

APPENDIX AResolution of Senate Finance Committee

RESOLVED, By the Committee on Finance of the Senate, acting under the authority vested in it by section 20 of the Budget and Accounting Act of 1921, that the Director of the Bureau of the Budget be requested to transmit to the chairman of said committee, as promptly as possible, but not later than the 15th day of October, 1941, such detailed revisions of the estimates of expenditures for the fiscal year ending June 30, 1942, as he would make if he had been instructed to prepare three budget estimates for such fiscal year in which the total annual expenditures for nondefense purposes were less by one billion dollars (\$1,000,000,000), by one and one-half billion dollars (\$1,500,000,000), and by two billion dollars (\$2,000,000,000), respectively, than the total amounts appropriated for such non-defense purposes for such fiscal year, and to transmit to the chairman of said committee, together with such revisions of estimates, complete data showing all items which were classified or considered as being non-defense expenditures in the budget estimates for the fiscal year ending June 30, 1940, and which, in the budget estimates of expenditures for the fiscal year ending June 30, 1941 or for the current fiscal year, have been included, directly or indirectly, as defense expenditures, and are now classified or considered as being defense expenditures.

RESOLVED FURTHER, That the chairman of said committee be directed to transmit to the chairman of the Committee on Appropriations of the Senate and to the chairman of the Committee to Investigate Nonessential Federal Expenditures established by the Revenue Act of 1941 copies of the revisions of estimates and other data transmitted by the Director of the Bureau of the Budget pursuant to this resolution.

RESOLVED FURTHER, That the chairman of the Committee on Finance of the Senate be directed to transmit a copy of this resolution, immediately upon its adoption, to the Director of the Bureau of the Budget.

Adopted by the Committee on Finance of the Senate,
August 28, 1941.

(signed) Walter F. George
Chairman.

ITEMS CLASSIFIED AS "NATIONAL DEFENSE" IN THE BUDGET DOCUMENTS FOR 1940, 1941, AND 1942, AND AS OF OCTOBER 1, 1941.

Items	How Classified			
	In 1940 Budget Document	In 1941 Budget Document	In 1942 Budget Document	On Oct. 1, 1941 (current)
War Department - military activities	Defense	Defense	Defense	Defense
Navy Department	Defense	Defense	Defense	Defense
Other agencies:				
Executive Office of the President:				
Bureau of the Budget - National de- fense activities	*	*	Defense	Defense
National Resources Planning Board - National defense activities	*	*	Defense	Defense
Office of Government Reports - National defense activities	*	*	Defense	Nondefense
Office for Emergency Management	*	*	Defense	Defense
Emergency funds for the President	*	*	Defense	Defense
Defense aid (Lend-lease)	*	*	*	Defense
Civil Service Commission - National de- fense activities	*	*	Defense	Defense
Federal Communications Commission - National defense activities	*	*	Defense	Defense
Federal Power Commission - National de- fense activities	*	*	Defense	Defense
Interstate Commerce Commission - National defense activities	*	*	*	Defense
Selective Service System	*	*	Defense	Defense
U. S. Maritime Commission:				
Emergency ship construction	*	*	*	Defense
Ship construction fund	Nondefense	Nondefense	Nondefense	Defense
Tennessee Valley Authority - Additional power installations	*	*	Defense	Nondefense
Federal Security Agency:				
National Youth Administration - Defense training	*	*	Defense	Defense
Office of Education - Education and training	*	*	Defense	Defense
Public Health Service - Emergency health and sanitation activities ...	*	*	*	Defense
Social Security Board - Selecting, testing, and placement of defense workers	*	*	Defense	Defense
Federal Works Agency:				
Defense public works (community facilities)	*	*	*	Defense
National defense housing	*	*	Defense	Defense

Items	How Classified			
	: In 1940 : Budget : Document	: In 1941 : Budget : Document	: In 1942 : Budget : Document	: On : Oct. 1, 1941 : (current)
Commerce:				
National Inventor's Council	*	*	Defense	Defense
Civil Aeronautics:				
Development of landing areas	*	*	Defense	Defense
Civilian Pilot Training	*	Nondefense	Defense	Defense
Interior:				
Government in the Territories -				
Construction of Palmer-Richardson Road, Alaska	*	*	*	Defense
Bureau of Mines - Helium plants and other national defense activities ..	*	*	*	Defense
Reclamation - Protection of project works	*	*	*	Defense
Justice:				
Federal Bureau of Investigation -				
National defense activities	*	Defense	Defense	Defense
Special National Defense Unit	*	*	*	Defense
Department of Labor:				
Office of the Secretary - Apprentice training health and safety work, and Commissioner of Conciliation ...	*	*	*	Defense
Bureau of Labor Statistics - Post de- fense economic reconstruction prob- lems and occupational outlook studies	*	*	*	Defense
State:				
National defense activities	*	*	Defense	Defense
Treasury:				
Coast Guard - National defense activities	*	Defense	Defense	Nondefense
Procurement Division - Strategic and critical materials	*	Nondefense	Defense	Defense
War (nonmilitary):				
Panama Canal:				
Additional facilities	*	Defense	Defense	Defense
Protective works	*	Defense	Defense	Nondefense

* indicates that item was provided for after submission of Budget Document.

APPENDIX C

NONDEFENSE 1942 APPROPRIATIONS AND EXPENDITURES, AND
HYPOTHETICAL REVISIONS TO CUT BUDGET ESTIMATES OF EXPENDITURES BY \$1, \$1.5 AND \$2 BILLION
(In millions of Dollars)

Activity	Estimate of	Estimated	Actual	Revised estimate of expenditures, 1942	Hypothetical Expenditures of:		
	in 1942 Budget	in 1942 Budget	to 10/5/41*	(Oct. 5, 1941)	\$1.0 Billion	\$1.5 Billion	\$2.0 Billion
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1. Legislative, judicial and executive	43	41	41	39	41	41	41
2. Civil departments and agencies	807	833	880	823	755	730	700
3. General Public Works Program.	450	533	623	620	478	447	427
4. Veterans' pensions and benefits	575	564	575	566	552	551	550
5. Aids to Agriculture	915	1,061	1,101	1,155	758	593	578
6. Aids to youth.....	372	363	339	290	178	118	19
7. Social security.....	473	463	467	468	460	457	412
8. Work relief.....	995	1,034	886	940	707	524	270
9. Refunds	82	89	82	87	89	89	89
10. Interest on the public debt....	1,225	1,225	1,275	1,275	1,225	1,225	1,225
11. Transfers to trust accounts...	274	275	274	268	263	256	245
12. Supplemental items - regular..	100	100	50	50	75	50	25
Total, excluding debt retirement	6,311	6,581	6,593	6,581	5,581	5,081	4,581

* Includes supplemental estimates pending before Congress, Oct. 5, 1941, and an estimate of further supplementals to be transmitted.

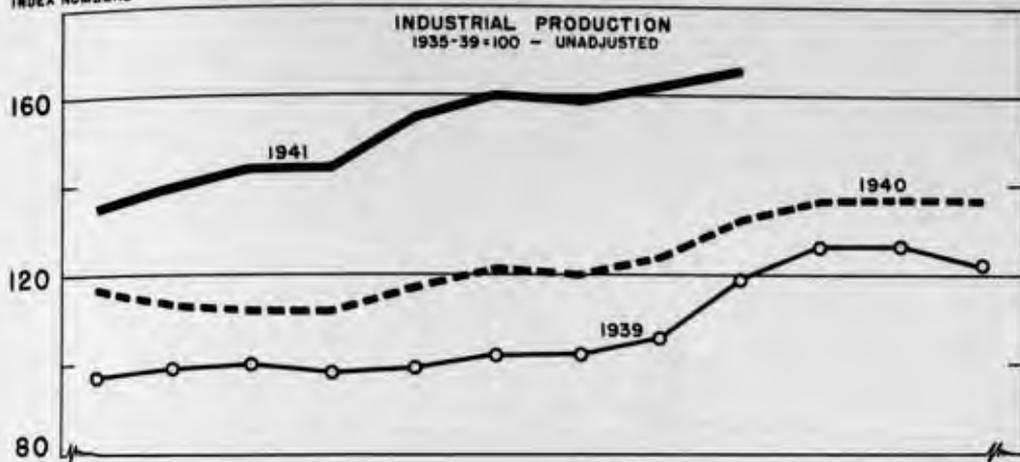
APPENDIX D

1942 Non-Defense Expenditure Estimates by
 Type of Commitment - Estimate as
 of Jan. 3, 1941
 (in million dollars)

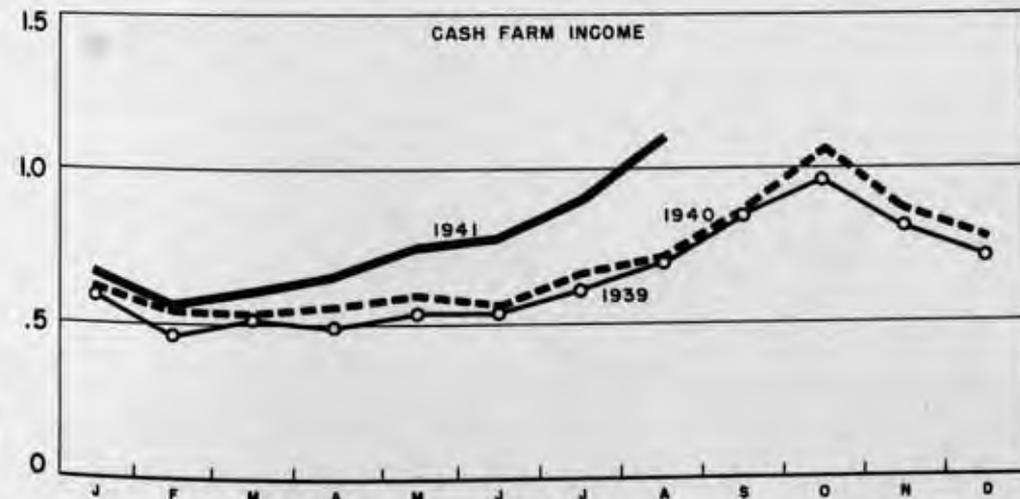
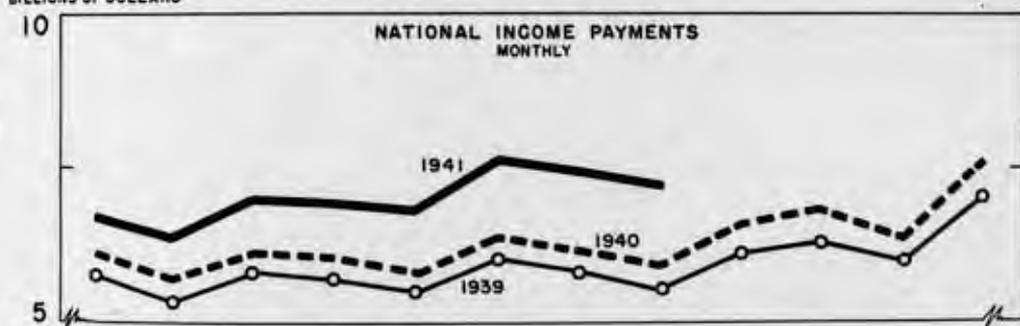
Legal and quasi legal commitments		
Interest on the Public Debt	1,225	
Refunds of receipts	89	
Veterans' pensions and insurance	461	
Transfers to trust accounts	275	
Social Security grants in aid	<u>436</u>	
Total legal and quasi legal commitments		2,486
Legislative commitments		
Legislative and Judicial	38	
Civil Departments and agencies	123	
Grants in aid for public roads	160	
30 per cent of tariff receipts to remove agricultural surpluses	100	
Parity payments	205	
Sugar Act administration	48	
Reduction in interest rates	<u>36</u>	
Total legislative commitments		<u>710</u>
Total fixed commitments		3,196
Other expenditures		
Executive Office	3	
Civil Departments and agencies	726	
General Public Works program	363	
Veterans' benefits (hospitalization, administration, etc.)	104	
Aids to agriculture	672	
Aids to youth	363	
Social Security (administration)	26	
Work relief	1,028	
Supplemental items--regular	<u>100</u>	
Total other expenditures		<u>3,385</u>
Total non-defense expenditures		6,581

INCOME AND INDUSTRIAL PRODUCTION

INDEX NUMBERS



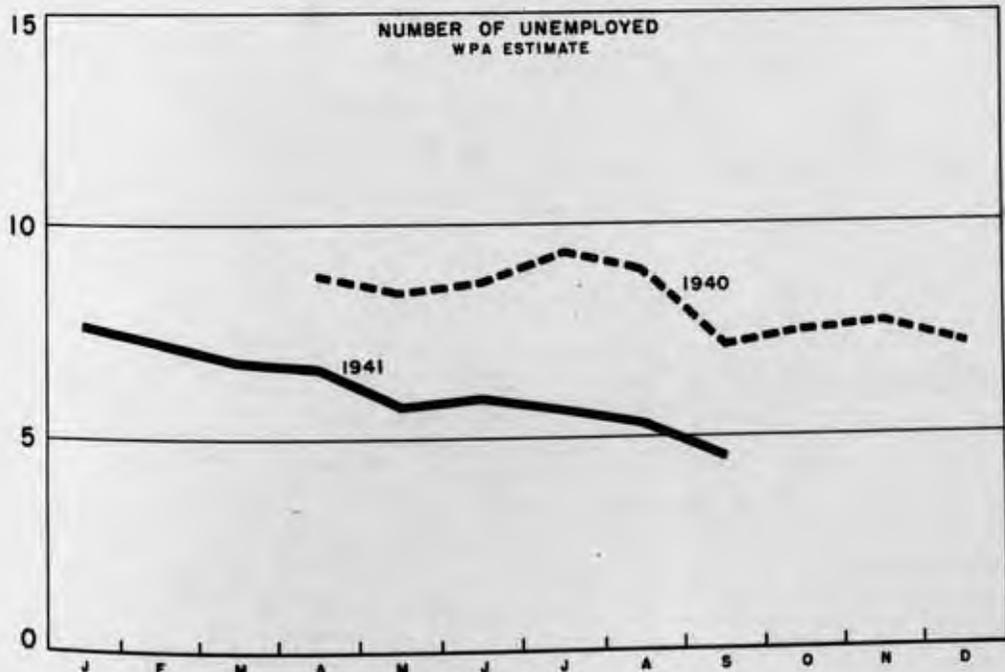
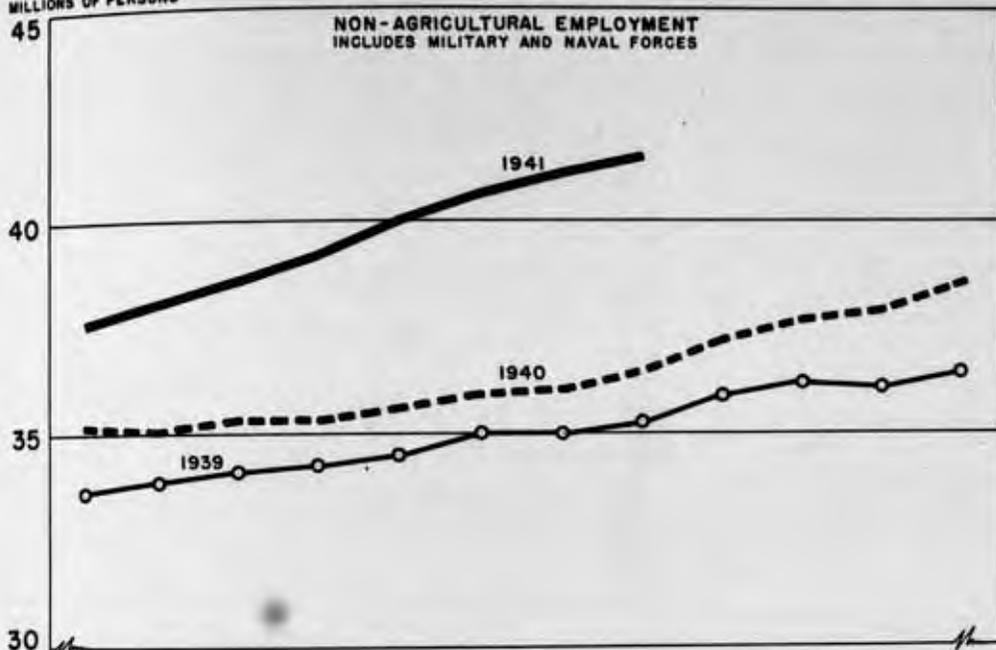
BILLIONS OF DOLLARS



