | 1,532 | 4,073 | 2,987 | 528 | 1,532 | 5,046 |
| 10 | 1,479 | 2,883 | 975 | 4,984 | 8,841 | 4,362 | 975 | 4,984 | 10,320 |
| 11 | 1,422 | 2,657 | 484 | 3,168 | 6,309 | 4,079 | 484 | 3,168 | 7,731 |
| 12 | 1,312 | 3,004 | 436 | 2,536 | 5,975 | 4,316 | 436 | 2,536 | 7,287 |
| 13 | 988 | 1,997 | 498 | 3,493 | 5,988 | 2,985 | 498 | 3,493 | 6,976 |
| 15 | 2,312 | 2,384 | 797 | 4,898 | 8,079 | 4,695 | 797 | 4,898 | 10,390 |
| 16 | 843 | 2,195 | 470 | 2,807 | 5,474 | 3,040 | 470 | 2,807 | 6,317 |
| 17 | 1,225 | 2,902 | 536 | 3,018 | 6,455 | 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 |
| 24 | 1,277 | 2,727 | 788 | 4,139 | 7,654 | 4,004 | 788 | 4,139 | 8,931 |
| 25 | 1,415 | 2,730 | 957 | 4,872 | 8,559 | 4,145 | 957 | 4,872 | 9,974 |
| 26 | 1,506 | 3,643 | 1,030 | 5,306 | 9,978 | 5,149 | 1,030 | 5,306 | 11,484 |
| 27 | 1,068 | 1,882 | 687 | 3,820 | 6,389 | 2,951 | 687 | 3,820 | 7,457 |
| 29 | 2,446 | 3,083 | 963 | 4,617 | 8,664 | 5,530 | 963 | 4,617 | 11,110 |
| Total | \$ 37,395 | \$ 64,897 | \$ 17,313 | \$103,078 | \$185,288 | \$102,292 | \$ 17,313 | \$103,078 | \$222,683 |

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

September 30, 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.

Regraded Unclassified

7307

September 30, 1941.

Dear Henry:

Thank you for your letter of September 28th, which encloses copies of communications you have sent to Milo Perkins and Donald Nelson.

I have been interested in reading these, and you may be sure that the Treasury will cooperate in every possible way in connection with the program you outline in these letters.

Sincerely,

(Signed) ROOSEVELT

Honorable Henry A. Wallace,
Vice President of the United States,
Washington, D. C.

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AM

OFFICE OF THE VICE PRESIDENT
WASHINGTON

307

The Honorable,

The Secretary of the Treasury.

Dear Henry:

Copies of letters which I have just sent to Mr. Donald Nelson and Mr. Milo Perkins are enclosed. The full cooperation of your offices will be necessary to the successful completion of this important assignment. Everything which your staff can do to help them will be deeply appreciated.

Sincerely yours,

H A Wallace

Enclosures

September 24, 1941.

Mr. Donald Nelson,
Executive Director,
Supply Priorities and Allocations Board,
Washington, D. C.

Dear Mr. Nelson:

I have discussed with the President the matter of maximum, balanced production of critically needed raw materials, including increased stock piles of some of them. It is of the utmost urgency that we develop new action programs designed to reach this objective at rates of production beyond what we have planned in the past.

I wish you would get in touch at once with the affected Departments and Agencies and submit reports to me, commodity by commodity, as soon as the information is available to the end that feasible programs for increased production and larger stock piles can be worked out.

In a Commodity Summary report of September 5, prepared by the Office of Production Management our estimated 1942 supplies of various commodities are set forth. What I want are practical suggestions as to how we can increase such amount by the maximum degree possible together with the estimated increase in cost for each such program. This does not necessarily mean it will be sound policy to reach such objectives in the case of every commodity; on the contrary, balance in terms of maximum production and adequate stock piles is our real goal. In achieving this, however, we need to know the outside physical limitations of increased production for each critically needed material. Please submit the report in terms of the individual increases it will be physically possible to secure in 1 - 2 & 3 year periods, together with the increased costs and the methods recommended to reach the objective for each commodity.

The primary responsibility for working out action programs as they apply to production within our own country will be yours.

while that of doing so in other trade areas of the World still open to us will be that of the Economic Defense Board. I would like to have you and Mr. Perkins discuss this matter promptly, however, and keep in close touch with each other so that your reports can be coordinated. I am addressing a similar letter to him, a copy of which is enclosed.

Sincerely yours,

P. S. Time is definitely of the essence as you have so appropriately recognized in the signs around your office. The all-important thing is the results we get during the next 18 months. To this end, I urge doing everything possible to get results at once. It may be Knudsen is right on farm machinery for '42 when we consider this all important time factor.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

307

DATE SEP 1941

TO Secretary Morgenthau

FROM Mr. Cairns

Attached is a copy of the speech Leon Henderson gave last night before the National Association of Manufacturers. The portion of his speech which relates to the control of profits appears on page 7. Henderson makes two points in this connection:

- (1) That control of wages is comparable to control of salaries of management and other forms of compensation and that, therefore, there should be no attempt to control wages without controlling profits as well as other forms of income. As he puts it "profit control, which is a form of income control, is, of course, very similar to wage control, and perhaps a necessary prerequisite to any serious consideration of wage control"; and
- (2) Although price control necessarily affects indirectly both profits and wages, it does not contemplate the control of the rate or the amount of profit made by individual sellers. He makes the point that price ceilings under his bill will establish conditions applicable to all sellers of a certain category and that the profits of individual sellers will be determined by their own efficiency. He goes one step further, however, and seems to oppose a 100 per cent excess profits tax in view of the following sentence with which he closes his discussion:

"... We propose that opportunities for profit, and for greater or less profit, will remain the incentive to efficiency, foresight and initiative even during this great effort to achieve supremacy in production."