SOURCE: U. S. DEPT. OF COMMERCE, DEPT. OF AGRICULTURE

EMPLOYMENT AND UNEMPLOYMENT

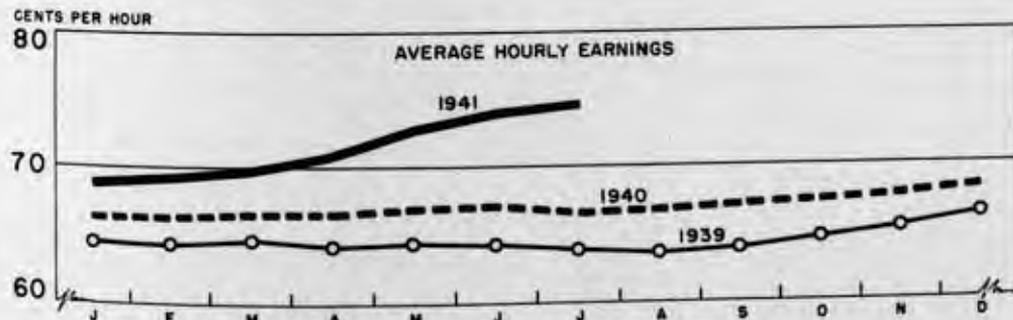
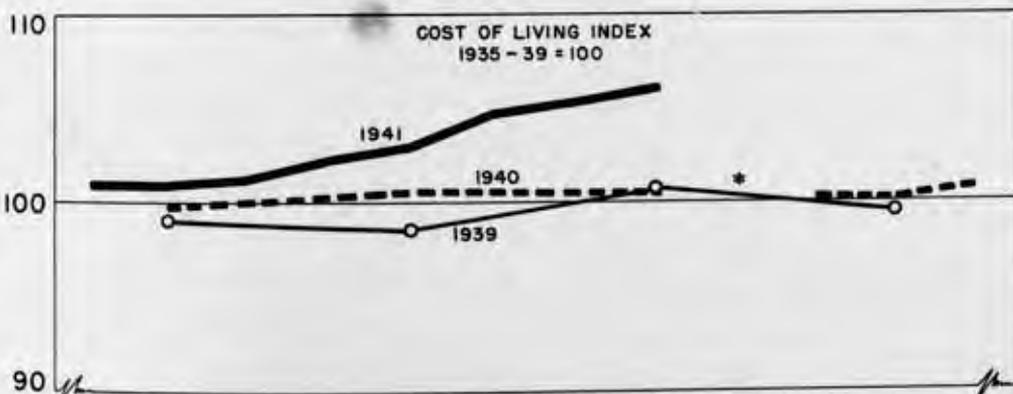
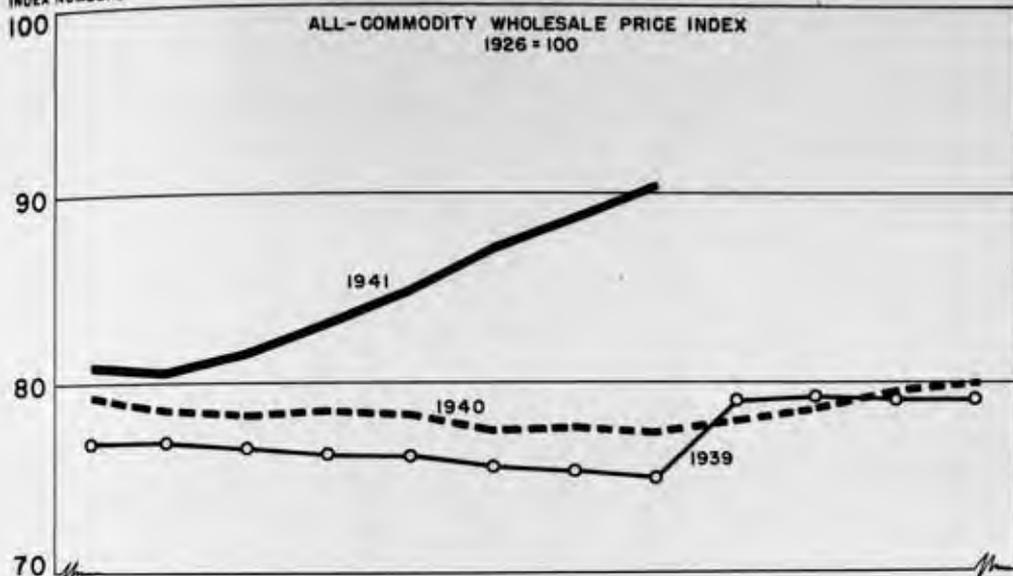
MILLIONS OF PERSONS



SOURCE: S.L.S., W.P.A.

PRICES, COST OF LIVING, AND EARNINGS

INDEX NUMBERS



SOURCE: B.L.S.

* MONTHLY AFTER SEPT. 1940

APPENDIX H

REDUCTIONS IN INDIVIDUAL PROGRAMS COMPARED WITH TOTAL REDUCTIONS*
(Amounts In Millions)

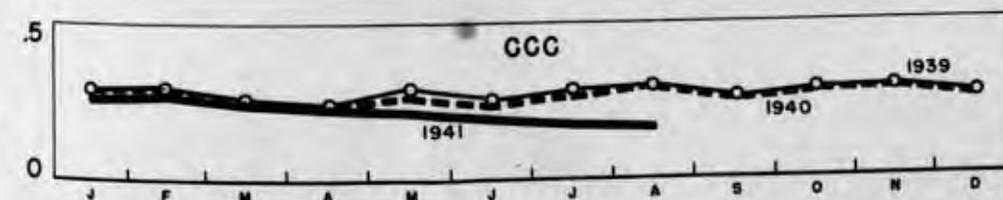
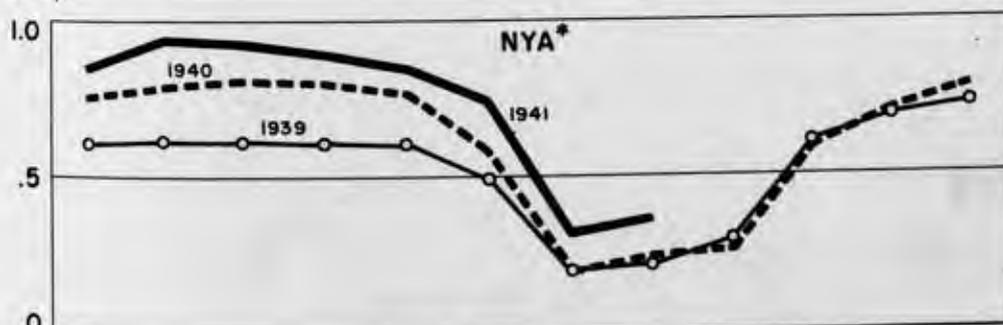
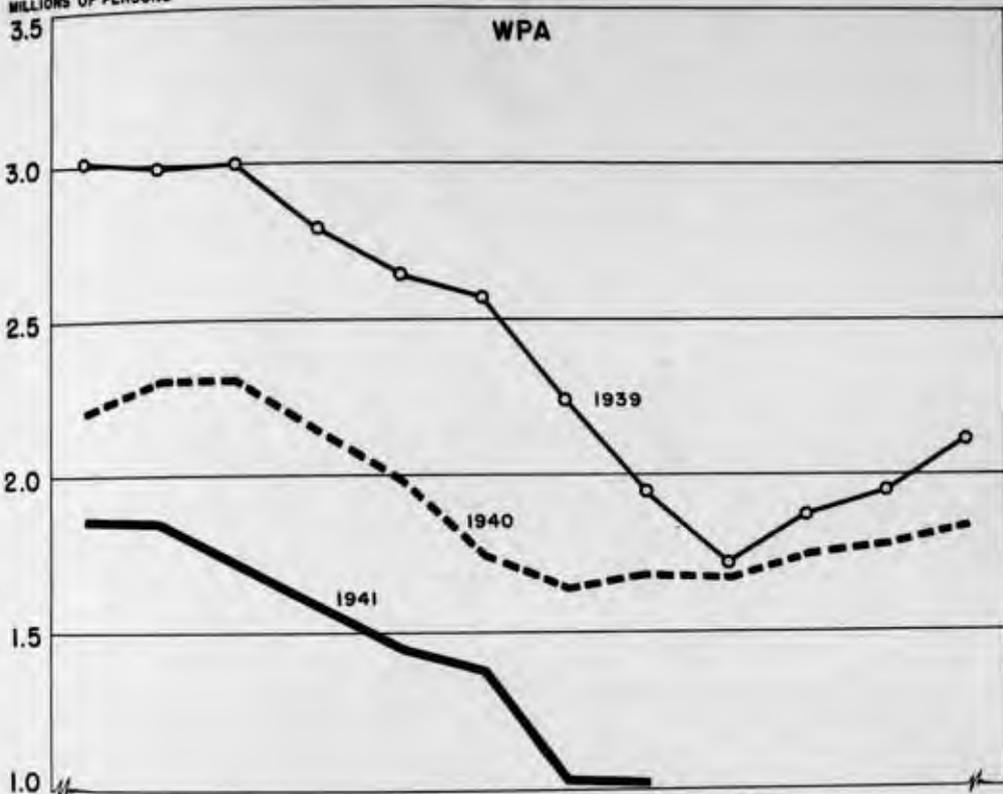
Activity	Reductions to Achieve Total Cut of:					
	\$1.0 Billion		\$1.5 Billion		\$2.0 Billion	
	Amount	%	Amount	%	Amount	%
Legislative, Judicial and Executive	**	0	**	0	**	0
Civil Departments and Agencies	\$ 78	7.8	\$ 103	6.9	\$133	6.6
General Public Works Program	55	5.5	86	5.7	106	5.3
Veterans' Pensions and Benefits	12	1.2	13	.9	14	.7
Grants to Agriculture	303	30.3	468	31.2	483	24.1
Grants to Youth	185	18.5	245	16.3	344	17.2
Social Security	3	.3	6	.4	51	2.6
Unemployment Relief	327	32.7	510	34.0	764	38.2
Grants to States	0	0	0	0	0	0
Interest on the Public Debt	0	0	0	0	0	0
Transfers to Trust Accounts	12	1.2	19	1.3	30	1.5
Supplemental Items--regular	25	2.5	50	3.3	75	3.8
Total Reductions	\$ 1,000	100.0	\$1,500	100.0	\$2,000	100.0

* These revisions reflect allocations of the total reductions posed by the Senate Finance Committee, and are not to be considered as recommendations of the Director of the Budget.

** Less than \$500,000.

NUMBER OF PERSONS RECEIVING WORK RELIEF

MILLIONS OF PERSONS



SOURCE: SOCIAL SECURITY BULLETIN

* INCLUDES DEFENSE TRAINING SINCE JULY 1, 1941

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

180

DATE October 18, 1941

TO Secretary Morgenthau
FROM Mr. White
Subject: Exports to Russia, China, Burma, Japan and France as reported to the Treasury Department during the week ending October 11, 1941.

1. Exports to Russia

Exports to Russia as reported to the Treasury during the week ending October 11, 1941 reached a record high for the period since July 28, 1941, amounting to over \$6,845,000. Searchlight and airport beacons; scientific, laboratory and professional instruments and apparatus; ammunition; and aviation gasoline accounted for about three-quarters of the total exports. (See Appendix B.)

2. Exports to China and Burma

As in the case of exports to Russia, exports to Free China, as reported during the week under review, reached a new high for the period since July 28, 1941, amounting to about \$5,312,000. Exports to Occupied China amounted to \$552,000, reversing the steady decline of the previous three weeks.

During the week ending October 11, 1941, exports to Burma amounting to about \$1,157,000 were reported to the Treasury. A large percentage of these are presumed, because of their consignees, to be for reexport to Free China. (See Appendices C, D, and E.)

3. Exports to Japan

Exports to Japan as reported during the week ending October 11, 1941, were negligible, consisting only of one shipment of cigarettes valued at \$160. Of course, Japan may very well be the ultimate destination of much of the goods exported to Occupied China.

4. Exports to France

Exports to all France amounted to less than \$500 during the week under review, Unoccupied France accounting for the entire amount.

SUMMARY OF UNITED STATES
DOMESTIC EXPORTS TO SELECTED COUNTRIES
AS REPORTED TO THE TREASURY DEPARTMENT
FROM EXPORT DECLARATIONS RECEIVED
DURING THE PERIOD INDICATED ^{1/}

July 28 to October 11, 1941
(In thousands of dollars)

	July 28 to Sept. 27	Week ended October 4	Week ended October 11	Total Domestic Exports
U. S. S. R.	\$22,053	\$ 323	\$ 6,844	\$ 29,220
Occupied China	7,921	53	547	8,521
Free China	5,008	1,225	5,312	11,545
Japan ^{2/}	1,864	-	-	1,864
Burma ^{3/}	1,566	684	1,157	3,407
France ^{4/}		6	-	6
Free France	-	-	.4	.4
Spain	1,263	188	121	1,582
Switzerland	3,095	1,263	125	4,483
Sweden	5,555	1,145	2	6,702
French Indochina	195	7	47	249

Treasury Department, Division of Monetary Research October 15, 1941

^{1/} Many of the export declarations are received with a lag of several days or more. Therefore this compilation does not accurately represent the actual shipments of a particular week. The longer the period covered the closer will these figures come to Department of Commerce revised figures.

^{2/} July 28 - August 23, 1941 -- exports thereafter less than \$500. All this material was shipped prior to freezing orders.

^{3/} September 11 - October 11, 1941 -- it is presumed that a large percentage of material listed here, consigned to Burma, is destined for Free China.

^{4/} Less than \$500. Includes both occupied and Free France.

Appendix A

Exports from the U. S. to China, Burma, Japan and U.S.S.R. as reported to the
Treasury Department, July 28, 1941 -- October 11, 1941
(Thousands of dollars) 1/

	Total	Exports to China		Exports ^{3/} to Burma	Exports to Japan	Exports to U. S. S. R.
		To Japanese controlled ports	To Chinese controlled ports			
July 28 - Aug. 2	937	542	395		1,657	4,523
Aug. 4 - Aug. 9	2,794	2,794	--		159	551
Aug. 11 - Aug. 16	1,278	969	309		42	986
Aug. 18 - Aug. 23	1,352	1,350	2		6	2,735
Aug. 25 - Aug. 30	736	735	1		--	1,023
Sept. 2 - Sept. 6	897	693	204		--	4,280
Sept. 8 - Sept. 13	3,038 ^{2/}	757	2,281 ^{2/}		--	5,217
Sept. 15 - Sept. 20	3,978 ^{2/}	156	3,822 ^{2/}		--	752
Sept. 22 - Sept. 27	462	352	110	449	--	2,333
Sept. 29 - Oct. 4	1,305	80	1,225	684	--	323
Oct. 6 - Oct. 11	<u>5,864</u>	<u>552</u>	<u>5,312</u>	<u>1,157</u>	<u>--</u>	<u>6,845</u>
Total	22,641	8,980	13,661	2,290	1,864	29,568

1/ These figures are in part taken from copies of shipping manifests.

2/ Figures for exports to Free China during these weeks include exports to Rangoon which are presumed to be destined for Free China.

3/ It is presumed that a large percentage of exports to Burma are destined for Free China.

Appendix B

Principal Exports from U.S. to U.S.S.R.
 as reported to the Treasury Department
 during the week ending October 11, 1941
 (Thousands of dollars)

Total exports	\$ 6,845
Principal Items	
Searchlights and airport beacons	2,384
Other scientific, laboratory, and professional instruments and apparatus	1,436
Ammunition	1,017
Sole leather (bends, backs, and sides)	517
Aviation gasoline	509
Lubricating oil	258
Metallic containers (drums)	227

Treasury Department, Division of Monetary Research

Appendix C

Principal Exports from U. S. to Free China
 as reported to the Treasury Department
 during the week ending October 11, 1941
 (Thousands of dollars)

Total Exports to Free China	\$ 5,312
Principal Items	
Motor trucks, busses and chassis	2,273
Rubber tires and tubes	518
Dynamite	293
Cotton blankets	223
Well and refining machinery	203
Tools	125
Cartridges	115
Other explosives	111
Other industrial machinery and parts, n.e.s.	100

Treasury Department, Division of Monetary Research

Appendix D

Principal Exports from U. S. to Occupied China
as reported to the Treasury Department
during the week ending October 11, 1941
(Thousands of dollars)

Total Exports	\$ 552
Principal Items	
Printing paper	41
Motion picture film, not exposed	30
Wrapping paper	26
Surface coated paper	25
Other paper and paper products	24
Raw cotton	20

Treasury Department, Division of Monetary Research

Appendix E

Principal Exports from U. S. to Burma
 as reported to the Treasury Department
 during the week ending October 11, 1941
 (Thousands of dollars)

Total Exports	\$ 1,157
Principal Items	
Motor trucks, busses, and chassis	551
Iron and steel plates	93
Tractors and parts	53
Lubricating oil	44
Printing ink	39
Nails and bolts	34
Milk	32
Automobile parts for replacement	32
Rubber tires and tubes	31
Iron and steel manufactures, n.e.s.	30
Tubular products and fittings	26

Treasury Department, Division of Monetary Research



FIELD ORGANIZATION *News Letter* 187

DEFENSE SAVINGS STAFF

TREASURY DEPARTMENT, WASHINGTON, D. C.



October 18, 1941 NUMBER 22

TO THE FIELD STAFF:

Sales of Defense Bonds reached \$1,504,411,000, as of September 30. September sales were \$232,327,000. Stamp sales as of the same date totaled \$18,998,000 for the initial five months.

The exact number of individual bonds purchased and the number of individual owners are unavailable. We can tell you that in five months individual stamps sold totaled 61,855,000 pieces, divided by denominations as follows: TEN-CENT, 12,370,000; TWENTY-FIVE-CENT, 40,404,000; FIFTY-CENT, 5,611,000; ONE-DOLLAR, 3,123,000; FIVE-DOLLAR, 346,000.

In our program to reach millions of Americans, the Series E (The People's) Bond and the Stamps loom large as criterions of success. Either accumulations through Stamps or payroll allotment deposits will swell eventually the number of E Bonds owned. Therefore, every payroll allotment plan and every Stamp sale promotion builds into the long-haul program.

However, to syphon off any real surplus from the rapidly growing national income, Bonds must go to owners monthly in increasing numbers. There are many, many thousands of Americans who should be so motivated by our Field Organization's activities that they will BUY A BOND A MONTH.

Every convenient method to make buying a regular monthly habit should be established. Our local committees should encourage banks to establish the Depositors Draft Plan and to let depositors know it is available. The Treasury's direct mail plan should be widely known. In payroll allotment plans there should be many regular monthly purchasers of bonds from each allotment.

Our task is to so promote our program that the number of Bond buyers increases steadily month by month. The best method is that which starts an individual on a systematic thrift program which will be followed automatically.

Sincerely yours,
GALE F. JOHNSTON

Field Director, Defense Savings Staff.

News Letter

"YOU, TOO, CAN ANSWER YOUR COUNTRY'S CALL"



- By C. E. B. Klessig, Sheboygan Press, Sheboygan, Wisconsin.

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- PEORIA BANK Hangs Up a Record - Page 11
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News Letter

MISSOURI

School Program Outlined; Many Local Committees Active

CITY AND COUNTY SCHOOL SUPERINTENDENTS from all parts of Missouri, more than 600 of them, met September 10 in Jefferson City and voted enthusiastic endorsement of an eight-point program of preparedness instruction outlined by Lloyd W. King, state superintendent of public instruction. Instruction in thrift and the economics of Defense Savings is to be an important part of this general program.

AN EIGHT-PAGE MEMORANDUM outlining in detail a suggested plan for school participation in the Defense Savings Program has been distributed to school executives and teachers through Missouri. State Administrator Dan M. Nee reports that this program outline has been extremely well received and that "Defense Savings Councils" have been formed in many schools.

MISSOURI STATE GOVERNMENT EMPLOYEES are accepting the systematic savings idea with enthusiasm. Two Departments already report 100% participation.

A CONCERTED EFFORT to get every city and town in the State to adopt a pay roll allotment plan is now underway. The City of Columbia was the first municipality to install the plan, according to the magazine of the Missouri Municipal League.

HIGHLIGHTS:-

In Flat River, the Lions Club has unanimously voted for 100% participation in the Defense Savings Program.

In Hannibal, every member of the Retail Merchants Bureau has agreed to handle Defense Savings Stamps "for the duration"; the schools have organized a thrift and savings program; and a group of insurance men is actively at work assisting the Local Committee in connection with the installation of pay roll allotment plans. O. A. Brown is the active chairman of the Hannibal Committee.

In Independence, a Defense Savings essay contest was conducted by the schools in cooperation with the Chamber of Commerce. \$24 in Defense Stamps were awarded as prizes.

In Nevada, Dr. John S. Newlon is offering to cancel all unpaid accounts of \$5 or less if his patients will take the money they owe him and buy Defense Stamps.

In Norborne, the Farm and Farmyard Fair this year awarded premiums in Defense Stamps.

In Ferrysville, a Defense Bond rally in the courthouse yard addressed by State Administrator Dan M. Nee, attracted a crowd of more than 3,000. The rally was heralded by a flight of Army pursuit planes over the city in the late afternoon and later by the school band, which presented a program of patriotic selections.

News Letter

NORTH CAROLINA

School Program Underway: Allotment Plan Adopted by Shelby Mills

SCHOOL SUPERINTENDENTS throughout the state have received from State Administrator C. H. Robertson the suggestion that in each school an assembly period be set aside for a presentation of the Defense Savings Program by either the school superintendent or principal or by a representative of the local Defense Savings Committee. Administrator Robertson has also arranged for each school superintendent to receive, direct from the Office of the Field Director, an ample supply of Defense Savings folders and posters for all schools under his supervision.

COUNTY FAIRS now being held in all parts of the State will, in most instances, have Defense Stamp Booths, staffed by attractive volunteer sales-girls and decorated with official posters.

TOBACCO FARMERS who are now gathering in the big leaf tobacco warehouses in the Eastern part of the State to sell their crops are receiving Defense Savings literature. Deputy Administrator Forrest G. Miles reports, after a visit to this part of the State, that farmers throughout the section are responding in a fine way to the Defense Savings appeal.

PROMINENT NEGRO CITIZENS are cooperating wholeheartedly with the Defense Savings Program, according to Administrative Robertson. Chairmen of local Defense Savings Committees in the State have been asked to organize Negro Sub-committees. These sub-committees have been formed and are already at work in a number of places, including Durham, Charlotte, Winston-Salem, and Alamance County. T. E. McKinney, dean of Johnson C. Smith University, is Chairman of the Negro Sub-committee in Charlotte, and George W. Hill, President of the Winston Mutual Life Insurance Company, is the Chairman of the Negro Sub-committee in Winston-Salem.

* * *

HIGHLIGHTS:-

In Charlotte, teachers of the fifth through twelfth grades are having their pupils write essays on reasons for buying Defense Bonds and Stamps, and the banks of Charlotte are offering \$25 Bonds as prizes for the best essays.

In Goldsboro, the city committee, R. M. Davis, General Chairman, has prepared a folder listing the chairmen and members and outlining the scope and functions of each of its nine sub-committees.

In Raleigh, organization of the city committee was completed at a dinner meeting at the Sir Walter Raleigh Hotel on the evening of September 8th. G. P. Geoghegan, Jr. is chairman of this important committee which consists of 125 persons, organized into 15 divisions.

In Shelby, the following cotton mills have announced allotment plans: Shelby Cotton Mills - 525 employees; Cleveland Cloth - 670; Dover Mill Co. - 550; Lilly Mills Company - 500; Esther Mills Company - 526.

News Letter

LOCAL INITIATIVE AND RESOURCEFULNESS PRODUCED THESE
ATTRACTIVE BOOTHS AND EXHIBITS



Booth at Mississippi State Fair. From left to right; Mrs. Mitchell Robinson; Mississippi State Administrator, Eugene Fly; E. L. Hynes, field representative, Defense Savings Staff; Mrs. Bell; Orrin H. Swayse, Deputy State Administrator; and Mrs. Joe Robinson, Chairman, Women's Division, and Russ M. Johnson, General Chairman, Hinds County Committee.



Stamp booth on main floor of Davison-Paxon Company in Atlanta. From left to right; Marion Allen, Georgia State Administrator; Mrs. Paul Seydel Jr., Mrs. Bill Wise and Mr. Charles H. Jagels, President of Davison-Paxon Company.



A typical local Defense Savings Headquarters. Booth in the Crutcher Hotel, McAlester, Oklahoma. From left to right; Mrs. Melvin Wilkins, Mrs. Nettie Mae Bedingfield in charge of headquarters and Mrs. Harry J. Bettes.



Booth at the Indiana State Fair sponsored by the Marion County League of Building & Loan Associations.



Display at Franklin County Fair, Farmington, Maine. A postal clerk was on duty at all times to sell Defense Bonds and Stamps.

News Letter

WASHINGTON

Seven Thousand Seattle School Children Saving For Bonds

SCHOOL CHILDREN in Seattle and King County are actively participating in the Defense Savings Program. On September 30, 1733 children received Defense Bonds for which they had completed payment, at formal ceremonies held in practically every school in the county. This outstanding action was possible because of the well developed school savings plan which has been in operation in Seattle schools for some years, in cooperation with the Washington Mutual Savings Bank. More than 7,000 King County school children are now saving regularly to buy Defense Bonds. Each Seattle school child, when he completes payment on a Defense Bond, receives a fine letter of encouragement from State Administrator Saul Haas, with which is enclosed a copy of the telegram in which Secretary Morgenthau instructed Mr. Haas to convey his sincere congratulations to the boys and girls, and to their parents and teachers, for their "patriotic devotion and sacrifice."

TWO IMPRESSIVE EXHIBITS featured Defense Savings at the Central Washington Fair in Yakima, where one booth was staffed by volunteers of the Women's Committee and another by Boy Scouts in uniform. Flag raising and flag lowering ceremonies each morning and evening were among the events which attracted attention to the booths.

MANY STUNTS helped put over "Retailers for Defense Week". For example:

Seattle's original cable car, which is now mounted on a motorized chassis, was appropriately decorated with such signs as "Lick a Defense Stamp and you lick an 'ism" and paraded through downtown Seattle by members of the Junior Advertising & Sales Club.

"Uncle Sam's Stampede", an original half-hour radio program, was broadcast Sunday evening, September 13, over Station KIRO. On this program, listeners were invited to telephone in and order Bonds or Stamps, appropriate announcements were made, and Western Union messengers dispatched to deliver Bond order forms or Defense Stamps and to collect for the securities. The program was sponsored by the Retail Trade Bureau and the Advertising & Sales Club of Seattle and resulted in the sale of \$9,000 worth of Defense Bonds and Stamps.

Special booths, staffed by volunteers from various women's organizations, were set up in all of the larger downtown stores.

HIGHLIGHTS:

In Bremerton, the Carpenters Union has voted to invest \$5,000 in Defense Bonds.

In Longview, pay roll allotment plans have been announced by the Long-Bell Lumber Company, Weyerhaeuser Timber Company and the Longview Fibre Company.

Highlights From Other States:ILLINOIS

MAYOR EDWARD J. KELLY has accepted Honorary Chairmanship of the Defense Savings Committee for Chicago. He was photographed purchasing a Defense Bond on the occasion of his acceptance.

MANY STATE STREET STORES arranged Defense Bond windows for Chicago's "Retailers for Defense Week". . . . Marshall Field had four such windows.

MEMBERS OF CHICAGO LOCALS of the Amalgamated Clothing Workers of America had bought \$25,000 worth of Defense Stamps by the first of September, through their "group agents", and had taken \$500,000 as their goal.

MAINE

PRACTICALLY ALL COUNTIES now have functioning Committee organizations.

TICKET OFFICES of the Bangor and Aroostock Railroad are selling stamps, and in some communities with no post offices, are the only source of supply.

FIRST GROCERY STORE in the State to adopt the salary allotment plan is Shrero's Market in Waterville.

INSTALLATION OF AN ALLOTMENT PLAN by the Central Maine Power Company has recently been announced. Walter S. Wyman, President of the Company, is Chairman of the State Committee.

AT MAINE FAIRS: Defense Bonds were prizes on 4H Club Day at the Windsor County Fair. . . . An Army "jeep" helped boost sales at the Skowhegan Fair, where Postmaster Frank Madden arranged a booth for the sale of both bonds and stamps.

AN EDITORIAL COMMENT:

"While showers of household gadgets are very nice for young ladies contemplating matrimony, they have certain notorious faults. They do, it must be conceded, stock the prospective home well with can openers, dish cloths, luncheon napery, ash trays, and even such fine things as linen, dishware, cooking utensils, and aprons. . . . All this is a tedious way of approaching a suggestion, which is both timely and practical. It is that friends of those who are about to wed depart from the time-worn shower tradition and sprinkle the happy couples instead with Defense Bonds and Stamps.

"In this way, eight olive forks and 19 book ends would be avoided; Uncle Sam would have his defense program helped along; and the buy-couple would start out with money in the bank and the means of buying what they really want when they get settled and seriously think about home making." —Portland Press Herald, Portland, Maine.

News Letter

DEFENSE SAVINGS IN THE SCHOOLS

The week preceding Armistice Day this year has been proclaimed "School Defense Week" by the Governor of Texas. His proclamation reads:

"WHEREAS, there exists in America today an urgent need for everyone to do his part in the National Defense Program; and

"WHEREAS, the Defense Savings Staff for Texas is soliciting 'all-out aid' to make every citizen of Texas, old and young, Defense Bond and Stamp conscious by putting on an educational program in every school in Texas to acquaint the students with the importance of buying Defense Bonds and Stamps and through this medium pass the information and idea on into the homes of Texas; and

"WHEREAS, the citizens of the Sovereign State of Texas, have heretofore in every crisis in the affairs of this great nation been willing and proud to do their full duty, and

"WHEREAS, it is now the duty of the citizen of Texas, to invest in Defense Savings Stamps and Bonds;

"NOW, THEREFORE, I, Coke Stevenson, Governor of the State of Texas, do hereby proclaim and designate the week of November 3, 1941 to November 11, 1941 as SCHOOL DEFENSE WEEK in Texas, and urge all Texans to cooperate with the Defense Savings Staff for Texas and the school children of this State in this undertaking."

TO ASSIST SCHOOLS in developing special programs for "School Defense Week", State Administrator Frank Scofield has circulated to school principals a manual prepared by two school teachers of the city of Austin, which contains many specific suggestions for relating class room work in music, art, penmanship, spelling, English, public speaking, social studies, arithmetic, reading, dramatics, etc., to Defense Savings. This manual also contains many suggestions for school activities designed to sustain the interest of school children in Defense Bonds and Stamps throughout the year.

* * * * *

OTHER SCHOOL NEWS;

SCHOOL THRIFT PROGRAMS, which are conducted in many cities in cooperation with local banks and savings institutions, have in several cases been related specifically to Defense Savings by providing that a savings account at the option of the depositor may be used to purchase Defense Bonds each time the account reaches \$18.75. This has been done in Seattle, Washington; Dallas, Texas; Rochester, New York and New Haven, Connecticut, among other places.

STAMPS ARE ON SALE one day each week in the class rooms of many schools. This is the plan used generally in Michigan where many schools inaugurated "Stamp Bank Day" last spring. Teachers and students work together to keep the necessary records, collect the money and purchase and distribute the stamps.

News Letter

OTHER SCHOOL NEWS (Continued)

IN RURAL AREAS and some smaller towns letter carriers, and postal officials have arranged to visit schools periodically with ample supplies of stamps and to relieve teachers and students of a large part of the task of handling sizeable sums of money.

REPLICA "STAMP BANKS" and "post offices" have been built by some schools as semi-permanent fixtures in school corridors, class rooms or assembly halls.

A REVIVAL OF BELIEF in the virtue of thrift is deemed by many to be one of the important by-products of the Defense Savings Program. Bearing upon this point is a report from an up-state New York town where a large consolidated school has arranged to have postal officials visit the school once each week and distribute Defense Savings Stamps through student banking committees. The report adds: "For several years the school maintained a banking service for its pupils but this was discontinued during the depression years."

EVERY SCHOOL PUPIL in Marshfield, Massachusetts has started on the road towards ownership of Defense Bonds. In that community, early in the current school year, every child in the elementary grades and all students in the junior and senior high schools received albums each containing one Defense Stamp. The distribution was made possible by the generosity of members of the Board of Trade, Kiwanis Club and Woman's Club and was arranged by the Marshfield Defense Savings Committee, Shirley R. Crosse, Chairman.

TIPLIFYING THE ENTHUSIASTIC RESPONSE of school children is a report from Schenectady, N. Y. At Nott Terrace High School in that city the student council sponsored a band concert early one morning before school opened. The supply of Defense Stamps was exhausted in ten minutes. Later in the morning the school assembly period was devoted to a Defense Savings Program and Principal Loydd S. Michael purchased the "first" stamps sold at the stamp booths sponsored by the school's three classes.

DEFENSE SAVINGS FLOAT

This float attracted much favorable attention at the "Corn Carnival" parade held in Granger, Texas, September 24, 1941.



News Letter

MANY BANKS MAKE DEFENSE BOND DRAFT PLANS AVAILABLE TO CUSTOMERS

From all parts of the country come reports that bankers have made it possible for their customers to participate in the Defense Savings Program by simply authorizing periodic drafts on their accounts to purchase Defense Bonds of specified series and denominations. The following is a partial list of banks which have installed this convenient "Buy A Bond A Month" plan:

ALABAMA - Bank of Fairhope. CALIFORNIA - Bank of America, San Francisco. COLORADO - First National Bank of Colorado Springs. CONNECTICUT - Riverside Trust Co., Hartford; Shelton Trust Co; American Bank & Trust Co., Community Bank & Trust Co., First National Bank & Trust Co., New Haven Bank, Second National Bank, and Trademans National Bank - all of New Haven. DELAWARE - Delaware Trust Co., Wilmington; Equitable Trust Co., Wilmington.

DISTRICT OF COLUMBIA - Lincoln National Bank; Riggs National Bank. FLORIDA - Lewiston State Bank, Tallahassee. GEORGIA - Trust Company of Georgia, Atlanta; National Exchange Bank, Augusta; Fourth National Bank, Columbus; First National Bank & Trust Co., Macon; First National Bank, Rome; Liberty National Bank & Trust Co., Savannah.

ILLINOIS - National Security Bank, Chicago; Third National Bank, Rockford. INDIANA - First National Bank, Elkhart; Farmers National Bank, Remington. MAINE - First National Bank, Damariscotta. MASSACHUSETTS - Hyannis Trust Co; Winchester National Bank; Guaranty Bank & Trust Co., Worcester. MICHIGAN - Commercial & Savings Bank, Albion; State Savings Bank, Escanaba; Farmington State Bank.

MINNESOTA - First National Bank, Austin; Farmers & Merchants State Bank, Clarkfield; First National Bank, Deer River. MISSISSIPPI - Bank of Greenwood; Citizens Bank, Hattiesburg; Capital National Bank, Jackson; Deposit Guaranty Bank & Trust Co., Jackson; Bank of Morton. MISSOURI - Cotton Exchange Bank, Kennett; United Bank of Union.

MONTANA - First National Bank, Great Falls; Great Falls National Bank; Montana Bank & Trust Co., Great Falls. NEW JERSEY - Sussex County Trust Co., Franklin; Leonis Bank & Trust Co. NEW MEXICO - First National Bank, Albuquerque; First National Bank, Santa Fe. NEW YORK - First National Bank, Glens Falls; First National Bank, New Rochelle; National Bank & Trust Co., Norwich. (This list is continued on the next page.)



THIS DISPLAY BOOSTS BOND SALES

This Defense Bond replica tank which belongs to the Hartford-Connecticut Trust Company is on the sidewalk in front of the Greenwich-Connecticut Trust Company. Since it was on duty in Hartford (see NEWS LETTER No. 15) it has been in Bridgeport and several other Connecticut towns. Everywhere it goes bond sales jump.