Huntington Cairns

OFFICE FOR EMERGENCY MANAGEMENT

OFFICE OF PRICE ADMINISTRATION

1000

For Release at 8:30 P.M., EST
September 29, 1941

PM 1267

Address before the Eastern Regional Meeting
of the National Association of Manufacturers,
Hotel Astor, New York City, at 8:30 p.m. EST,
Monday, September 29, 1941, by Leon Henderson,
Administrator, Office of Price Administration.

Tonight I want to talk with you about a burning subject - or what unfortunately may become a burning subject to every business man, every worker, and every farmer in America.

I am going to talk candidly and without reservation, just as plainly, and straightforwardly as I know how. My topic, as somebody might have been farsighted enough to guess, is inflation.

By inflation, I mean the rapid, irregular, erratic rise in prices that we usually associate with periods of abnormally intense business activity. Inflation occurs when we attempt to spend more money for goods and services than there are goods and services to buy. It is caused by an uncontrolled excess of purchasing power over the volume of goods for sale. We have an excess of uncontrolled purchasing power now. Inflation starts with jagged, irregular price advances because prices rise more rapidly where the shortages are greatest. We are having such price increases now. The excess purchasing power which threatens inflation today comes mostly from government spending on the defense program but partly from expansion of bank credit and from other sources. Unless that excess purchasing power is controlled, prices are bound to get out of control, and most of us, whether business men, workers or farmers, are sure to be hurt.

If we had the time I might go further into causes. I might explain how idleness of factories and mines during the depression left us a productive mechanism that was obsolete in some important respects. I might discuss, with appropriate examples, how our labor force has been allowed to run down by failure to maintain the supply of skilled workers. I might emphasize that modern war places an enormous demand not upon all things but a heavily concentrated demand for certain kinds of materials, machine tools, and skilled workers. I might elaborate on the tight spots in the import situation, like rubber, tin and many important foods. Or, I might dwell on how defense expenditures, which are still miserably small compared with what they must be and what they will be, are yet large enough to be already pressing with dangerous force against a bottlenecked economic system.

But all these causes are reasonably well known and there is little dispute about them. Tonight it may be more useful to begin by reviewing the consequences of inflation which ought to be avoided as a plague - which it really is.

What are the consequences of inflation which we want to avert? In particular, what does inflation mean to a nation, which at the same time must defend itself and build the machines and the tools for democracy throughout the world? What does it mean to the men and women of this Nation - now and in the future? What does it

mean to business concerns which are the heart of our productive machine? What does it mean to those who work in our factories and on our farms? What does it mean to the future of the system of private Business enterprise under which we now operate? What does it mean to the very institutions which our whole armament program is designed to preserve?

First of all, if we have unrestrained inflation we cannot arm. Management can produce the flood of materials which we need for defense only under reasonably stable economic conditions. Many of the defense commitments are for deliveries a year or two years from now. If business must contend with skyrocketing prices, and skyrocketing, fluctuating costs and wages, business cannot do its job.

As Bernard Baruch told the War Policies Commission ten years ago, there is no able and experienced business administrator in the country who does not prefer operation under stable conditions to operation when prices are rising on all sides and are in the unforeseeable state of flux. Long time commitments for delivery of goods require long time commitments on prices of the raw materials which go into those goods.

When prices are soaring, essential raw materials are distributed not in accordance with defense needs, but through the hands of the speculator to the buyer with the largest pocketbook. Boarding planes is profitable. And faced with unending increases in the cost of living, labor justifiably demands higher wages. If granted, these mean higher costs and often higher prices; if denied, they mean strikes and disunity. Industrial unrest handicaps and demoralizes production and in the end production is stalled.

Inflation undermines the defense effort in still another way. Priorities, as all of you are coming to realize, is the heart of our system of industrial mobilization. Priorities is the true dimension of our preparedness effort, giving us the power to put first things first. In a world of haithearing it doesn't matter how large our armament program is on paper, how generous our appropriations are, or how huge our contracts -- if we don't get the guns and the planes until 1944 or 1945. By a well organized system of priorities, however, we can get those arms this coming year and next year when we must have them.

Although in recent weeks the basis has been laid for a sound and effective priorities system in the United States, I am frank to say that unless prices remain relatively stable this effort to control the flow of goods will become an empty farce. For if priorities must compete with uncontrolled, insistent, inflationary price increases, the getting of materials will depend not on the buyer's need but the seller's greed, not on the nation's welfare but on private favor.

Stable and soundly enforced prices will eliminate the temptation to bootleg against the priority system and, so far as is consistent with the defense program, will give everyone big and small, his fair share. Inflationary price increases will disrupt any fair system of priority control on the other hand and work havoc with industrial mobilization. Recently a substantial amount of aluminum escaped priority control -- to become amusement machines instead of airplanes. The price, of course, was a bootleg price. If there is no fair system of price control, the government itself must enter into a heart-breaking competition in order to outbid the private economy for the things which it must have. That would destroy both our defense effort and our private economy.

Let no one blink this fact. We cannot have orderly, efficient, and above all, expanded defense production except with a stable, reasonable price level. Germany

has learned this lesson, the French learned it to their eternal cost; the British have learned it; we cannot excuse ourselves if we fail to profit by their experience and our own during World War No. 1.

Secondly, inflation if not curbed, will threaten and perhaps destroy the American system of social security. When I say this I do not refer alone to the Federal Social Security legislation. I refer rather to the institutions and the habits which vast numbers of Americans have utilized to provide for their own security. I have in mind the insurance companies, the savings banks, the building and loan associations and other investment institutions, as well as the habits of saving and frugality which have led Americans to use these institutions for their own protection. Inflation is a threat to Main Street and to Wall Street alike.

A doubling of prices means a reduction in fixed values of 50% -- a potential loss on every insurance policy, every annuity, every savings bank account, every pension that is paid out during an inflation. This is the inequity of inflation and its danger. It places the great disproportionate burden on the little fellow -- on the small manufacturer with curtailed supplies and mounting costs; on the man ever with a wife's savings account or an insurance policy maintained at great personal sacrifice; on the wage earner who is not organized and cannot keep his wages in line with prices.