News Letter

BANK DEFENSE BOND DRAFT PLANS (Continued)

NORTH CAROLINA - National Bank of Lumberton; Scottish Bank, Lumberton; Citizens National Bank, Gastonia; National Bank of Commerce, Gastonia; American Bank & Trust Co., Monroe; Security National Bank of Raleigh; Peoples Bank & Trust Co., Rocky Mount. **OHIO** - Peoples State Bank, Granville; Greenville National Bank; National Bank of Lima; Savings Deposit Bank, Medina.

OKLAHOMA - First National Bank of Tulsa. **OREGON** - Bank of California, N. A., Portland. **PENNSYLVANIA** - Abington Bank & Trust Co; Pioneer Dime Bank, Carbondale; Girard National Bank; Peoples National Bank, Horristown; Third National Bank & Trust Co., Scranton. **SOUTH CAROLINA** - South Carolina National Bank; First National Bank of Columbia; Bank of Hartsville; Citizens & Southern Bank.

TENNESSEE - American Bank, St. Joseph. **TEXAS** - First National Bank, Alpine; Commercial National Bank, Brady; Commercial State Bank, El Campo; Commercial Bank, Mason; National Bank of Commerce, San Antonio; Citizens National Bank, Waco; City National Bank, Wichita Falls. **VIRGINIA** - Bank of Lancaster, Kilmarnock. **WASHINGTON** - Seattle First National Bank.

* * *

IMPRESSIVE SALES RECORD HUNG UP BY PEORIA BANK

More than \$1,200,000 worth of Defense Bonds and Stamps were sold during the past five months by the Commercial Merchants National Bank & Trust Company, Peoria, Illinois (population 105,000). Since early in May this bank has used newspaper advertisements and special lobby displays to call attention to the Defense Savings Program.

A new promotional program is now being developed around the song "Any Bonds Today?" Tellers' windows will be decorated with the front cover of the sheet music souvenir edition of the song; and ten times during banking hours a recording of the song will be played and distributed at low volume from twelve loud speakers located near the tellers' windows.

Pictured below is the bank's attractive floral display which featured more than 1200 red and white peonies.



TO THE LADIES



Mrs. Lytle Hull and Miss Vivian Bolster of Hearn's Volunteers selling Defense Stamps together at Bonwit Teller's Fifth Avenue Store in New York City.

Some Useful Ideas from New York

In New York, Mrs. Lytle Hull, vice-chairman of the State Committee in charge of women's activities, and her Executive Assistant, Mrs. Marion Miller, have already made most of their committee appointments throughout the State. They were able to find the kind of women they wanted in each municipality, they report, by going to big statewide women's organizations, like the state affiliates of the PTA, the General Federation of Women's Clubs, and the Women's Trade Union League, and asking who the most active workers of those organizations were in each locality. Newspaper editors and women's page writers were also asked to supply the names of leaders in women's activities in each town, and the names of organizations which would probably want to work with local Defense Savings Committees.

"Flying Squadron"

In New York City, a "Flying Squadron", has been formed composed of society women, club women, and business girls, who have volunteered to help the Defense Savings Program in any way they can.

During "Retailers-for-Defense Week", these volunteers tended Defense Stamp booths in department stores. Helping out on this particular project, too, were the "Hearn's Volunteers", an organization of salesgirls from Hearn's Department Store, who are giving one day every week to National Defense work.

INSTRUCTING VOLUNTEERS

From long experience with volunteer workers, Mrs. Hull and Mrs. Miller know the importance of providing them with detailed instructions. For example, the volunteers who are helping to sell Defense Stamps in stores are given mimeographed sheets setting forth such suggestions and instructions as:

1. Tell shoppers who stop to examine the literature on display, where Defense Stamps are on sale (at the booth or cashier's desk) and that Bonds can be bought at any post office or bank.
2. Distribute albums with the first stamp sold if the shopper does not already have one.
3. Read the Defense Savings informational pamphlets in order to be able to answer questions intelligently.
4. Keep a record of stamps sold, and, if possible, of the number of people who make inquiry about Stamps or Bonds or pick up literature.

FARMERS LEARN OF DEFENSE SAVINGS PROGRAM
TRIPLE A CHECKS BUYING DEFENSE BONDS

FARMERS are being encouraged to invest in Defense Bonds. All Triple A soil conservation and parity payment checks (about 6,000,000 are distributed each year) are now being delivered accompanied by a new Defense Savings folder entitled: "12 Facts For American Farmers About Defense Savings Bonds and Stamps."

MEMBERS OF THE 800 RURAL ELECTRIFICATION COOPS., who represent approximately 1,000,000 farm families, are now receiving the folder "Freedom for the Future" (referred to in NEWS LETTER NO. 18).

ALL FIELD OFFICES AND AGENTS of the Departments of Agriculture and Interior are cooperating to keep Defense Savings before the rural families whom they serve. Field representatives of these Departments have been instructed to cooperate closely with state and local Defense Savings Committees and to do all that they can to stress to farmers the importance of substantial and continuous investment in Defense Bonds and Stamps.

* * *

OTHER NEWS FROM THE FARM FRONT:-

All Creameries in Vermont, including both privately owned and cooperative creameries, are distributing folders giving information about the Defense Savings Program. In addition, some of them are developing plans whereby the creameries help farmers buy bonds by making authorized deductions from milk checks. This is a plan which operates for farmers in much the same way that the pay roll allotment plan operates for wage earners and salaried employees.

Future Farmers of America, organizations of boys studying vocational agriculture, are investing reserve funds in Defense Bonds. The Mississippi FFA organization reports the investment of \$3,000; Florida, Louisiana and New Mexico organizations each report purchases of \$1,000 Defense Bonds, and the Vermont group has made an initial purchase of a \$100 bond.



His fine Jersey now produced the milk which brought the money which Danny Eugene Farrow, 4H Club boy of Spring Creek, Yell County, Arkansas, saved to buy the Defense Bond he proudly displays in the picture at the left. Danny's father, Glenn Farrow, in 1931 won the Future Farmers of America award as Master Farmer.

Rural Electrification cooperatives throughout the country have invested \$650,000 in Defense Bonds. In Missouri, every such cooperative has purchased Bonds.

A Minute Man Sculptured in Butter was the principal attraction at the exhibit of the Beatrice Creamery Company of Topeka, at the Kansas Free Fair in that city.

News Letter

NEW DISPLAYS AVAILABLE FOR OUTDOOR ADVERTISERS

OUTDOOR ADVERTISING is doing much to keep the objectives of the Defense Savings Program before the American public. Already in scores of cities, banks and savings and loan associations and other local users of the outdoor advertising medium, and some national advertisers, notably the Wrigley Company, have placed Defense Savings messages upon outdoor displays which they either own, lease or contract for. Pictures of a few of these billboards have already appeared in previous issues of this NEWS LETTER.

A NEW PROGRAM of outdoor advertising is now getting underway. The newly established Outdoor Display Section of the office of the director of information has just announced that arrangements have been made with the Outdoor Advertising Industry for the production of a series of Treasury-approved designs which will be made available at cost to users of outdoor advertising space and to the "plant operators" engaged in this business.



A SMALL BOY AND A DOG (above) feature the design of the poster which is the first in this series to become available. This design was provided by the Mass Marketing Institute of Chicago. Colored miniatures of this design were mailed on October 14th by the Treasury Department to approximately 12,000 banks, insurance companies, and other financial institutions throughout the United States, together with a letter announcing the availability of these posters and outlining the procedure by which they can be obtained. The large 24-sheet posters for this design are now in the process of production, and should be available to advertisers about October 20th.

FOR PAINTED BULLETINS, the two designs now available have been provided by Outdoor Advertising Incorporated. Both feature the Minute Man, and differ only as to the wording of the headlines.

One says: "OWN A SHARE IN AMERICA.
Buy United States Defense Bonds and Stamps."

The other reads: "FOR DEFENSE AND SECURITY.
Buy United States Defense Bonds and Stamps."

News Letter

DEFENSE SAVINGS ON THE AIR Leading Programs for the Coming Week

Monday, October 30	<u>FOR AMERICA WE SING</u>	9:30-10:00 P.M. (EST)
Tuesday, October 31	<u>MILLIONS FOR DEFENSE</u> (The Treasury Hour)	8:00-9:00 P.M. (EST) NBC Blue Network
Saturday, October 25	<u>AMERICA PREFERRED</u>	9:15-9:45 P.M. (EST)

THESE THREE PROGRAMS are dedicated exclusively to Defense Savings. In addition, many regularly sponsored programs during the week will include announcements and other boosts to remind America's radio audience to "Buy a Share in America."

* * *

"ANY BONDS TODAY?" IN FIRST POSITION IN NATION'S 300,000 AUTOMATIC PHONOGRAPHS

A nation-wide campaign to place "Any Bonds Today?" and other popular National Defense records as they become available in the No. 1 position on the nation's 300,000 automatic phonographs has been launched by the Automatic Phonograph Manufacturers Association and representatives of all major recording companies. Records which receive this position are played more often than any others in the machines.

Each recording company will make special stickers, cards and title slips for distribution to all places where the automatic phonographs, popularly known as "juke boxes", are installed. This material is now in production, and the week of November 9 to 16 has been fixed as "Automatic Phonograph Operators Cooperating in the Promotion of United States Defense Bonds and Stamps Week."

In Michigan, automatic phonograph operators got the jump on the rest of the country and, through the efforts of Roy Small, Conciliator for Local 737, United Phonograph Operators Association, CIO, and the United Music Operators Association of Michigan, "Any Bonds Today?" was given the preferred position on all 5,100 music boxes in Detroit and Wayne, Macomb and Oakland counties.

Late in September, when Secretary Morgenthau made his trip to Detroit to discuss pay roll allotment with labor and business leaders, Frank E. Isbey, Michigan State Chairman, offered him \$100 if he could find a juke box on which "Any Bonds Today?" was not the first tune. The Secretary took up the challenge and, accompanied by State Administrator Giles Kavanagh, Chairman Isbey and one or two others, went to more than a dozen places, buying hot dogs and dropping nickels in the slots of automatic phonographs. Reports have it that the personal investigation cost the Secretary a pocketful of nickels and that Chairman Isbey kept his \$100. "Any Bonds Today?" was in the top spot on every machine!

News Letter

QUOTABLE QUOTES

"In this, the most perilous hour in the entire history of civilization and Christianity, it becomes the duty of all who believe in the preservation of American freedom and the American way of life to do everything possible in behalf of the perfection of national defense. Every member of the Moose Lodge can increase his contribution to the nation's security and the perpetuation of his own liberty by purchasing Defense Savings Stamps and Defense Savings Bonds to the limit of his capacity. . . . Therefore, every member of the Loyal Order of Moose is urged to buy at least one Defense Savings Stamp a day and at least one Defense Savings Bond a month."

-- Mathew M. Neely, Supreme Governor,
Loyal Order of Moose, Governor of West Virginia,
and Honorary Chairman of his State's Defense
Savings Committee.

"The time has come for us to take our American Citizenship seriously. We have accepted the privileges afforded us by our form of Government as a matter of course, forgetful of the price our forefathers paid that we might be free. That freedom, and the Government under which we enjoy it, is not only challenged, but it is threatened. Let the bankers as a class take the lead in a great movement to arouse our people to the dangers which threaten, and try to make them conscious of their individual obligation and responsibility to our Government. Let us pledge anew our allegiance to the flag of our country, and rededicate our lives to its protection and perpetuation."

-- Ed. L. Weathers, President,
Kentucky Bankers Association.

"Our job is to sell every individual--without coercion and with each one the judge of his own limitations--the obligation of **THRIFT FOR DEFENSE**."

-- William H. Bartley, State Defense Savings
Administrator for Montana.



-- "BO", Comic strip character by Frank Beck,
McNaught Syndicate, Inc.

UNITED STATES SAVINGS BONDS

Comparative Statement of Sales During
 First Fifteen Business Days of August, September, and October, 1941
 (August 1-15, September 1-15, October 1-17)
 On Basis of Issue Price

(Amounts in thousands of dollars)

Item	Sales			Amount of Increase or Decrease (-)		Percentage of Increase or Decrease (-)	
	October	September	August	October over September	September over August	October over September	September over August
Series E - Post Offices	\$ 23,826	\$ 23,497	\$ 25,724	\$ 329	-\$ 2,227	1.4%	- 8.7%
Series E - Banks	<u>45,683</u>	<u>40,353</u>	<u>48,298</u>	<u>5,330</u>	- <u>7,945</u>	<u>13.2</u>	- <u>16.4</u>
Series E - Total	69,509	63,850	74,022	5,659	- 10,172	8.9	- 13.7
Series F - Banks	12,959	10,093	13,514	2,866	- 3,421	28.4	- 25.3
Series G - Banks	<u>72,011</u>	<u>65,142</u>	<u>81,876</u>	<u>6,869</u>	- <u>16,734</u>	<u>10.5</u>	- <u>20.4</u>
Total	<u>\$154,479</u>	<u>\$139,086</u>	<u>\$169,412</u>	<u>\$15,393</u>	- <u>\$30,326</u>	<u>11.1%</u>	- <u>17.9%</u>

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

October 18, 1941.

Source: All figures are deposits with the Treasurer of the United States on account of proceeds of sales of United States Savings Bonds.

Note: Figures have been rounded to nearest thousand and will not necessarily add to totals.

UNITED STATES SAVINGS BONDS

Daily Sales - October 1941
On Basis of Issue Price

(In thousands of dollars)

Date	Post Office Bond Sales Series E	Bank Bond Sales				All Bond Sales			
		Series E	Series F	Series G	Total	Series E	Series F	Series G	Total
October 1941									
1	\$ 1,450	\$ 3,029	\$ 1,286	\$ 8,271	\$ 12,587	\$ 4,479	\$ 1,286	\$ 8,271	\$ 14,036
2	1,870	2,786	867	4,324	7,977	4,656	867	4,324	9,847
3	2,150	3,299	1,065	6,323	10,687	5,449	1,065	6,323	12,837
4	1,270	1,696	612	6,400	8,707	2,966	612	6,400	9,978
6	3,449	4,778	1,444	9,286	15,508	8,226	1,444	9,286	18,956
7	1,207	2,595	572	2,913	6,080	3,802	572	2,913	7,287
8	1,363	3,674	821	3,611	8,106	5,037	821	3,611	9,469
9	1,652	4,270	903	3,654	8,827	5,923	903	3,654	10,479
10	1,495	3,672	989	5,272	9,933	5,167	989	5,272	11,428
11	1,291	2,400	632	4,098	7,129	3,690	632	4,098	8,420
13	2,515	3,624	1,164	4,989	9,778	6,139	1,164	4,989	12,293
14	437	1,022	261	511	1,794	1,459	261	511	2,231
15	879	2,175	759	3,482	6,417	3,055	759	3,482	7,296
16	1,376	3,054	724	3,908	7,685	4,429	724	3,908	9,060
17	1,422	3,609	860	4,969	9,438	5,031	860	4,969	10,861
Total	\$ 23,826	\$ 45,683	\$ 12,959	\$ 72,011	\$ 130,653	\$ 69,509	\$ 12,959	\$ 72,011	\$ 154,479

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

October 18, 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.

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TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE OCT 18 1944

TO Secretary Morgenthau
FROM E. H. Foley, Jr.

Attached are two short letters received from Joe DuBois of Treasury and John Hooker of State who are traveling together in Central America helping our diplomatic missions on freezing control and black list problems.

I think you will find their comments on the abilities of our Guatemalan Legation quite interesting.

E.H.F.

COPY

PALACE HOTEL
Guatemala, C. A.

Sunday, October 5

Dear Bernie,

We have been in Guatemala since last Sunday and will leave for El Salvador tomorrow morning.

A full report on the situation here has been prepared to be transmitted by the Legation. Naturally, the report is based to a great extent on information furnished by the Minister and his staff. Their opinion on questions such as the extent of Nazi activities here, the persons engaged therein, and who can and can not be relied upon (including officials of the Government, personnel of the Central Bank, etc.), had to be accepted at practically face value.

The ability and judgment of the Minister and his staff here, however, has been found lacking in a number of respects and we can not be sure that our appraisal of the situation here, based on the information obtained, is correct in all respects.

If, as it would seem, there is a real job to be done here, it can only be done right by sending someone down for an indefinite stay (who will not be me!)

Hooker is elaborating on these points in a note which he will send to Hiss (together with a copy of our report) from Salvador, by way of the pouch - this note to be enclosed therewith.

Sincerely,

(Sgd.) Joe DuBois

PALACE HOTEL
Guatemala, C. A.

October 5, 1941

P. Collado
D. Hiss

I am enclosing a copy of our report on Guatemala. The Legation stated that they were sending it up in the pouch the morning of October 4. Just to be safe and not knowing what comments they may have made in regard to it, here is another copy.

The principal problem here is the coffee plan. As you will see from the report the way in which Kidder planned to put it into effect was terrible. The Legation here knew that Kidder intended to put it in operation in this way but did not tell us and the only way we found out was by a chance meeting with Kidder in the hotel. Apparently Kidder had the Minister right in the palm of his hand. As you will see from the report Kidder's objections to the way in which we suggested the plan be handled do not hold water. I believe that we have convinced the Legation that the plan must be put into operation in this way despite Kidder's objections. The original plan proposed by the Guatemalan Government under which the Banco Central would handle the coffee was all right in theory but the Legation here states positively that the Banco Central is subject to German pressure and that the original plan as proposed by the Foreign Minister was drawn up by Nottebohm's attorney. In the light of this that plan could not be accepted.

In regard to the placing into effect of a local freezing law in this country, there is probably a real need for such a law but there is nobody to administer it and the members of the Legation staff just are not capable of being of any real assistance to the Guatemalan Government. Unless you are prepared to send somebody down here to stay indefinitely to advise the Legation (both of us refuse absolutely to accept any such assignment) the enactment of a freezing law here will just result in a terrific mess.

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You will know better than to believe some of the compliments paid to the Legation contained in our report. As a matter of fact the whole Legation staff seems to be spending their whole time on the Proclaimed List. There is no doubt that they are really pursuing a strict policy but they lack common sense and judgment and when any questions are brought up to them they say no before the individual has been able to give all the facts of the case. The Department's instructions concerning United States concerns will help out considerably and I think that we have convinced them that they cannot just say no in all cases but that they must examine the facts and frequently make exceptions. For example, prior to our arrival they had informed Guatemalans that they must break contracts with persons on the Proclaimed List which were in existence prior to the List regardless of whether the Guatemalan might be held liable under local law for breach of contract. Also they have definitely advised persons that transactions cannot be engaged in with persons recommended for the List but not as yet on the List.

The ardor with which the Legation is working on the List creates some doubt as to whether all of the persons which they have placed on the List should be on it. However, we have no real basis to back up this suspicion.

We leave for Salvador Monday October 6 and are glad to get away from here still maintaining very cordial relations with the Minister and the staff of the Legation at least on the surface.

Regards to Janet and Corbett,

JOHN

I concur fully in these views and would appreciate it if you would pass them on to Bernstein. I am also enclosing a short note for Bernstein and would appreciate it if you would deliver same to him.

JOE DuBOIS

C
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201

PARAPHRASE OF TELEGRAM SENT

TO: American Consul, Hong Kong, China, via N.R.

DATE: October 18, 1941, 7 p.m.

NO.: 350

THE FOLLOWING IS FROM THE SECRETARY OF THE TREASURY
FOR FOX.

The Department had prepared the following telegram for transmission to you prior to receiving your telegram No. 420.

Nevertheless, the telegram is being sent to you since it is our belief that it will not only clarify the record but eliminate any possible misunderstandings which might arise as to what you, as well as the Department, might have in mind. Your telegram No. 420 is being studied carefully. If the Department has any comments to make at this stage, you will be notified of them shortly.

The telegram which follows is in paraphrase.

Reference is made to the following telegrams which comment on the Department's 304-----Nos. 408, 411, and 403.

The first part of this telegram (Part 1) is explanatory. It is designed to eliminate any confusion with regard to telegram No. 304 from the Department. The second part of this telegram (Part 2) discusses certain additional points which were raised in the following telegrams from you: Nos. 403, 408, and 411. The third part (Part 3) proposes, for immediate action, a plan that involves steps on which

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agreement appears to have been reached already and which are in accord with the action which was taken by the Government of China on remittances. The Department assumes, in what follows, that you have received a copy of the Chinese Government's communication to the State Department (dated October 7) which states (in brief) that it is the wish of the Government of China that all remittances from abroad be concentrated in the Central Bank of China.

Part 1. With regard to the Department's telegram No. 304— it is very important that there be no misunderstanding on your part, the Board, or the Chinese Government, and the reasons which prompted the proposal that was submitted therein. The following points are accordingly furnished for your guidance and information:

A. Our considered views of an effective program for China were represented in the "Manila" plan. It was learned, after considerable delay, that the British had certain objections to such a program for China. In brief, the British had the following objections: (1) Until the Agency or the Commission had worked out administrative machinery for the carrying out of its share of the operation, no such program could be put into effect. (2) Under the program, the Central Bank of China was not in a position to perform the functions which were assigned to it. The British did not favor centralization of clearing accounts in such bank. Instead, they made the suggestion that the licensed foreign and Chinese banks be employed for such functions. (3) With regard to

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the Joint Policy Committee, the British had doubts as to whether it was feasible as well as some concern over the representation thereon. Another objection which the British had was to that part of 1-C of the "Manilla" plan which called for the Board to be able to repurchase dollars from the Central Bank at the same rate at which dollars were provided by the Board. At the present time, it is our feeling that while under the plan it is necessary that the Board be able to purchase dollars from the Bank, it is not essential that the Board be able to purchase dollars at the same rate at which dollars had been provided by it. In view of the foregoing, you should read the memorandum (dated September 16) which Bewley left with Cochran. No doubt Cochran has this memorandum with him now.

B. The Department recognized that valuable time would be wasted in attempting to resolve the points of difference with regard to the "Manila" plan. In the meantime, according to the suggestion in your cables, immediate measures were necessary. Therefore, without attempting to resolve the various objections to the "Manila" plan, the Department furnished you with the proposal in its No. 304 which the Department thought would remove some of the objections which were made by the British. You will recall that the Department's No. 304 stated that it was "a provisional measure to be adopted pending a more careful consideration of all the problems involved."

C. The Department's No. 304 represented an effort on the part of this Government to give the Chinese Government effective control, without delay, over foreign exchange and trade. The U. S. Government believed that in giving the Chinese Government this control that it would be the strongest evidence of this Government's confidence in the Chinese Government's ability to cope with the situation there. The instrumentality through which the Chinese Government achieved this control was considered as secondary to the primary fact that the Chinese Government was gaining control.

D. It is the belief of this Government that the program which was outlined in the Department's No. 304 would be effective in giving the Chinese Government control over foreign exchange and trade. The essential distinction between the plan in No. 304 and the "Manila" plan was that the plan presented in the Department's No. 304 relied upon several banks -- namely, the "cooperating banks -- to perform the function of the Central Bank of China under the "Manila" plan. Their relative effectiveness depended accordingly upon whether the "cooperating" banks would perform their required functions in a manner that would be satisfactory.

It is the belief of this Government that the "cooperating" banks would do this. When reference is made to the banks "cooperating" with the Board, there are strong sanctions available to insure complete cooperation. It was this Government's intention that the Board would have a full voice in deciding which banks would be designated as such.

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Prior to the inclusion of any bank as a "cooperating" bank, the terms of inclusion could be dictated by the Board to the same extent as though the banks were being licensed by the Board. With regard to this, you may expect the full support of the Department. It was this Department's hope that this was clear from points 1-A-3, 2-C, and 2-F of its telegram No. 304. In like manner, the Board would have available to it the power to remove a bank from the list. The Department pointed out that there was no intention to exclude the Chinese commercial banks unless the Board wished to do so.

Furthermore, the matter of "cooperation" would not be a mere matter of "lip service". The Department would have, under its general licenses, a report on each transaction by each of the banks, such report would be filed by the banks in this country. This data could be used not only to check compliance but it could be made promptly available to you for such uses as would be deemed appropriate by you, including the insuring that the banks accounted for all exchange to you. Should it be necessary, the Department could have imposed a U.S. customs enforcement as was proposed in Roman No. III-C(2) of the Department's "Manila" plan. There is always the possibility that the general license could have been revoked with respect to any of the banks and the accounts of such bank would have been blocked then. The Department thinks that with these checks the banks would have had strong reasons for "cooperating".

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You, from your end, could require the banks to obtain clearance on every transaction, or class of transaction, from you or from the Agency or Commission before any action is taken. Therefore, no transaction which would be in violation of your policy could escape unnoticed.

E. With regard to the suggestion that either 1-C-2 or 1-E of the Department's telegram No. 304 would be tantamount to the unfreezing of all the balances of the Chinese; it is simply not in accord with the foregoing. It is obvious that General License No. 60 confers similar privileges on the Central Bank of China; however, it is not to be regarded as "unfreezing" the balances of the Chinese. The validity of our proposal essentially rests or falls upon the degree of "cooperation" which could be exacted from the banks. (This has been discussed previously; see above.)

F. The Department appreciates the significance of your argument with regard to the political objections to the Department's telegram No. 304. It is the belief of the Department that these objections are of great importance. The Department believed that this plan (as was indicated above)—if it were properly announced—would have served to enhance the prestige of the Chinese Government rather than detract from it. This Government, however, would be extremely reluctant to take any step which might be misconstrued in regard to this matter.

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Part 2. The Department believes that the foregoing also answers most of the objections to its telegram No. 304 which have been referred to in your telegrams Nos. 408, 411 and 403. The following comments are made in order that any remaining points may be covered.

A. Reference your 408. The Department was glad to learn that an agreement has been reached whereby the Board is to receive the proceeds of exports and remittances. This Government is willing to cooperate in the strengthening of the Central Bank. The Department is glad to know that you think the Joint Policy Committee, which was referred to in the Department's "Manila" plan, is feasible. Information transmitted to the Department by you indicated that certain of the banks licensed under General License No. 59 had been cooperating poorly and that other banks had given lip service. The Department (as you will see from the statement in paragraph (5) of the Department's "Manila" plan) expects you to notify it immediately of any banks that are not cooperating, the nature of their non-cooperative acts, and to offer any specific suggestions which might remedy the situation in general.

The Department recognizes the fact that some of the banks licensed under General License No. 59 may not have a real need for such a license. The Department feels, however, that so long as there was no abuse by them of the provisions of this license, there was no loss by including

them in the license. It also avoided the necessity for discriminating and passing upon their relative need for the license. The Department prefers to continue this policy unless there are strong reasons from your point of view for departing from this principle. Should there be any abuse of the license, this, of course, would be a different matter altogether. The Department has made previous reference to your authority with regard to the inclusion in the general license of Chinese commercial banks.

B. Reference your 411. The Department is in accord with both points (A) and (B) under 2 which relate to the inclusion of certain Chinese Commercial Banks in General License No. 59 and to the Board obtaining exchange. The Department would like to your recommendations on the banks nominated. With regard to your comment with respect to 2-E in the Department's telegram No. 304, the Department understands and appreciates this. The Department is studying your paragraph No. 4. However, the Department hopes that it will not be necessary to hold up action pending the institution of any such system of control of customs.

C. Reference your 403. Your comments with regard to the reaction of the Chinese members have been of great help to the Department. One of the major objectives of applying the freezing control to China has been—and continues to be—to give the Chinese Government control over trade and foreign exchange; this was stated above. Also aimed at this objective, was the program submitted in our No. 304.

In regard to the comments of Hall-Patch, it appears that their validity rests essentially upon whether the "cooperating" banks could perform the functions which are required of them under the Department's No. 304 in an effective manner. Previous discussions have been held in regard to this point.

The Belgian Legation in Washington, representing the Belgian Government in London, made the suggestion that the Bank Belge be included as a "cooperating" bank. Therefore, in accordance with the above, it would be appreciated if the Department might receive further recommendations with regard to the statements of Hall-Patch on the point under consideration.

Part 3. The Department, in analyzing your telegrams Nos. 408 and 411—coupled with the note of the Chinese Government with regard to remittances, is lead to conclude that substantial agreement may not be difficult to reach upon a program of this kind. The following comment is made with reference to the Department's telegram No. 304:

A. Point 1-A-1 appears to you and to us to be all right.

B. Point 1-A-2 is all right for Hong Kong and Shanghai.

With respect to the question whether—in the other parts of China—the proceeds of exports are to be sold to the Central Bank of China or to cooperating banks, the Department wishes that (in the light of the elucidation furnished you in this telegram) you would reconass this matter fully and frankly with the other members of the Board as well as with Cochran and Niemyer and then send your recommendations to the Department.

In regard to the following points in the Department's No. 304, it appears to be agreed between you and us that:

- C. Point 1-A-3 is all right as it stands.
- D. Point 1-B is also all right as it stands.
- E. Point 1-C-1 is all right the way it is stated.
- F. Point 1-C-2 is covered by the Chinese note regarding remittances now. The changes which are necessary can be made here in our general licenses. This is agreeable to the Department.
- G. Point 1-D is all right as it is stated.
- H. Point 1-E is to be omitted entirely. The Department agrees to this.

In our attempt to evaluate the situation in China, we want you to know that your comments have been extremely helpful.

HULL
(FL)

FF:GL FE

EA:PAK

COPY:LC:VW:EH
10-25-41

TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE October 18, 1941.

For Miss Chauncey
 TO Secretary Morgenthau
 FROM Mr. Dietrich

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£28,000
Purchased from commercial concerns	£ 1,000

Open market sterling was again quoted at 4.03-1/2 , and there were no reported transactions.

Following yesterday's improvement to 11% discount, the Canadian dollar reacted slightly to close at 11-1/8% today.

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

Argentine peso (free)	.2360
Brazilian milreis (free)	.0505
Colombian peso	.5775
Mexican peso	.2070
Uruguayan peso (free)	.4650
Venezuelan bolivar	.2650
Cuban peso	1/8% discount

There were no gold transactions consummated by us today.

No new gold engagements were reported.

RESTRICTED

G-2/2657-220; No. 522 M.I.D., W.D. 11:00 A.M., October 18, 1941

SITUATION REPORTI. Eastern Theater.

Ground: Lack of official information keeps the situation extremely obscure along the entire front.

There are indications that the German advance south of Kharkov is moving more rapidly.

The Russians admit the capture of Odessa.

Air: The German Air Force has been striking all along the Russian battle line. Day raids were carried out against Murmansk and against war targets in and around Moscow, according to Berlin.

II. Western Theater.

Air: German sources claim that the British harbors of Great Yarmouth and Lowestoft were raided during last night. Nothing has been received on British activity in this theater.

III. Middle Eastern Theater.

Air: Italian planes again raided Malta, while the British attacked Syracuse and Elmas, near Tagliari, both in Sicily.

RESTRICTED

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BRITISH EMBASSY,
WASHINGTON, D. C.

PERSONAL AND
SECRET.

October 19th, 1941.

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

Katifax

The Honourable

Henry Morgenthau, Jr.

United States Treasury,

Washington, D. C.

TELEGRAM FROM LONDON DATED OCTOBER 17th, 1941

Summary (information received up to 7.00 a.m. October 17th, 1941).

Naval. On the 11th British submarine attacked 3 merchant vessels of 2,000-3,000 tons eastbound off Cape and obtained possible hits. On the 16th same position she attacked one of three merchant ships 3,000-5,000 tons westbound escorted by trawlers and aircraft and made one certain and two possible hits. Results unobserved.

2. Ex-German merchant vessel (7,000 tons) beached on August 25th has been salvaged.

3. Reference summary first paragraph (sub-paragraph 2). This convoy was again attacked early 16th about 500 miles west of Ireland (3) another ship being torpedoed.

4. Military. Russia. German advance eastwards of Rzhev (sic) is reported to have reached Salinin. Due West of Moscow Russian defences probably in Mojaisk area have been penetrated but strong Russian resistance continues. Limited advance eastwards between Orel and Kursk is reported but further south bad weather appears to have restricted offensive operations.

5. Royal Air Force. 10th/16th. Visibility was poor. Cologne area attacked by 31 aircraft which dropped 66 tons of high explosives.

6. 16th. During small offensive patrols fighters damaged shipping at Flushing set fire to a petrol store and inflicted casualties at a searchlight post. An enemy army co-operation aircraft was destroyed. One Hurricane is missing.

/ 1. 16th/17th

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7. 16th/17th. 23 aircraft despatched:
Duisburg 86 Dunkirk 22 Ostend 15 Ruhr searchlights 5.
2 missing and 1 crashed on return 5 of crew safe.

8. German Air Force. 16th/17th. 20
aircraft were operating of which 3 night fighters
crossed the coast. 1 junks 86 destroyed by fighters
and 1 damaged.

October 20, 1941
11 a.m.

RE SOCIAL SECURITY - COMPULSORY SAVINGS

Present: Mr. White
Mr. Morris
Mr. Foley
Mr. Kades
Mr. Haas
Mr. Barnard
Mr. Blough
Mr. Shere
Mr. Coe
Mr. Sullivan
Mr. Bell
Mr. Surrey
Mr. O'Donnell

H.M.Jr: How far along are you on your excursion on the Hill?

Sullivan: Not very far along at all, sir. There wasn't anybody in town Saturday morning and the only person I was able to see was Vandenburg and Doughton. I had to see Doughton on something else, and I thought I would explore it with him.

Vandenburg is in favor of your taking in the obligations of the Federal agencies which you now indirectly guarantee, but not in favor of the other two billion two hundred million which you do not guarantee.

H.M.Jr: Which are those?

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Sullivan: CCC and --

Bell: No, no. Federal Land Banks.

Sullivan: Yes, that is right, Dan.

Bell: We never contemplated that. We couldn't do it anyhow without legislation.

H.M.Jr: No, not the Land Banks?

Sullivan: No. And Doughton was a little bit apprehensive. He said he wanted to think it over over the weekend and then he would call me. I have the report on that conversation.

H.M.Jr: But you will keep it up, won't you?

Sullivan: Yes, sir, I will.

H.M.Jr: Is it this week or next week we are to do it?

Bell: This week.

H.M.Jr: Then as soon as this is over, you had better get up on the Hill.

Sullivan: I will, sir. Should I also see the Speaker?

H.M.Jr: Yes. Well, now, let me ask you, who raised the question as to the legality of this thing?

Haas: That is all right, I checked it.

Bell: There is no question about that.

(The Secretary held a telephone conversation with Allan Sproul).

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H.M.Jr: It makes a lot of difference in my mind, whether they still own them.

Bell: McGoldrick is in town.

H.M.Jr: Yes. He is just here for that?

Bell: Well, he has got one or two other errands, he said. I told him to call back at eleven thirty.

H.M.Jr: Well, I can see him at three fifteen.

Bell: You don't want any pictures, do you? Why not let him have the picture taken on the other end as he gets off the plane?

H.M.Jr: I will let him write the ticket. Any way he wants it. I will do anything he wants.

Bell: O.K.