When the Nation's morale is undermined -- not only the morale of those who work in the factories and the fields, but the morale of our soldiers, and the families of those soldiers, who have offered themselves without stint in the defense of their country.

Inflation means ruin for our great middle class. In its most potent form it means destruction for our present system of social security which if once destroyed may never be revived.

If third proposition is that inflation, if not checked, will greatly increase the cost and burden of the armament program. Obviously, it costs more to buy as high prices than at low prices; and in an area where we have no sure market, the difference would amount our appropriations by billions. Some of these billions, at least, must be borrowed, and the debt will be paid twice over when prices are inflated. I do not urge all of us with the old-fashioned, non-defensive expenditures out of the emergency -- but what can be saved in this area is not a drop in the bucket compared to keeping down the prices of essential government buys.

Even obvious, but just as important and just as real, are the implications of inflation for the future. If we have a war inflation, we cannot hope to manage a post-war deflation. At the end of the war it is a possibility. Irregular, uncontrolled increases in prices mean only one thing -- a severe downward drop in prices after the emergency is over. The staggered and disruptive effects of price increases are serious, but the social consequences of another deflation may be disastrous.

A few years ago it was commonplace to say that the next war would destroy civilization. Recently we've heard less said about such things. Most of us have courage and faith that our civilization will be preserved. But let us not fool ourselves — it will take a strong, steady, stable economic society to survive this war, and to withstand the strain of the post-war adjustment and readjustment.

Let us just suppose, in the post-war period, that along with all the difficulties of the peacetime reorganization of an agonized world we must also cope with a collapse in prices, employment, inventory and real-estate values, and wages and salaries, or proportions similar to that which we saw after 1929. Or let's phrase it differently and say that we have a depression twice as drastic and twice as deep as that which followed 1929. What odds will you give that our democratic institutions and our civilization can survive this final storm?

My final proposition follows from those I have mentioned. In my judgment, unchecked inflation would endanger the democracy and the system of free economic enterprise which we are fighting to preserve. Unarmed or half-armed, incapable of efficient production, torn by dissent, with an inflated and maldistributed burden of defense expenditures, and faced with the virtual certainty of a post-war collapse, we would have cheated the world of the magnificent example of what American should have been.

There are alternatives to inflation. I am not going to tell you that they are easy, mild or agreeable. They are not. They are difficult and unpleasant. But not nearly as difficult or as unpleasant or as dangerous as the consequences of unchecked inflation. These alternatives do exist and with courage, vigor, patriotism, unselfishness — and above all, the will to act — we can still choose these alternatives. And if we choose to discipline ourselves, are we not so much better off than if we allow conditions to force us into straight jackets.

As a price saver, and in order to sign up off some of the excess purchasing power, we as a nation must be willing to save and to fast until it hurts. Please note that I say "willing." I wish there were a more pleasant road to safety, but there isn't. We are spending more than a billion dollars a month for defense. Soon, I trust, we shall double that figure. Some substantial portion of this vast flood of newly released purchasing power must be drawn off, or it will burst the dikes of our economic system, and destroy us all. Already there are signs that we have too many hot dollars tending to be spent for the available supply of goods.

We have almost reached the stage in our defense effort when it is unpatriotic to buy in excess of need — whether we call it "protective buying" or "hoarding" — they mean the same thing — or to buy in unnecessary competition with the government. It is the responsibility of every citizen to determine whether his spending can be postponed — whether he can buy a defense bond instead. Again I emphasize that precious element, free choice.

Taxes, savings, priorities, and credit control are important, but alone they cannot do the whole job. Secondly, and immediately, we must have price control — effective price control. I said a little while ago that inflation is rooted in sporadic, particular shortages arising from defense needs. These shortages and the pressure on prices which they bring are the forerunners of inflation. Unless prices are stabilized in these shortage areas, then the rocketing, spiral of inflation is a certain consequence.

Price control is not a pleasant thing. It is unpleasant to take, and I can assure, it is even more unpleasant to administer. Sellers are usually displeased, buyers are seldom appreciative when prices are controlled. We have come to the point, however, where the preservation of the price system itself requires price control. The great majority of businessmen who are operating under the price ceilings established by the Office of Price Administration are entitled to the assurance that their material costs as well as their prices are subject to control. They who have given more than reluctant acquiescence must be protected from the demoralizing effects of the chisel who is getting rich by defying the ceilings. And the controls must be expanded over a much wider area than is now possible on a semi-voluntary basis.

The Congress now has before it a measure for the control of prices during the defense emergency. It incorporates the teachings of experience — our own during the last 15 months, and the experience of countries abroad during the present war. I look upon it as the minimum, the absolute minimum, which will provide us with a measure of security. More powerful measures may be wise and desirable; anything less, I fear, will be futile. I ask you, as businessmen, to help in this choice — to say to your government that the price system must be disciplined.

We need a soundly conceived labor policy. In my testimony on the price control bill, I have said repeatedly that wages must be kept within bounds if we are to escape inflation. But workers will not and cannot sit idly by while their living costs go out of sight. We must have stabilization of living costs, and this must be the prelude to stabilization of wages at a fair level.

In his message of July 30, 1941, recommending price legislation, the President said:

"There will always be need for wage adjustments from time to time to rectify inequitable situations. But labor as a whole will fare best from a labor policy which recognizes that wages in the defense industries should not substantially exceed the prevailing wage rates in comparable nondefense industries where fair labor policies have been maintained. Already through the efforts of the National Defense Mediation Board and wage stabilization committees, wage standards are being established and a measure of wage stability is being brought to particular industries. It is expected that such activities will be continued, extended, and made increasingly effective."

Labor is not a commodity and wage fixing in the nature of the case is income-fixing, not price fixing. Income-fixing is a drastic step fraught with deep and serious implications for business as well as labor. I believe our policy of wage stabilization is something which we should develop separately from our commodity price stabilization, as other democratic countries have done.

I recognize, as I have said, that inflation cannot be averted unless there is stabilization of wages as well as other costs, and that the development of a sound labor policy is a step which we must take in the interest of labor as well as capital. It should command the best talent and thought of labor, management and government — now. And I do not care where the initiative rises — whether from government or from labor — but I know it is better to have it come as a free choice of free people rather than to let it be dictated by circumstance.

I know there are many who have criticized the omission of wages from the price control bill now pending before Congress. I'd like to develop, at a little greater length, some of the reasons why wages were omitted. A moment ago I said that wage fixing is income-fixing. It is true that the totalitarian countries have controlled wages directly, although never, in those countries, by the same agency empowered to control prices. And in the Fascist countries wage controls are accompanied, and necessarily so, by direct control of the movement of labor among industries and occupations, control of hours of work, control of hiring — and work this — firing, and, indeed, control of almost every phase of human life with a shadow of the Gestapo and the concentration camp always in the background. These are the necessary companions of direct wage control, just as priorities and rationing are the necessary adjuncts of direct price control. If wages of labor are to be controlled, could the matter stop there without also regulating the wages of management — the salaries, the bonuses, and other payments? I can't help wondering whether all those who criticize the omission of direct wage control from the price control bill are fully aware of the implications of their position. The free negotiated contract, in my judgment, is at the heart of a free enterprise economy and the democratic state. None of the democracies of the British Empire, all of which have imposed direct control over prices, has as yet introduced direct control over prices, has as yet introduced direct control over wage levels. All of them have sought to assure wage stabilization by other means. Their efforts, I admit, have not been altogether successful. But they have served their purpose. They have preserved collective bargaining and a measure of freedom in the economy amidst the terror of war, and at the same time have averted the danger of the fatal wage-price spiral. As recently as July, the British Government issued an important White Paper on Price Stabilization and Industrial Policy. This stated:

"Since the outbreak of war, the existing joint voluntary machinery for wage negotiations has operated successfully. Increases in wage rates have been reasonable; the authority of the unions of the day-to-day adjustment of wages and conditions has been maintained; the freedom of opportunity to make claims and to have them discussed has enabled industrial peace to be maintained.

"The policy of the Government, therefore, is to avoid modifications of the machinery for wage negotiations and to continue to leave the various voluntary organizations and wage tribunals free to reach their decisions in accordance with their estimate of the relevant facts."

One of the basic reasons for avoiding direct wage control is that such control implies the right to say, individual by individual, group by group, just what the incomes of persons can be. This is the power of ruler over subject. Of course, many policies of government affect incomes, but so long as this is done broadly and generally, without opportunity for personal discrimination, and subject to the democratic controls, there is little danger.

Which brings us to profit control.

Profit control, which is a form of income control, is, of course, very similar to wage control, and perhaps a necessary prerequisite to any serious consideration of wage control. In view of the close parallel, it is unfortunate that many who insist that the price control bill doesn't control wages but should, also agree that it does control profits and shouldn't. I believe they are wrong on both counts. The price control bill is right in not directly controlling wages and the bill is right in not directly controlling profits.

Price control certainly will indirectly affect both profits and wages. In a time of rapidly rising prices, the strategically situated seller, the robber baron perched on his drag above the vital trade passes, will get his loot, whether he has labor or capital for sale. Preventing inflation must inevitably mean elimination of this kind of profit. But it doesn't mean the control of the rate of the amount of profit made by individual sellers, treated case by case — the very thing that some have argued should be applied to the income of those dependent on wages. Price ceilings under the bill will establish conditions applicable to all sellers of a certain category. The profits of individual sellers will be determined by their own efficiency and their power to adapt themselves to changed conditions. The price control agency may change some of the rules of the game; but it is not going to hand out predetermined individual scores. No proposal that opportunities for profit, and for greater or less profit, will remain the incentive to efficiency, foresight and initiative even during this great effort to achieve supremacy in production.

Taxes and savings, price control, priorities, credit control, and a sound labor policy, are all important, but we must also take other steps.

We need a courageous policy in feeding depression — accumulated surplus lock into the market; we must seek constantly ways of relieving shortages by economic stretching; we must reach the world, and particularly this hemisphere, for supplies, materials, and facilities that are not now being used. We must look vigorously at ancient or depression-born restrictions and restraints, whether in industry, labor or agriculture, to ascertain whether they are still justified in an economy which has now the task of producing the utmost. I can tell you that SPAC is determined on expansion and needs your help. While we must do all of these things, let us close by stressing one thing in particular.

It is too late to argue which of these steps should come first. We must move ahead on each just as rapidly as we can. Time can be saved — time can be saved. Time can be placed under priority — but in this emergency, time is so precious and priceless that it cannot be price-controlled.

Let's exercise our rights as men of free choice to keep that essence of freedom, which is stability.

THE WHITE HOUSE
WASHINGTON

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M E M O R A N D U M

September 30, 1941

TO: THE SECRETARY

FROM: MR. LUBIN
2

I am enclosing a photostatic copy of The Economic Picture as of September 29. I think you may find this of interest.

THE ECONOMIC PICTURE

SEPTEMBER 29, 1941

BUSINESS ACTIVITY continues at about the same level as in August, except for continued acceleration in armament production, and seasonal expansion in the food industries.

Steel output has remained fairly steady at about 96 percent of capacity.

Automobile production, stepping up gradually, is about the same as in 1939 at this time, but about 18,000 cars a week below 1940 records.

The railroads have carried more freight this summer than at any time since the summer of 1929. In the first 3 weeks of September they hauled about 100,000 (13 percent) more cars per week than in 1940.