H.M.Jr: Any way that he wants it. I am sorry.
Now I am ready to begin this other thing.

Barnard: We had a conference on Thursday afternoon and there has been no discussion, as far as I am concerned, since then, but since that time some estimates have been made for various divisions of the plan --

H.M.Jr: Excuse me just a second. Then I will concentrate.

When you go on the Hill again, John, take Dave Morris with you. He knows this detail and it is good experience for him.

Sullivan: Yes, sir.

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H.M.Jr: Will you take Dave Morris with you, and he knows which - I am sorry.

Barnard: Since then some estimates have been made. What I got out of the discussion at the conference was, eliminating incidental talk, a focus on five points.

One was the effect of this proposal upon not tax revenues but the tax program, and I myself thought that was perhaps the most important.

The second point was the effect on tax revenues, and that is a matter of estimate, and some estimate, as I said, has been made.

The third matter of interest was the amount of money that this program would produce, and estimates are now available on that.

The next question was the discussion of the effect of the plan on voluntary purchases of Savings Bonds. I don't know what there is to say on that this morning.

The fifth question was the advisability of of the voluntary dismissal wage plan, particularly from the standpoint of its effect on revenue.

Now, if I should go ahead, I am putting myself in the place of the protagonist on this thing. I think I discussed first the tax program. My understanding is that we are expecting expenditures next year to be of the order of thirty-six billion dollars. The present tax schedules are now producing or are expected to produce around sixteen million dollars. If we got two thirds of the expenditures in the form of taxes, we

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would have to get twenty-four billion, which would be an increase of fifty per cent. Whether that is feasible politically or practically - I put the emphasis on the practical side, which I know more about - I have very grave doubts as to doing it in one jump. The thing that occurs to me as a result of that discussion was, plus the other things that have been coming in here in the last day or two, raises the question as to whether or not the maximum speed in getting purchasing power out of the hands of the public can't be accomplished by the quick adoption of some such plan. If so, I would assume that it would somewhat embarrass - at least somewhat embarrass - any program for the increase of taxes, and it seems to me exceedingly important as a point to take into account.

Mr. Sullivan can argue for that, and is in the best position to do it, and I won't attempt to do it, but I think it is a very real and important point.

Nevertheless, for the sake of discussion and taking a positive position, my own judgment at the moment is that the most desirable thing is to proceed as rapidly as possible with this program. The estimates that are so far produced indicate that it would bring in about four billion dollars, which seems to me to be too little, and over the weekend --

- H.M. Jr.: Wait a minute, what would bring in what four billion?
- Barnard: This program that I have suggested.
- H.M. Jr.: In toto?

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- Barnard: Yes. That is right, Mr. Haas, isn't it?
- White: That is gross.
- Barnard: Gross, the four billion, without deduction of the loss of revenue, and there are some losses in revenue here on various assumptions. Four billion gross doesn't seem to me to be sufficient for the present situation. I assume that every dollar we get in by this way cuts down the necessity of borrowing in other ways, since on a thirty-six billion program there would be - assuming you could get twenty-four billion in taxes, there would still be twelve billions to finance. So it seems to me that it would be highly desirable to make this as large a program as is reasonably practical, rather than to temper it down the other way, and to do that, my first suggestion is that we should not collect - not get contributions on payrolls of those who earn less than a thousand, but on those who earn more than a thousand we should get the contributions on the entire payrolls they do earn, and if I understand what Mr. Haas said on the telephone, that is a matter of two or three billion dollars more. It is much larger than I supposed it would be.
- Haas: I don't think I understand you. I thought you were going to eliminate the thousand dollar exemption.
- Barnard: Eliminate the --
- Haas: In other words, take all payroll.
- Barnard: All payroll except for those who actually earn less than a thousand.
- Haas: Oh, I didn't get it that way.

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H.M.Jr: Not giving them any credit for anything?

Barnard: Not giving them any credit at all. If they don't earn a thousand they don't have to be subject to this contribution.

Haas: Yes, I would have to work on that. That is a little different from what I had in mind. I thought you meant no exemptions whatsoever.

Barnard: No, I meant only exemptions for those who actually earn less than a thousand dollars. I would say that the - of course, the discussion on Thursday was without the benefit of any estimates whatever. We are just talking more or less against the wall. The main part of the discussion in point of time outside of the question of the effect of the adoption of such a program on the tax program was devoted to the question of the voluntary dismissal wage plan, which is a plan which would cut into tax revenues.

I have always recognized that. It most definitely would. Certainly, as you take it on paper. Again, I want to argue the plan for whatever it may be worth and putting this in the picture. Whatever we may calculate the effect on revenues, I think will be an excessive calculation unless we can take into account what is actually going on and will go on at an increasing rate among those business concerns who actually earn six or seven or eight or ten per cent and more on their profits. I am reflecting here now a very concrete discussion I have had in the last six weeks with business executives. It is easy enough to put the first emphasis on the fact that certain concerns are finding out that if they spend

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a hundred thousand dollars for advertising they are really only spending thirty thousand dollars, and there will be a little of that, I have no doubt.

H.M.Jr:

There is a lot of it.

Barnard:

Well, maybe a lot. It will grow. But the main point is this, that business managers who are in the position of substantial profits under the present tax system will find it almost impossible to control their expenses. The pressures that develop under that situation, where the net cost to the concern is twenty-five or twenty or thirty percent only of what they actually spend is almost irresistible. It is worrying a great many of them a good deal for the reason that they know that there are all sorts of contingencies in this situation, such that their earnings will drop below the excess profit level, and then they have got these extravagant practices on their hands and they don't know how to control it, so that I think so far as the business community is concerned, there is at least as much desire to avoid extravagance as there to indulge in it, at least that much.

The more intelligent and more able people will have it very much on their minds. In other words, what I am saying is that if we don't take out of expenses where people are willing to do it the amounts that are proposed in this dismissal plan, the expenses are going to creep into the thing anyway, and the losses in tax revenue as a result of it. We are unable to put our fingers on just why or where it is.

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Put it the other way. It will be a perfectly legitimate thing, and probably quite acceptable among all classes if we should say the temporary employment involved in war industries or provision for the cessation of that employment is a legitimate cost to the Government or to anybody, but if you should provide for that cost it would be pyramiding itself upward. It would be a cost plus game all the way through, with the cost to the Government finally pyramiding to be a great deal more than it ought to be.

If it could be done by this process, it seems to me that pyramiding effect is taken out, and whatever contribution we make to the future stability by this process will actually not cost the Government very much.

Now, I don't know any way to prove that. It may be my reasoning on it won't strike the others here as being legitimate, but it is a reflection of what I have seen in the last six weeks in talking with executives.

For instance, my own business, which is not very much affected by the excess profits situation, compared with the war babies.

H.M.Jr: Can I interrupt you?

Barnard: Yes, sir.

H.M.Jr: There are two things. I am looking at this thing from the broader standpoint. Both of them are fairly broad. I read that article by the President of General Electric that you gave me, and I think everybody else should read it. The thing, of course, that he stresses is a thing which is terribly important.

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The things which we do today will have - well, they will pretty well decide what kind of a system we live in after this war is over. He goes into this thing and I think that in this big broad program that we ought to definitely have in mind - I mean, are these the kind of steps we are going to take which will make it possible for the present kind of economic and business system to exist after the war is over. If we can convince ourselves that it is going to help, then I think that the sacrifices that we ask the people to make now, if we can convince them that this is this money and so forth and so on, that will keep them going when this thing is over, that it will be very convincing.

The other thing is the thing that Professor Odegard brought up, and this is the tough one. That is the thing that bothers him, one of the things that bother him - I don't know whether he told it to you, but I want to throw it into the hopper - he is afraid that this permitting of these reserves simply freezes business.

Barnard: Freezes bigness?

H.M.Jr: Business. That a big business gets this reserve and has a big reserve to start up with afterward, you see, and that a small business won't have the chance to accumulate and its chances for surviving when peace comes will be much less under this plan than a big company that can set up a big reserve. I don't know what the answer is.

Barnard: The reserves would be proportionate, wouldn't they?

H.M.Jr: Yes.

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Barnard: Whether they are big or little, if it is a profitable business, they would be proportionate.

H.M.Jr: But it just adds - our whole present structure - and it is the one thing where Mr. Jack Garner and I always agreed, he always said that Mr. Roosevelt had never done anything about big business, the big corporations, and under the New Deal, starting with NRA, everything that we had done made it easier for the big businesses to get bigger, and we really hadn't done anything to give either - to encourage small business or to help them get started.

Now, I am pointing that out because I am sure somebody else in the room will think of that. I don't know what the answer is, I mean whether you can have a sliding scale of credits or something, but Odegard brought it to my attention.

Barnard: That question of fact is as to whether relatively you are going to get higher profits on successful big concerns than little ones in this situation. I would be surprised if that was true. I would expect to find the highest percentage of profits among the specially little men. There are a great number involved in this war program.

H.M.Jr: I think we ought to look at it. I don't know.

Barnard: That is my guess.

H.M.Jr: He brought it to my attention, and I am bringing it to yours and to the rest of them, you see.

Barnard: I think it is an important point. Whatever

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the intention was, I think in general what he says is true and everything involved in the present situation, despite Mr. Odium's effort, will be in the direction of concentration.

H.M.Jr: Have you seen Mr. Odium?

Barnard: I haven't seen him. He has now finished the analysis you wanted, and I am waiting to see Mack today. Here is one particular thing which, so far as I can see, is likely to be a considerable support for what you would call a New Deal idea among businessmen. Here is a bunch of fellows like this man Ferguson who goes over to the board meeting of Colt and naturally argues for this thing, and gets these birds to say they will put up three and a half million against the opposition of three directors and a million or two million out of it comes out of their jeans and two million comes out of tax revenues.

Looking at the situation following this cessation of activity, to cultivate that attitude is worth a lot of money to this country, in my opinion, and I think a good many of them will do it. However, that is separable from the rest of it. The two things don't have to go together. I don't think I have anything further to say. I think you will want to know what these men think, and I hope they will make as vigorous a criticism as they can. I don't think you ought to be allowed to be mislead a bit about the risks and dangers in this thing.

H.M.Jr: Well, we can start with the tax end.

Sullivan: Well, first of all, I hardly concur in Mr. Barnard's opinion this morning that this is

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too small to do the job, if we are going to use this device, that it should be blown up to the point where it will do the job. I am against using it in any form at this present time for the very reason that you stated, that what we do now is going to pretty largely determine the type of system we have after this show is over. We have now the largest national income we have ever had, and it is going to be great, and if we don't collect in taxes every last dollar we can get without rocking the boat, we may be losing the last opportunity we will have to collect that money.

Now, we have a national debt now of about about sixty billion. Maybe it will be a hundred and twenty when this thing is over. That means we will have financing charges of over three and a half million dollars - three and a half billion, and it is quite conceivable in a depression following this show that our total revenues may not be that much. It is quite conceivable that when that depression comes rather than increase taxes we may want to reduce them to encourage re-employment.

Now, I don't think that the country has received this last tax bill at all badly. I think the country, and certainly the Congress, anticipates a larger one next year. I feel that this device is a splendid one to use, particularly among those people in low income brackets after we have exhausted our taxing efforts. I think if this is thrown into the picture before we have exhausted our taxing efforts, it is going to very materially hamper us in anything we try to do toward increasing our tax yields.

Now, I think that one of the important aspects

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of this situation, in addition to raising revenue and paying as large a part of this bill as we go as we can be concerned, another important aspect is speed.

In other words, to enact something which will draw off this purchasing power right now. Along that line, I see no reason under the sun why we couldn't put through a bill providing for a withholding of salaries, wages, rents, dividends, all income of that type at the source starting January 1, and I think that could be put through in the meantime. If that rate were ten percent, we would get about three billion dollars from it. If it were twenty percent, we would get six billion dollars from it.

Now, that would be money coming in in taxes which would be used to pay current expenses. It would not be in the form of a liability which we would have to pay back at some future date plus two and a half percent interest, and I think we could get it, and I think that if we don't make a real honest effort to get as large an increase in taxes as the traffic will bear now, I think we are making a mistake we will regret for a long while to come.

Now, after we have done that and we are satisfied that we have reached the ultimate in taxes, I think this device is very good.

H.M.Jr:

Well, I would like you - I want to bring in three outsiders on the tax end, you see, so we don't get too much viewpoint. I wish you would make a note of this and I want you to call them up. There are three people I would like to have if they could come down and stay with us until this thing is settled one way or the other. I want this

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man from Wisconsin who is here now anyway.

Sullivan: Groves?

H.M.Jr: Yes, Harold Groves.

I want Randolph Paul and Roswell Magill, those three. I would like you to call them up and have them stay with us on this thing as outsiders until we make up our minds one way or the other, see.

Sullivan: Yes, sir. Groves is here.

H.M.Jr: I know.

Sullivan: I will call Paul and Magill and ask them to be here in the morning.

H.M.Jr: Well, give them a little time. They can stay here Wednesday morning and stay here the rest of the week if we want them to. But I would put it this way, and I think it is up to Blough and yourself to service them and give them the facts.

These are men that I know, Barnard, so it isn't - I am sure that Sullivan will understand what I say. He feels he is hired to get the last dollar out of the taxpayers.

Sullivan: I have more feeling than that in this present situation.

H.M.Jr: These are all tax men. They may completely agree with you, but they are outside, and I think it would be--

Sullivan: Oh, I would like very much to have them.

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H.M.Jr: There is one other fellow I would like to have if I could get him. He is the man from Chicago, the head of that big accounting firm.

Bell: Anderson?

H.M.Jr: What is his first name?

Blough: Arthur Anderson?

H.M.Jr: Arthur.

If I could get him. He is a very progressive fellow. Arthur Anderson of Chicago. Nobody else, only if he will come himself.

We will think of other people, and you (Barnard) may have some people that you want to bring down. If you do, just tell them about it. I am taking this thing very seriously, and I would like to get the benefit of different opinions.

Where I differ with you, John, for the moment, is that I don't think we have got time on the theory that we won't have another tax revenue bill next year, that it won't pass until next July, that we can wait until next July to get another tax bill through.

- Sullivan: We are in entire accord in that. I don't think we can wait that long.
- H.M.Jr: I don't think we can wait until next July. I think what we have got to do is to get these things down, and certainly in the Treasury we have got enough experts, and you made the statement here that we can get so much more in taxes. I would like to have you say how much more you think you can squeeze out of this thing and how you are going to do it, and then I will make my guess as to whether you can get it through Congress or not. Do you see what I mean?
- Sullivan: Surely. I think we can get an outright withholding tax through Congress now more quickly than we can get this through.
- H.M.Jr: But you are talking about - well, I would like you to file a brief just as quickly as you can. You made the statement that you don't think we ought to do something like Barnard suggested until we had gotten the last group out of the taxes.
- Sullivan: That is right.
- H.M.Jr: Then I would like you to put down on paper how you would go about getting the last dollar.
- Sullivan: Yes, sir.
- H.M.Jr: Then I will evaluate, whether I think we can get it through or not, see.
- Sullivan: That is right.
- H.M.Jr: I mean, I will make a guess, that is all. I can't wait until next July.
- Sullivan: Oh no, and I wouldn't want you to. If we are

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going to do this, I would want to do that right now and have it so it would go into effect January first.

H.M.Jr: I am so in earnest, as I say, that I want to invite these four people to come down and stay with us. They are all first run people. They are no second raters. Now, let me ask you this, John: --

Bell: Should the Social Security thing be thrown into this group too while they are here to study?

H.M.Jr: Yes, sure. Let me ask you this: This thing of permitting a corporation to set aside a million dollars in a trust fund and deduct it as an expense against the depression, can't we do that now?

Sullivan: Yes, sir, that is being done today. If it is an irrevocable trust and if the amounts of money that are put in it are not disproportionate or out of line with the wages they are receiving, that is today an income tax deduction.

H.M.Jr: Will you get up a memo on that?

Sullivan: Yes, sir.

Foley: I have a memo on that.

H.M.Jr: Well, I want this all to feed in to Barnard.

Barnard: There ought to be limitations to any such plan. An unlimited thing wouldn't be good. There is no use of my trying to go too far with details. That would just obscure the thing.

H.M.Jr: But if they have a memo, rather than coming to me I want it to filter through you to me, see?

Barnard: All right.

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- H.M.Jr: But a company - well, take the Colt Company. Could the Colt Company take this two or three million dollars now and invest it with us?
- Sullivan: I don't know what the payrolls are and I don't know whether they are disproportionate. They can't invest it in us. They can set up an irrevocable trust.
- H.M.Jr: What did they do with it?
- Sullivan: The change in it was that the money would be deposited with us.
- H.M.Jr: Well, now, wait a minute, there is no reason, Dan, why I couldn't set up a two and a half percent trust for that, is there?
- Bell: There is no reason why you shouldn't issue to that corporation a two and a half percent obligation, if you wanted to. You have that authority. You have never done it.
- H.M.Jr: But I could do it. That is one third of your plan.
- Barnard: Yes.
- Foley: Oh no, Mr. Secretary, they don't think his plan will work over in the Bureau in so far as the deductions are concerned because the employer retains an interest in the money.
- H.M.Jr: Well, John says it --
- Foley: John says if it is irrevocable, but it isn't irrevocable because those compensation certificates can be sold and redeemed.
- Barnard: Oh no, not as I set it up.

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H.M.Jr: Well, look, I am working a little bit different. Now, I raised the point, have I got the authority to take Barnard's plan and do it? It is up to you fellows to feed it in to him. I think I have. You fellows tell me why I haven't, you see. Will you explore that, with the help of the people in the room here?

Barnard: Yes.

H.M.Jr: That is fair, isn't it?