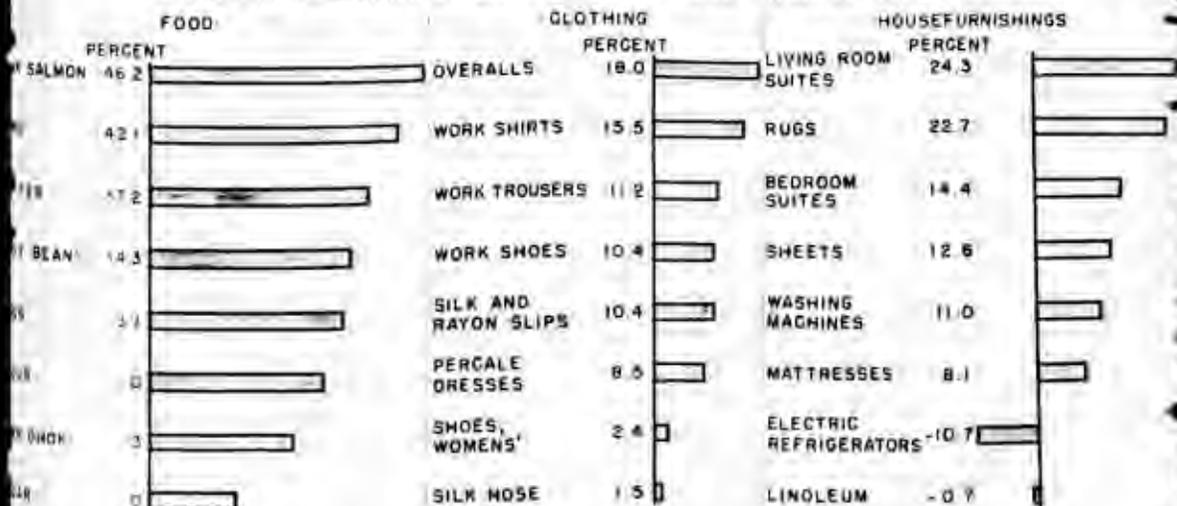
Loadings will reach their autumn peak within the next 4 weeks. Occasional shortages of cars have been reported. Scarcity of coal is threatened in the area west of Lake Superior.

COST OF LIVING

LIVING COSTS continue to rise rapidly, following earlier advances in wholesale markets. In mid-September they were 8½ percent higher than in August 1939.

Everyday purchases, that pinch the ordinary man's pocketbook, cost considerably more than at the outbreak of war. The chart below shows percentage increases in prices from August 1939 to August 1941 for important foods, articles of clothing, and housefurnishings.

RISE IN THE COST OF LIVING, AUGUST 1939 TO AUGUST 1941



BUILDING CONSTRUCTION

There will be almost as much building construction in 1941 as in the boom years of the 20's. It will total about \$7 billion. 315

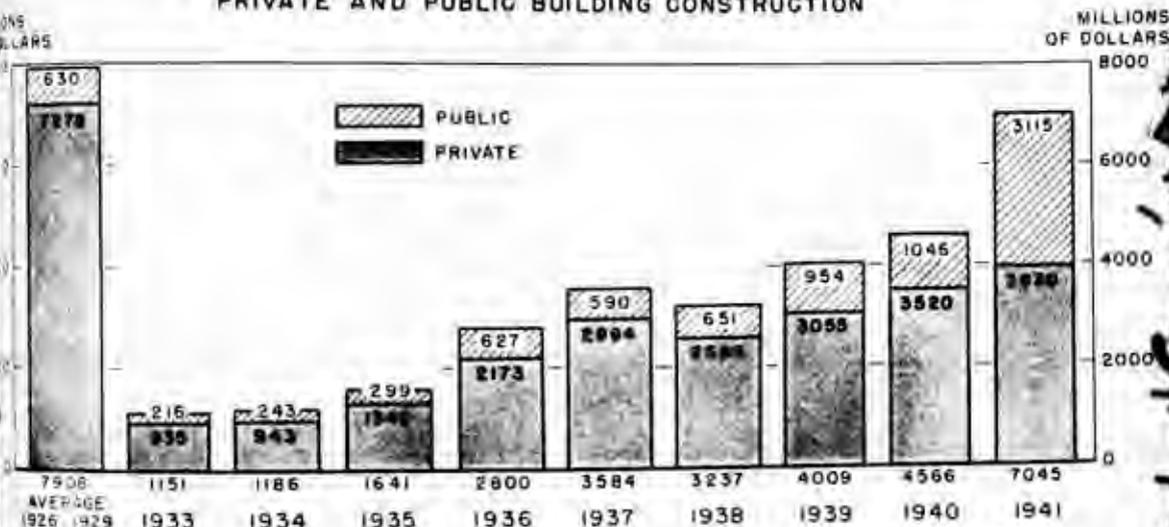
Private building construction, aggregating \$4 billion in 1941, although the highest in a decade, will be \$3 billion less than the average for 1926-29.

Public building, totaling over \$3 billion, accounts for the current high level. All but \$8 billion of the \$2½ billion increase over 1940 is public building. Most of this is for defense -- cantonments, industrial plants, defense housing, and aviation facilities.

Residential building (nonfarm) is estimated at \$2.9 billion, about \$½ billion more than last year, but well below the peak of the 20's.

Military and naval construction and industrial building make up over 2/3 of the added building in 1941. Industrial building this year will be almost as great as the total for the entire 6 years from 1933 to 1938.

PRIVATE AND PUBLIC BUILDING CONSTRUCTION

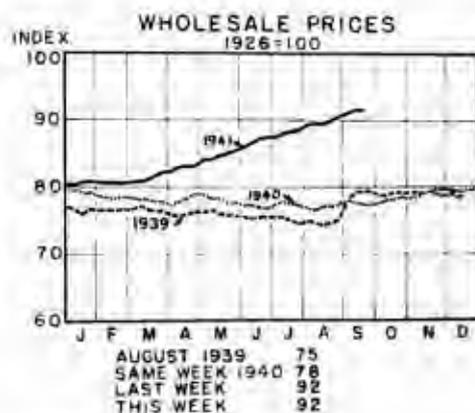
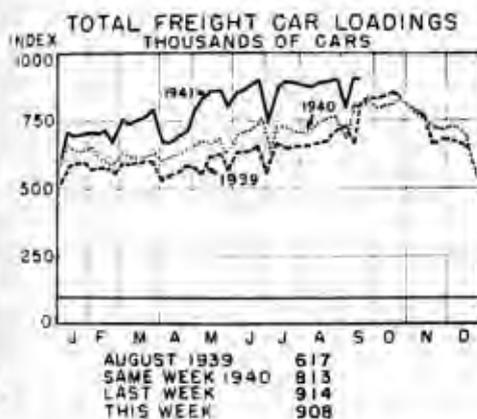
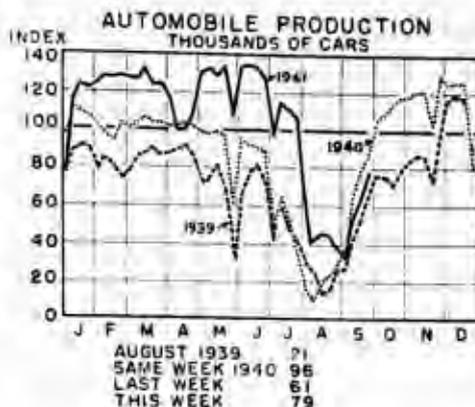
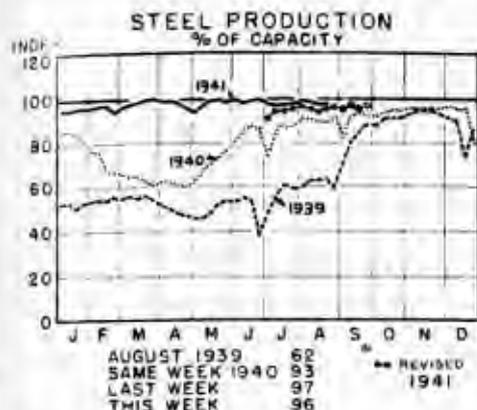


HOUSING

At the end of 1941 construction will have been started on 625,000 - 650,000 nonfarm dwellings, of which 110,000 will be publicly financed, most of them for defense workers. This takes account of the expected curtailment of residential construction during the last 3 months of 1941, caused by the scarcity of building materials. Plans for future home construction have been sharply curtailed, according to FHA reports.

The defense housing program still lags. Out of a total of 77,000 units authorized for through August 1941, it is estimated that less than 33,000 have been completed.

GRAPHIC REPORTS OF THE WEEK



week¹ refers to the week ended September 20 for Steel, Freight Car Loadings, Prices, and Department Store Sales, and to the week ended September 27 for automobiles.

September 30, 1941

Files

U. W. Bull

At a meeting in my office today Mr. Berle of the State Department brought up the question of a \$2,000,000 Stabilization agreement with Iceland as that country is in dire need of dollar exchange to cover its purchases.

Up to September 1, 1941, Great Britain had made available to Iceland Can. \$1,525,000 and U.S. \$663,000. Since September 1, the Icelandic banks have bound themselves to repay to the British \$2,071,000 should the British make this sum available to Iceland to cover its purchases in the United States. The British have not advanced any part of the \$2,071,000 because of their insistence that Iceland use its available dollars, such as the remainder of the Export-Import Bank loan, which is about \$400,000. By granting a \$2,000,000 Stabilization agreement to Iceland it should not be necessary for that country to use the balance of the Export-Import Bank loan nor to call upon the British for the \$2,071,000.

Mr. Berle stated that he thought that the United States has a moral obligation toward Iceland inasmuch as it was now in joint occupation of that country. He was anxious that we do anything that we could to help and suggested that perhaps the Fund would wish to take over Icelandic blocked sterling balances and advance dollars against them. The consensus of opinion of the Treasury officials at the meeting did not favor this proposition. He then presented an alternate plan which consisted of the United States purchasing fish products from Iceland, payment for which would be made in United States dollars. The fish products would then be Lend-Leased to Great Britain. The dollars received by Iceland would be applied by it against the money due to the Stabilization Fund and any amount in excess of that sum would be paid by Iceland to the British in order to liquidate its obligations to them.

Mr. Berle left with no copies of several documents which the Department is now studying and at a meeting within the next few days this matter will be discussed further.

Mr. Berle pointed out that when either the State or Treasury Departments, or both, discuss the Stabilization agreement with the British, the subject of the Icelandic Government's request to the British to use approximately \$800,000 (this figure is being checked by the Icelandic Delegation) of their £7,000,000 blocked balance to liquidate bond issues in London might be brought up in the hope that the British would accede to this request.

UW:sup-10/3/41

C
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YDEPARTMENT OF STATE
WashingtonIn reply refer to
En 611.59A31/

September 30, 1941.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses for his information a copy of a memorandum from the Icelandic Government Trade Delegation now in Washington giving the status of Icelandic sterling holdings in London.

Enclosure:

From Icelandic Government
Trade Delegation, September 18,
1941.

Copy:alm 10-1-41

C
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MEMORANDUM.

The Icelandic Government Trade Delegation has the honor to inform the Department of State that Icelandic sterling holdings in London about July 1, 1941 were £ 4,903,057. During July and August 1941 the Icelandic banks bought a total of £ 1,871,256.

Washington

September 18, 1941

Copy:alm 10-1-41

Mr. Eddy and Mr. Spiegel received
their letters of instruction direct
from the State Dept.

Treasury Department
Division of Monetary Research

Date 10/1/41 19

To: Miss Chauncey

320

Mr. White has noted and we
have copies in our files.

I. Shanahan

MR. WHITE
Branch 2058 - Room 214½



DEPARTMENT OF STATE
WASHINGTON

September 11, 1941

In reply refer to
RA

My dear Mr. Secretary:

Reference is made to conversations between officers of the Department, the Treasury, and the Board of Governors of the Federal Reserve System with respect to the request of the Cuban Government for a technical mission to assist it in connection with monetary and banking questions, and to your letter of September 25, 1941 indicating that Messrs. White, Eddy and Spiegel of the Treasury would be available for the purpose. The Board of Governors has indicated that Messrs. Walter R. Gardner and George B. Vest will also be available for the mission.