Foley: Sure. We don't think you can.

H.M.Jr: Well, John says you can.

Foley: No, John didn't say you could. There is no disagreement between me and John.

H.M.Jr: You can't?

Sullivan: No.

H.M.Jr: Supposing they do set up an irrevocable trust.

Foley: If it is irrevocable and if it follows the pattern John lays out, we probably could give them a closing agreement that it would be all right, but we would have to have the plan and we would have to have all the facts before us. Now, if you take the Colt Company and you give us a hypothetical situation in so far as the Colt Company is concerned, we can analyze it and tell you whether or not we can do it under the present law.

H.M.Jr: Well --

Foley: But that is different than Mr. Barnard's plan.

H.M.Jr: Is it, Barnard?

Barnard: I think technically it is. What I had in mind providing was the return of such funds as were accumulated, subject to tax when returned, if the amount was excessive. Some of these people can't calculate. No one can calculate how much was necessary. Colt, yes, if they drop from ten thousand people to two thousand, they never would have a fund that would be too liberal, but somebody else might.

H.M.Jr: Let's explore our existing authority on a hypothetical case using Colt as the guinea pig, and then you tell the boys where you think this falls short and where we would need legislation. Or could you adopt a plan without legislation, you see.

White: Mr. Secretary, could I interrupt for a moment?

Foley: Even on the question of legislation, Mr. Secretary, I think the Bureau would be opposed to legislation of that character, from the discussions that we had with people over in the Bureau, because of the presence of a method for tax avoidance, and I think that side of it also ought to be considered.

H.M.Jr: Well, it gets down to Foley and Sullivan and Barnard getting together and seeing what the thing is and taking the bugs out of it and giving the Bureau a chance. I mean, take each thing and explore the thing to the end.

Foley: I have got a memorandum here I can give him to start.

H.M.Jr: I want it to be done outside of the room.

Foley: Right.

H.M.Jr: Then you (Barnard) feel free to call on anybody

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to sit in with you and advise you on this thing.

White: Mr. Secretary, it may not be important to you, but it is important to me --

H.M.Jr: Then it is important to me, Mr. White.

White: Thank you. I think this is a very important matter and I feel very strongly about it and I would like an opportunity to express my views. Unfortunately, not knowing this was going to extend over an hour, I made a meeting with the British at twelve o'clock, so if one or two alternatives -- either if I will get an opportunity some time in the future to express my views before it crystallizes, because I am very strongly against the plan for what I think are very excellent reasons; otherwise, if Mr. Coe could take the British and I could stay, whichever you prefer.

H.M.Jr: No, I want you, again following the new plan, to go up against Mr. Bernard or vice-versa and then after you have had one or two days of discussions, as long as it takes, and then come and see me.

White: All right, that will be fine, as long as nothing is going to crystallize.

H.M.Jr: Nothing is crystallized. If we got this thing through in several weeks I think we would be breaking all speed records. But sit down with him, see.

White: Yes. I think there are some important modifications that will present what I think is a much better plan and more comprehensive.

H.M.Jr: I am sure he would be glad to hear it, but there

is nothing as important as this and Mr. Barnard will give all of his waking hours to this, is that right?

Barnard:

Yes.

White:

He has asked me to get in touch with him. I just haven't been around. We had a meeting at my house, my men, Saturday afternoon, and they --

H.M.Jr:

Is that why you are hoarse? (Laughter)

White:

No, I don't know why. I suddenly got hoarse. I must be nervous.

H.M.Jr:

Did he invite you (Coe) out to listen? (Laughter) Harry, you have plenty of time but have your first Gallup --

White:

I think that is a good suggestion.

H.M.Jr:

I wouldn't invite these fellows to come down here if I were going to tell them, "Here is a finished plan." But you agree with me we have got to do something to mop this up?

White:

I agree a hundred percent. I only want to go further along toward the goal that you are suggesting.

H.M.Jr:

And I take Bell's suggestion, not only Social Security but anything else that looks forward to what we are going to do with this extra money that doesn't seem to have any outlet. What are we going to do with it? What? Dan?

Bell:

I have nothing.

H.M.Jr:

Well, this has cleared the air a little bit. I think I will leave it this way. If you will tell me tomorrow that you want Wednesday, or

Wednesday that you want Thursday, giving me just twenty-four hours notice when you are ready, but I would like you to continue to carry the ball, Barnard, and make yourself available to anybody and everybody in the Treasury. We will see how many of these outside gentlemen come in with their outside viewpoints. I want them to come down long enough to stay here to see us through this thing.

- Blough: May I make one suggestion?
- H.M.Jr: Yes. And certainly in your section, any other projects are second to this.
- White: May I make one further suggestion?
- H.M.Jr: Roy is ahead of you.
- White: Excuse me.
- Blough: Mr. Shoup has been working with several people all summer on the subject of how much money we are going to need to pull out of circulation.
- H.M.Jr: Twentieth Century Fund, isn't it?
- Blough: No, we got some money from the Carnegie Corporation. He has a preliminary report. I have one of his men on my staff, but I should like to have him down here --
- H.M.Jr: By all means.
- Blough: ...And it will probably take some urging to get him because of his classes.
- H.M.Jr: You call him up, and if you are not successful I will do it. There is no better man than Carl Shoup of Columbia.
- Blough: I would like very much to have him here.

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H.M.Jr: I asked him about that work and if Carl can't come down I will call him up and then somebody see that Norman Thompson provides space for these people. Anybody else you want? Carl Shoup would be excellent.

Blough: Is Mr. Viner going to be in this week at all?

H.M.Jr: Next week.

Blough: I think this is something that would be --

H.M.Jr: He knows about this, doesn't he?

Barnard: No, I don't think so. Walter Stewart is the only one I know of who knows about it.

Bell: Viner had gone before you sprung this.

Barnard: Yes.

White: Send him a copy.

Barnard: I can do that if you want me to.

H.M.Jr: Please.

White: Give him a chance to think it over.

H.M.Jr: Please.

White: I was going to have this suggestion. It may be you are operating on this basis already, but something the Secretary said gave me the impression you might not be. It seems to me preferable to have conversations between yourself and each one who may have ideas. I think it would be very helpful if you could set aside a couple of hours outside the Secretary's office, in your office, in which as many of the group who can attend could attend and discuss this matter.

- 2010
- Bell: We spent all Friday afternoon, Harry, in just such a conference with the group.
- White: Well, I think there is room for more.
- H.M.Jr: But Harry wants you to say when you have got a couple of hours.
- Barnard: I think it would be better if I get together with individuals first until we get more notion.
- H.M.Jr: All right, that is all I have got for the time being.

0:

MISS CHAUNCEY

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Mr. Foley carried to Secretary's
11:00 meeting today - 10/20/41.

MR. FOLEY

Secretary Morgenthau

Mr. Foley

The purposes of Mr. Barnard's proposal are substantially the same as those of the British compulsory savings program. However, the British have adopted a different technique in accomplishing these purposes.

The purpose of this memorandum is to outline briefly the salient differences between Mr. Barnard's method and the British program.

I. Corporate Savings.

The British treat 20 percent of their 100 percent excess profits tax as a reserve to be made available at the end of the war to the persons paying the tax without interest and less whatever income tax is due upon the amount repaid, and subject to such other conditions as Parliament may then determine.

The postponement of repayment until the prescribed conditions have been fulfilled insures that the amount saved will be used by the corporation for replacement of obsolescent machinery, conversion of plant equipment, readjustment to post-war conditions, and any other purposes which seem in the national public interest. As the Chancellor of the Exchequer (Sir Kingsley Wood) said: "The ban upon bonus shares would be continued, and any necessary steps would be taken to prevent the money from being dissipated in dividends * * *."

II. Individual Savings.

A. The British achieve forced individual savings by means of an extra payment under the income tax. The amount of this extra payment is measured by a reduction in the personal exemption and earned income allowances. A substantial part of this extra payment will be repaid to the individual after the war by a credit to the individual's account established in the Post Office Savings Bank. In this way:

1. There is no discrimination in favor of income from rents, dividends, interest, and other investment income,

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since the amount of savings is based on income from all sources and not merely wages, salaries and other earned income.

2. There is no departure from the principle of requiring sacrifices in accordance with ability to make them, since the rate at which forced savings are returned varies inversely with the amount of the individual's income. For example, in the case of a married man with two children and with earned income of one thousand pounds, 83 percent of the extra payment is returned, but in the case of a similar person with earned income of two thousand pounds, 81 percent of the extra payment is returned.

3. There is no interest paid until the credit becomes available for use by the individual after the war. Consideration should be given to the advantages of treating the savings as shares of government stock without fixed interest charges.

4. By giving the individual a credit in postal savings and offering to pay interest if the credit is left with the fund after the emergency, the tendency to withdraw or spend the money is diminished, especially if it is not needed by the individual.

B. The second part of Mr. Barnard's plan which requires a compulsory contribution based on an increase in individual spendable income over a previous year has no counterpart in the British forced savings program.

There are many inequities incident to any individual excess profits tax or contribution. For example, under Mr. Barnard's proposal for a levy on any increase in spendable income an individual with a spendable income of \$1,250 last year and \$1,500 this year would have to contribute \$62.50 on top of taxes and the 5 percent on his wages, but another individual with a spendable income of \$1,500 last year and \$1,500 this year would make no additional contribution.

In connection with this aspect (i.e., "increase of income contribution") of Mr. Barnard's proposal, serious consideration should

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be given to its effect upon the consumption of food, clothing and medicine. Studies made by the Bureau of Labor Statistics show that families not on relief with incomes of \$1,250 or less a year spend about 44 percent of their income for food, the actual dollars being \$855 out of an average of \$800. If each of these families (there were 5,200,000 such families in 1936) had its income increased to \$1,500, its expenditures for food would increase from \$855 to about \$908, its expenditures for clothing from \$82 a year to around \$182, and in the field of medical care one could expect almost a 200 percent increase in the \$22 now spent during the year by the average wage-earner family for doctors and medicines.

Clifford E. F., Jr.

CLK:tt
10-20-41

October 20, 1941
11:10 a.m.

HMJr: Hello.

Allan
Sproul: Good morning, Mr. Secretary.

HMJr: Hello, Allan; how are you?

S: Fine.

HMJr: Allan, you know we have the list of the people who own these RFC notes and the CCC.

S: Yes.

HMJr: I want to make a suggestion, and only do it if you think well of it. I could give you the names of a half a dozen in New York who have the most of them.

S: Yes.

HMJr: What would you think of having someone call them up and ask them whether they still own them or not. It would make a difference as far as I am concerned.

S: I think it'd be all right, and we might get some indication from them when we're talking with them as to how they feel about them.

HMJr: Yeah. Have you got a pencil?

S: Yeah.

HMJr: Now, these are in New York in the order of the size, you see?

S: Yeah.

HMJr: RFC - Guaranty Trust.....

S: Yeah.

HMJr:Metropolitan Life.....

S: Yeah.

HMJr:J. P. Morgan.....

S: Yeah.

HMJr:Irving Trust.....

S: Yeah.

HMJr:Bank of Manhattan.....

S: Yeah.

HMJr:National City.

S: Yeah.

HMJr: That's on the RFC.

S: Yeah.

HMJr: Oh, New York Trust, also.

S: New York Trust, also.

HMJr: Yeah. Now on the CCC, it's again in the order -
National City - Hello.

S: Yes.

HMJr: Irving Trust.....

S: Yeah.

HMJr:First National.....

S: What's that last?

HMJr: First National.

S: Yeah.

HMJr: J. P. M.....

S: Yeah.

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HMJr:some out of town fellows, just a moment - Bankers Trust.....

S: Yeah.

HMJr:and here's one in your District - is Camden Trust, Camden, New Jersey, in your district?

S: That's in the Philadelphia district.

HMJr: Well, never mind. Well, that would give you the big fellows.

S: I see. Well, we'll check.....

HMJr: Will you check them and give me a ring - oh, say between - sometime between two and three?

S: Yes, we'll do that.

HMJr: I mean, just - I'd like to know do they still hold them or not.

S: That's right.

HMJr: I'd like to talk to you about it myself.

S: All right, I'll give you a ring between two and three.

HMJr: Thank you.

S: Good-bye.

October 20, 1941
12:00 m.

RE AID TO BRITAIN
(Conference held in Mr. White's office.)

Present: Mr. Kades
Mr. Robertson
Mr. Hicks
Mr. Keyes
Mr. McElwayne
Mr. Brown
Mr. Coe
Miss Kistler
Mr. Phillips
Mr. Bewley
Mr. Chance

White: Shall I mention something about the take-outs? We might discuss them first. The Secretary has sent a letter to Secretary Stimson which I think it is fair to say requires rather a definite and categorical answer. To my knowledge, the answer has not been received, which leads me to be a little bit hopeful, but until that answer is received, there isn't anything that I can think of that we can do or say with respect to those things that we raised with the Army.

Brown: You are referring to the contracts which have been proposed to have the Army handle with their own funds?

White: That is right. I am not referring to the tank take-out, which I thought you might suggest.

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Is there anything you want to ask or add about that particular matter?

Phillips: The tank take-outs?

White: No, I mean about--

Phillips: No, except that recently there has been some tendency which I noticed on a requisition relating to the post contracts. I don't know if there was anything done afterward. I just saw the other day a paper which had come back from one of those requisitions and from the Lease-Lend Administration to the effect that this appeared to be Lease-Lendable, but there is no money available, and their tendencies seem to be to work in the direction now of maintaining that the power they have to enter into commitments must be so exercised that it isn't exhausted before the twenty-eighth of February, if you know what I mean.

They are working to a time limit as well as the other restrictions. However, we are taking it up. I merely mentioned it as a rather new side of the matter which has recently come to attention.

Brown: I think it is fair to say that it is entirely your choice as to whether you would prefer to have that taken or as to - and displace some other item which is on the program for the use of the appropriation.

Phillips: Well, as I said, we are taking it up on Wednesday.

White: That is the thirty million dollars?

Brown: Yes, sir.

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- White: And I gathered from Mr. Brown that it was your next move.
- Phillips: Yes, I merely mentioned it for now.
- White: Does that cover all the take-outs?
- Phillips: Unless someone else has some.
- Bewley, have you anything more?
- Bewley: I would just like to ask. I think Mr. Robertson knows more than the rest of us how the facilities, take-outs, are getting along.
- Robertson: The only thing I know, since the last meeting, is that I understand the Curtiss Wright people, which is one of the plants that are definitely under consideration, came down and had a talk with Mr. Keyes last week with a view to getting their figures straightened out, and that the Defense Plant is also getting their figures out, so that that ought to move along fairly rapidly. Apparently there is something in that picture which is helpful, in that the Curtiss Wright people have certain axes on their own hook to grind so that they are anxious to get this done so it is getting a little more push behind it than it would normally in the case of a contractor that didn't care one way or the other. I think the main thing is to step up production as far as the Defense Plant is concerned. As it is now, there is that one case which has been going on. There is New Jersey Powder on which we submitted figures, but which we have had no word on. I don't see why the - some pressure couldn't be brought to bear on the Defense Plant to put four or five more of them in the mill so that they can be handled along with these instead of waiting until these are completed

before they take up another.

White: Well, Mr. Robertson, that point was raised by yourself and others last time, and at the last meeting I thought it would be opportune for Secretary Morgenthau to add some pressure in that direction, but I think it is the feeling that if he waits until he gets this answer--

Bewley: From Mr. Stimson?

White: from Mr. Stimson, he can then move more effectively, whichever way the answer may come. I may say that we didn't think the answer would be this long delayed, but again I repeat, I think the fact that it is delayed gives us a little bit more hope since you can say no--

Robertson: That is the answer on the forty-four million?

White: And it - it is so much easier, quicker, to say no than it is to say yes. The longer it is delayed the more hopeful I am, but the moment an answer is received on that, he will get in touch with Mr. Jones. Your remark about the important thing being production, and so on, reminds me for no good reason whatsoever of a point that I would like to merely mention in passing. The other day I saw some movies, news events, and included in the news events, for the first time to my knowledge, but I don't see so very many, so it may have occurred before, and what I have to say may not be very opportune, but it had pictures of the actual receipts of small arms ammunition, tanks, planes, and some food-stuffs in British harbors, and from the effect it had on me and from the effect it had on the audience, judging from the murmurs and applause, which I stayed through twice to

check up on the second group, I think it is a very, very helpful thing to have more of them. There was tangible evidence of assistance in a way which I think gave the American people the feeling that something useful was being done, and I think they would be more apt to find less fault with the Lend-Lease program and give it more support if there could be more of that. I don't know what the suggestion is worth, but probably you can pass it on to appropriate sources. I don't know whether anyone else had similar experiences, but it struck me that way.

Phillips: Yes.

White: The next - the first point on the agenda here then, if there is nothing further to say about take-outs, are the dominion and colonial Lend-Lease arrangements.

Phillips: Well, I put that down mainly because I want some advice on the matter. I thought you might think it over and let me know. When Mr. Keynes was over you remember we had lengthy discussions about Lease-Lend for the dominions and whereas no very precise formula was ever, I think, decreed, generally we were on the line that as far as possible we should put forward requirements for consideration under Lease-Lend on the basis that probably anything which was for direct war service would be covered, and as regards other things not directly required for the war, the kind of guiding principle we had was that if there was a civilian requirement, the absence of which would cause sufficient disturbance or confusion to the economy as to definitely injure the war effort of the dominion concerned, that also would be put forward for consideration.