I am very glad to inform you that the Cuban Government has indicated that this group will be satisfactory for compliance with its request. There are enclosed for transmission to Messrs. White, Eddy and Spiegel letters of instruction regarding the work of the technical mission.

It

The Honorable

Henry Morgenthau, Jr.,
Secretary of the Treasury.

-2-

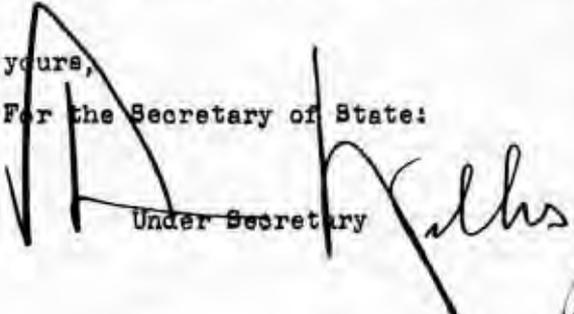
It will be noted that it is expected that they will arrive in Habana during the first week in October.

The American Embassy at Habana has been instructed to render all appropriate assistance to the mission.

I wish to take this opportunity to express my personal appreciation for the assistance of your Department in making possible this cooperation with the Cuban Government.

Sincerely yours,

For the Secretary of State:


Under Secretary

Enclosures:

Three letters of instruction.

SEP 30 1941

The Honorable,
The Secretary of State.

My dear Mr. Secretary:

In accordance with your request of September 26, 1941, there are enclosed balance sheets of the companies owned by the Standard Oil Company of New Jersey whose assets are in Mexico, together with an analysis of property accounts.

I am advised that the examining officer was unable to secure current maps of the property in question but that most of the property is believed to be in the Tampico area.

Very truly yours,

(Signed) E. Morgenthau, Jr.

Secretary of the Treasury

Enclosed: List of ownership
Balance sheet
Exhibits A and B.

KFA:DeB:WLE
September 29, 1941

By ~~Morganthau~~ *W. S. Steel*

Holmes *Full* *W. M. Channing*

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE SEP 11 1939

TO Secretary Morgenthau
FROM General Counsel Foley

There are enclosed balance sheets of the companies owned by the Standard Oil Company of New Jersey, whose assets are in Mexico, together with an analysis of property accounts. I am advised that the examining officer was unable to secure current maps of the property in question but that most of the property is believed to be in the Tampico area. The balance sheets and analysis of property in Mexico which may be held by any of the other Standard Oil companies have also been requested and will be forwarded upon receipt.

The information enclosed is taken from the income tax returns of the respective companies and any other information which may be secured will be taken from the same source. Treasury Decision 4929, approved by the President August 28, 1939, authorizes you to make income tax returns available to certain enumerated persons, including heads of the executive departments, but is conditioned upon a request in writing by the head of the requiring Department. It is accordingly suggested that before the enclosed information is released, a formal request in writing be made by the Secretary or Acting Secretary of State, giving the name and address of the taxpayer and the purposes for which the inspection is desired.

Enclosure

S. W. F. L.

THE SECRETARY OF STATE
WASHINGTON

My dear Mr. Secretary: September 26, 1941

As you are aware, the Department is giving active consideration to the problem of the United States petroleum companies in Mexico in connection with current negotiations for a settlement of all issues outstanding between the Governments of the United States and Mexico. In order to aid me in my personal study of the bases for a petroleum agreement, I should appreciate receiving for my confidential information any information which the Treasury may have from income tax returns or other sources regarding the valuation of the properties in Mexico of the Standard Oil Company of New Jersey.

I shall greatly appreciate any assistance which you can give me in this matter.

Sincerely yours,

The Honorable
Henry Morgenthau, Jr.,
Secretary of the Treasury.

Carroll Shull

CABLE

September 30, 1941.

H. MERLE COCHRAN
c/o GOVERNOR POINDREYER
HONOLULU, HAWAII.

RE CABLE TO FOX COPY OF WHICH HAS BEEN AIRMAILED TO YOU CARE OF PAN AMERICAN AIRWAYS HONOLULU STOP CABLE AS FINALLY SENT ELIMINATES THIRD SENTENCE PAGE ONE BEGINNING QUOTE IF YOU ARE IN ACCORD, ETC. UNQUOTE AND ADDS FOLLOWING TWO PARAGRAPHS AT END OF CABLE:

QUOTE IT IS ALSO DESIRED THAT THE APPROPRIATE AUTHORITIES OF THE CHINESE GOVERNMENT BE INFORMED OF THE PROPOSED PLAN AND THAT THEIR REACTION BE ASCERTAINED. WE LEAVE IT TO YOUR DISCRETION TO ASCERTAIN INFORMALLY AND IN THE MOST EFFECTIVE AND PROMPT MANNER POSSIBLE THE VIEWS OF SUCH CHINESE AUTHORITIES.

SINCE DRAFTING THE FOREGOING WE HAVE RECEIVED POINTS 10 TO 14 OF YOUR JOINT MESSAGE, THE CABLE QUOTING THE BOARD'S RESOLUTION OF SEPTEMBER 26, AND YOUR CABLES OF SEPTEMBER 27, AND SEE NO REASON FOR CHANGING THE PLAN HEREIN SUGGESTED. END QUOTE

DINTRICH

C O P Y

BS

PLAIN

327

Shanghai via W. E.

Dated September 30, 1941

Rec'd. 12:38 p.m., Oct 1st

Secretary of State,

Washington.

1390, Thirtieth, (SECTION ONE)

Special Economic China.

August recorded trade unadjusted values in millions imports gold units seven one point eight or decrease sixteen percent from July, exports yuan two eight three point four or increase five percent over July. Unadjusted values in millions imports from non-yen bloc countries gold units five seven point one five, or decrease twenty three point four percent from July, of which British Empire supplied forty four percent United States and Philippines nineteen percent French Indochina eleven Brazil seven Thailand six point four Netherlands India six point three and Germany three point five. Unadjusted values in millions with estimated transshipments August exports to non-yen block countries yuan two four four point six, or increase eleven point four percent over July, of which British Empire took forty two point six percent United States and Philippines thirty five percent Netherlands India ten point five percent French Indochina seven point five and Thailand three point seven. August recorded imports from yen block countries to occupied China including Shanghai adjusted values in thousands totalled Japan yen four one nine nought three, or decrease eighteen percent from July, of which seventy five percent entered North China ports, recorded exports from occupied China to yen bloc countries in thousands totaled local yen two two eight six nine.

LOCKHART

RS

PLAIN

Shanghai via N.S.

Dated September 30, 1941

Rec'd 6:05 p.m., October 1.

Secretary of State,

Washington.

1390, September 30, (SECTION TWO)

or decrease twenty-four percent from July, of which forty-six percent from North China ports and thirty-six percent from Shanghai. China August recorded trade with non-yen bloc countries by coastal zones in adjusted values in thousands of United States dollars: imports into North China three one naught one into Shanghai one seven one nine eight into other occupied ports in central and South China two seven five into Chinese controlled areas seven eight nine six totalling two eight four seven naught representing decrease thirty point eight percent from July; exports from North China two two naught four from Shanghai eleven naught seven naught from other occupied ports four five from Chinese controlled areas nine eight eight naught totalling two three one nine nine representing increase four percent over July. Highlights China August recorded trade: firstly, imports into Chinese controlled areas sustained sharp decrease from July, secondly, exports to yen bloc countries registered further decreases due to continued severance Trans-Siberian

Railway

Railway affecting transshipments to Germany via Kwantung
Leased Territory, thirdly, exports from Chinese controlled
areas showed slight improvement over July but still much
below June, August shipments consisting mainly of tin,
wolfram, antimony and tung oil.

INFORM COMMERCE AND TREASURY.

Sent to Department, repeated to Chungking and Hong Kong.

(END OF MESSAGE.)

LOCKHART

GW

Copy:bj:hr:10-4-41.

BS

C
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P
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330

GRAY

Mukden via Peiping & N.R.

Dated September 30, 1941

Rec'd. 10:45 a.m., Oct. 3d.

Secretary of State,

Washington,

September 30, 4 p.m.

Effective September 23 almost all Manchukuo
specific import rates of duty were greatly increased.
Complete report follows by mail. Sent to Department
via Peiping. Peiping please repeat to Shanghai.
Mail to Tokyo, Harbin, Dairen.

KRENTZ

EF

Copy:hr:10-7-41.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE September 30, 1961

TO Secretary Morgenthau

FROM Mr. Dietrich

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

| | |
|------------------------------------|----------|
| Sold to commercial concerns | £175,000 |
| Purchased from commercial concerns | £ 75,000 |

Although the banks reported that sales to commercial concerns amounted to £175,000, we understand that £123,000 of this is being used for charity purposes.

Open market sterling remained at 4.03-1/2. The only reported transaction consisted of £7,000 sold to a commercial concern.

The Argentine free peso, after holding at .2363 most of the day, declined late in the afternoon to reach a new low of .2303 at the close.

Some strength was exhibited in the Venezuelan bolivar and Uruguayan free peso quotations. The former advanced to .2700, as against .2688 yesterday. While the Uruguayan peso closed at .4126, as against .4100.

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

| | |
|--------------------------|-----------------|
| Canadian dollar | 11-1/8 Discount |
| Brazilian milreis (free) | .8505 |
| Colombian peso | .5775 |
| Mexican peso | .2070 |
| Cuban peso | 6/16 Discount |

We purchased \$1,125,000 in gold from the earmarked account of the Bank of Mexico.

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 \$2.374 and \$2.384.

The Treasury's purchase price for foreign silver was unchanged at 36 1/2¢. Goldman and Morgan's settlement price for foreign silver was also unchanged at 36 3/4¢.

- 2 -

We purchased 250,000 ounces of silver from the Bank of Canada. This raises the total amount of silver bought from that source during September to 450,000 ounces, as against agreed monthly limit of 1,200,000 ounces. A bank of Canada official advised the Federal Reserve Bank of New York today that, during September, the Canadian Mint had purchased about 500,000 ounces from one of Canada's silver producers, probably for coinage use; this probably explains the reduction in Canadian sales to us.

During the month of September, our purchases of silver under the Silver Purchase Act amounted to 1,805,000 ounces, representing the smallest amount of silver that we have bought in any one month since September, 1939. The sources of this month's purchases were as follows:

| <u>Type of Silver</u> | <u>Ounces</u> |
|-------------------------------------|----------------|
| New Production | |
| 1. From various countries..... | 1,355,000 |
| 2. From Canada under agreement..... | <u>450,000</u> |
| Total..... | 1,805,000 |

CONFIDENTIAL

RESTRICTED

G-2/2657-220; No. 506 W.I.D., J.D. 11:00 A.M., September 30, 1941

SITUATION REPORT

I. Eastern Front.

Ground: The Russians report continued fighting along the entire front.

The Germans, while regrouping their forces east of Kiev, claim to have captured the town of Armyansk, on the Isthmus of Perekop.

Russian pressure has caused the Germans to give ground in the area west of Bryansk.

There is no change at Leningrad and Odessa.

II. Western Theater.

Air: The heavy R.A.F. offensive which commenced on the 28th was reported to have continued yesterday resulting in "terrific damage", particularly at Genoa, Italy, and St. Nazaire, France. The Rhineland, the French coast, and nine cities in Italy were said to have been attacked. Avoidance of Rome in attacks on Italy might not continue in the future if it is found to be of military value.

German planes attacked the Scottish east coast and objectives in southern England last night. Prime Minister Churchill said today that Germany has a serious shortage of aviation but is still strong enough to take the offensive against England, Spain and Africa, provided only a defensive stand was made in Russia.

III. Middle Eastern Theater.

Air: Damage to the Nelson was admitted by the Admiralty in yesterday's convoy attack but it was stated to be the only damage inflicted.

RESTRICTED