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Now, I have been shown - I don't know if Mr. Brown knows about it - I have been shown a list of rules which has been drawn up under which the Lease-Lend Administration is working. It came to me from one of the dominions. It seemed to me on the whole to depart rather substantially from the notion we had, and I am now thinking how we should bring it up here. Would you want to be troubled with a lot of individual requisitions, where we think the line followed has been perhaps too severe, or would you like a general note on the subject, or how would I bring it up? The fundamental difficulty, of course, I have with it and everyone else has, I suppose, is that when you look at a long list of rules drawn up on the basis of what the policy ought to be, it is not very enlightening unless you can translate them into figures.

Brown: Well--

Phillips: To translate them into figures is, of course, difficult.

Brown: That is perfectly true, but the dominions have been asking us for some kind of a formula of the system of determining what they could submit under Lend-Lease with any reasonable chance of favorable action, and we have endeavored to formulate a list for tangible purposes rather than out of idleness because that is the only way in which you can make any kind of a workable standard. If there is a given item, we might gladly welcome it under Lend-Lease and also look at it with raised eyebrows if it were to be used for different purposes.

Now, our thought in putting forward that list was, it

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was the basis for discussion, and that if it was considered too severe or too liberal that would be taken up with us and we would have a chance to talk it out with--

Phillips: I don't think I have ever seen it officially, Mr. Brown.

Brown: It isn't official.

Phillips: Or even semi-officially.

Brown: It has been given to all the dominions.

White: Mr. Close was - were you through? Excuse me.

Brown: I can say I had imagined it would be satisfactory.

Now, I would like to talk to you about it wherever you feel that it has departed from any understanding that had been arrived at, but I think that we are the people with whom it should be taken up; and, after all, the determination as to what the eligibility is under the Lend-Lease Act, that responsibility has been placed upon our Administration.

White: I was going to add something of that character that you have just said. I imagine that definitely in the first instance as in the final instance the decision as to what could appropriately come under Lend-Lease would be a decision for Lend-Lease and that they would be the ones, I think, to take it up.

Such assistance as we could give here, it has been my thought, would be rather in the character of - shall I call it a sort of a court of second appeal. In other words, if you feel that there is something which needs

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either re-examination or re-appraisal from the point of view of strengthening your dollar position, then I think Mr. Brown would agree it would be quite appropriate to take up here, and I think that is what the Secretary likewise had in mind, and such discussion or further examination of the possibilities here may help to get what we all would like to see the British Treasury obtain; but, barring some specific matters, either in the way of categories or in the way of specific items which you feel might profitably be brought up here. I don't think that we would do other than delay matters in bringing them up here rather than bringing them up with the Lend-Lease people, since they, in the final analysis, would have to pass judgment on it in any case.

Furthermore, I thought the Secretary would like to have had, and he hasn't spoken of this recently and I would want to clear with him again, somewhat the same arrangement with dominions in their requests and in their dollar position as with the U. K.

Now, whether they would - the Secretary wants that through you (Phillips) - or whether they want to operate independently, I haven't the slightest idea, because I was under the impression probably that you would take care of that; but the South African Minister was in, as you know, Mr. Bewley, a few weeks ago.

Bewley: That was on a very special case.

White: Yes.

Bewley: As far as I know, it was on the gold mine.

White: He talked about something else, some steel mills.

Now, I didn't know whether that was because you had preferred and they had preferred to take up their matters independently or whether it was merely related to the gold mining which was a special case which you spoke of, but let me put that caveat in. I will speak to the Secretary about it. In any case, I don't think that he would wish to alter the suggestion which I have just made, namely, that we should take it up in the first instance with the Lend-Lease and with us only if you feel it would be fruitful to pursue it further here. How does that sound?

Phillips: Well, the specific question I put to you was whether it was worth taking up on individual propositions or whether we should give you as well as we could a general view of the subject, which of course is--

White: Are they mutually exclusive? Could you do the general and also bring the specific cases, because frequently the specific cases are cases which illustrate certain principles. I don't want you to hesitate to bring any detail here if you feel it will be helpful. Our time is at your disposal in this matter. So whichever way you wish. I think that it might be helpful if we had a general statement in the form of a memorandum and also if you brought, certainly to begin with, specific cases. How does that sound?

Phillips: Yes, that sounds all right.

Brown: Well, we have found that generally speaking it is a great deal easier to arrive at a conclusion in specific instances than in general principle. In fact, I take it that you (Phillips) have certain definite general comments about this list which you would like to raise, and I think it would be swell if you could let us know what they are and we could talk about them. We may find that we have to get down to specific instances to discuss the matter, but I would simply like to know what you have in mind.

Phillips: I told you what I have in mind, Mr. Brown. Unfortunately, it is something you can't, I am afraid, help me very much on at the moment. I am not interested to dispute policy points except so far as they do have an effect on figures. I am a little frightened of it for the reason that it seems to me clearly with the shipping difficulties all over the world, we are forcing the dominions more and more to North America as a source of materials and exports.

White: As a source of exports from the dominions?

Phillips: Well, whenever they want anything in the way of steel and textiles and so forth, the shipping difficulties are now getting so great that Australia or New Zealand, for instance, get them from North America.

White: I see, exports from U.K.

Phillips: You see, it affects the sterling balance - the balance of the payments of the sterling bulk both ways. If you have got shipping difficulty, then the metallurgicals and textiles from the dominions are fetched from North America, and contrariwise, the food and raw materials that are used to pay for those things, also go that way. The effect on the balance figures is rather severe.

White: I raised the question only because I thought for a moment you were referring to exports from those areas, not from U.K., and I didn't know but I hesitated to think that that was the province for the moment of the Lend-Lease, but it might rather be in their general discussion of that new inter-departmental committee.

Did you(Hicks) ask Mr. Kades to come?

Hicks: Yes, but he is unable to come as yet.

White: Then let's skip item two. Item three, gold mines. There has been a memorandum presented for consideration by the Treasury, within the Treasury, based on memoranda which you (Phillips) have submitted and which the South African Minister submitted. I had expected that there would be some decision on that memorandum made by this time, but it hasn't been. You (Coe) didn't hear anything about it on Saturday, did you?

Coe: No.

White: So that unless there is something you wish to add, I don't think there is anything we can do until there is that decision made. The points have been specifically raised, the pros and cons have been stated, and it is now ready for discussion. Some of the Treasury men have gone over it. There hasn't yet been a general discussion on the matter.

Phillips: Have you heard anything from Canada on the subject?

White: We didn't hear anything here from Canada but in the Joint Economic Canadian and United States Committee, of which I happen to be a member, there was some discussion both at earlier meetings and there was at the last meeting in New York, which I attended.

The discussions in the earlier meetings had been raised by some of the American members who seemed to wish to explore the desirability of diverting labor and capital from gold mining into war industries with a view to increasing production of such industries as might be able to use that labor and capital at the expense of gold production. That was only very tentatively raised. I was

in sympathy only with a possible exploration, nothing more than that.

The question was again raised at the last meeting and at the last meeting there was some discussion based on a part of a report which was turned in which seemed to presuppose the desirability of such shift. I rather objected to that presupposition on the grounds that before any such implication should be accepted that there must be an examination of that problem from the monetary point of view and a lot of other angles, and there is going to be a preliminary report based on that, so to date there have merely been those questions raised, and there has been no either tentative decision or commitment of any character by the American Committee.

The Canadian Committee, as you may well presume, took no active part in it. They seemed to be tentatively sympathetic toward the general idea that gold mining should not attract labor and capital necessary in other industries but the discussion was left at some such vague generalizations. It is not disposed of. It is merely being further examined, but we have heard nothing, to my knowledge, direct from the Canadian Government here.

- Phillips: Of course, it has got enormous ramifications. We are getting it now in connection with glycerine, which is apparently desperately short and which is, of course, needed for industrial explosives.
- White: You mean the use of glycerine in gold mining?
- Phillips: Yes.
- White: It works in the other direction. The more gold

mining, the less glycerine. They are available for other purposes. That is one of the pros and cons.

Frank, I think you commented on that item, too, that the glycerine industry in South Africa was dependent upon gold mining.

Hicks: The entire explosives industry.

White: Was dependent on gold mining. The implications seemed to be that one of the desirable features of additional gold mining was to maintain the powder industry, which may well be true in the judgment of the economy of South Africa, but it seems to support the point you make.

Phillips: The point I was making was rather more direct than that, namely, that they must have explosives to get their gold and if the supply of glycerine is short or is shot off in the gold mines, then the output of gold will fall off very heavily.

White: Oh, I didn't understand.

Phillips: Whereas glycerine was used both for industrial explosives and --

White: Is there some question of the allocation of the glycerine?

Phillips: Very much so. We have had to divert to South Africa some of our own supplies of glycerine.

White: That has not come to us and was not - at least, it wasn't clear to me from the reading of that memorandum. Was it clear to you?

Coe: No.

Hicks: Nothing said about glycerine.

- Phillips: I think someone should sit down and study how the output of glycerine should be increased.
- White: You are raising a somewhat different question, Sir Frederick, and that is that the maintenance of glycerine for gold production is such that it would be necessary to add to the methods of maintaining the supply of glycerine. Is that a matter that falls within priorities first? In other words, the demand for additional glycerine would either come before priorities or the Lend-Lease.
- Brown: It doesn't come to us at all.
- Phillips: I don't think it is a Lease-Lend matter at this time.
- White: Then the way in which it would come to us would be that the special nature of the use of that glycerine would not be a direct military consideration but rather a monetary consideration.
- Phillips: That is right.
- White: Could it be brought before our attention that way in some sort of memorandum, because it hasn't been.
- Phillips: Well, sir, it isn't desperate and pressing at the moment but one foresees about February it is going to be a bad situation.
- White: Well, you know how slowly things move here so that we can anticipate those things if you send us a memorandum. Is there anything further on gold mining?
- Phillips: No. I haven't seen what case the South African Minister put up but of course, as far as they are

concerned it is not merely the monetary question. More than the monetary question is the fact that a third of their revenue is got directly from the gold mines and probably a great deal more indirectly, and they are not very happily placed with regard to this mining industry. The mining industry tends to be a problem as far as the South African Government is concerned. I should think there are strong political grounds as well as monetary grounds.

White: The economic grounds, the importance of gold mining to their economy, I think, was stressed fairly strongly in Mr. Close's memorandum. The political grounds were merely hinted at. But I do think that a memorandum bearing on that, an informal note, from somebody in your shop who is familiar with it, might be sent. I can see his reluctance to put - I mean, I can understand a reluctance to put anything of that kind in his note, possibly, but if we could have a little more, because I don't think there is anybody here that is familiar enough with it to do justice to the subject.

Phillips: Yes.

White: The next item is Russia. Did you have some specific questions in mind there?

Phillips: No, just that I am so vague in what form assistance is going from the U.S.A. to Russia, for instance, as regards sugar. I haven't heard anything about the decision to send sugar to Russia.

White: Well, insofar as the financing arrangements are concerned, I think we have kept you informed. There is nothing, to my knowledge, that is not already in your possession. Insofar as Lend-Lease, if there is anything to be said, and I don't think there is at the moment --

- Brown: Nothing is going on.
- White: So far as specific commodities are concerned, I don't know anything that has come to our attention.
- Brown: I can very easily find out how much sugar has been sent to Russia.
- Phillips: I am interested in knowing where the sugar is going from. For instance, all I know about the agreement is that there is a certain amount of sugar named as going to Russia upon the Russian request for so much and the general suggestion was that it be supplied by the United States and the United Kingdom. Also it was mentioned that there was an abundance of sugar in the Phillipines and Java. Of course, in our financial position it makes all the difference in the world where the sugar goes. If part of it comes from the dollar area and part from the sterling area, how is that responsibility divided up?
- White: So far I gather if the sugar is being sent or is about to be sent, I presume that they are paying cash for it.
- Phillips: I wasn't worrying about that. I was worrying whether if we have to send sugar we can get enough from Java or the British Dominions to obviate the expenditures of dollars.
- White: Then the next question is, if they are going to pay dollars, should there be some consideration given to the possibility of paying dollars to the sterling area rather than to some area where it may not be as necessary.
- Phillips: Yes, so far as we have to buy dollar sugar, so far as we can get it from Java or India, you see,

and send it up to Vladivostok, that is all right. That is sterling and we needn't worry about it. But when it is a question of getting sugar from Cuba or something of that kind, it is a very different matter.

Brown: You mean it is a question of whether the British are going to buy sugar and give it to the Russians, is that the point?

Phillips: Yes.

White: Oh.

Brown: Well, the only point that we would have in it would be the stuff that the Russians have been buying from us.

Phillips: Yes. Then I want the Russians to get all their dollars from you, to make the point as consistently as possible.

Brown: Surely.

Phillips: But I am not sure that is happening. It seems the things are moving the other way around. I was wondering who was in charge of that business on Russia.

Brown: You mean you thought they were buying their sugar from you from sterling which you in turn had procured through spending dollars?

Phillips: Well, they are going to get some sugar from us, and I want to see if possible that the sugar they get from us is stuff we buy in sterling.

White: Isn't that decision made wholly in England, where you get your sugar?

Bewley: It depends on where the sugar goes into Russia.

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If it goes into Vladivostok you can buy it in Java and send it there.

White: If you are supplying the sugar, do I understand it correctly when I say that is a decision that you make as to the source of that sugar?

Bewley: No. If some of the sugar has to go - any sugar we buy, we have to replace from Cuba.

White: In other words, if there are certain sugars you have to get and you have to get it from Cuba, you have to pay dollars. Then your suggestion is that it may be possible that if sugar has to be provided in dollars it oughtn't to be England providing it, but the United States.

Phillips: Yes.

White: I should think that would come from you.

Brown: Lord Beaverbrook certainly knows.

Coe: I think that is the point, isn't it, that the agreement isn't specific enough to take care of all the factors.

White: Why do we come in to that picture?

Coe: We presumably come in in having an interest that they shouldn't spend dollars.

White: I can see where our interest is, but what is the procedure? I should think it would come to us only if you raise it with us that you have to buy sugar for Russia and that Russia wants the sugar imported through such channels as make it necessary for you to spend dollars, and can't it be handled some other way?

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Brown: There must be somebody in the British organization who is handling the amount of sugar which is being provided by the British and I should think he would be the fellow to ask.

Kistler: Surely. Also someone who knows --

Phillips: But I want to know, if there is in the agreement the statement that certain sugar will be provided, either by the United States or the United Kingdom, who is the man in the United States who is looking out for that?

Brown: That I can find out.

White: In what agreement is this?

Coe: The Moscow Agreement.

Brown: I can find out for you very easily.

Phillips: It seems it would be the Lend-Lease organization.

Brown: It would be somebody that is very close to the Lend-Lease administration.

Phillips: Well, we might have a little talk afterward.

Brown: I will find that out.

White: If it isn't a question of coming under Lend-Lease funds --

Brown: No, but there is a group of people that are over in our office who are pretty familiar with the details of all the Russian transactions, and I can see that they get in touch with Sir Frederick and either tell him they don't know, or --

- Phillips: I raise it because what is actually happening at the moment, only on a small scale at present, is that sugar is actually going from the U.K. to Russia, and it is being replaced by Cuban sugar.
- White: Supposing the information is completely available, made available to Sir Frederick through the persons whom you presume are already familiar with it. That still leaves another important question which Sir Frederick is raising as to who will help to make a decision on that point as to whether the Russians are required to spend their dollars --
- Brown: It may not be necessary. Maybe they can work it out with Sir Frederick directly without bothering the Treasury about it.
- White: I don't see how anybody - what sort of authority would make a decision that the Russians spend part of the dollars which they are raising in the way in which they are raising it for sugar or whether the British spend part of their dollars and therefore weaken their position. What I am getting at is that it seems to me to be a question which would lie peculiarly within the province of the Secretary of the Treasury until the Lend-Lease - and if the Lend-Lease --
- Brown: There is a certain group of people in this country who are helping the Russians to get what they require, and are taking care of all their arrangements for them and generally organizing their purchasing of supplies, and so forth, and I should think those would be the people who, in the first instance, can be the ones to help you.

(Mr. Kades entered the conference).

- Phillips: We will see how far we can get with them.
- Brown: I will find out for you.
- White: If it is a substantial sum, I still think it might well be something in which a decision might have to be made, and that it is outside the Lend-Lease.
- Brown: My only thought is that it might not be necessary to bother you at all.
- White: Right.
- Bewley: Might I raise a more general point on that? As far as I know, Mr. Jones has advanced thirty millions. Is that the total amount in fact at the disposal of Russia?
- White: Another little bit more. Thirty and part of the ten that remains unpaid.
- Bewley: Yes.
- White: About thirty-five.
- Bewley: That is presumably small, compared to the total amount they need?
- White: It is very small, compared to the total amount they will need. I think it is adequate, compared to the amount they need --
- Bewley: Immediately.
- White: as of today, and it may not continue to be that way by the end of the week. But it was my understanding that that last thirty covered things that were immediately

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in sight for them to purchase. But I imagine the question will be reopened very quickly as to how additional funds can be obtained.

Chuck, we skipped the item, withholding tax, waiting for you to come.

Kades: I am sorry I was late. I had another conference.

White: It is all right. It was explained. Sir Frederick may have some questions he may want to raise on that.

Phillips: Well, we have understood that the withholding tax was recently increased.

Kades: I think it is up around twenty-seven.

Phillips: That rather put us on the inquiry and the question I was going to raise this morning, again asking for advice, we have pledged to this loan from Mr. Jesse Jones certain securities, market securities and others, which we have vested in the British Government, and therefore which is Government property and escape the tax. The income from those securities goes to the Reconstruction Finance Corporation against the loan. But also we have certain securities, meaning the property of British citizens, which are not vested in the British Government, but by agreement with Mr. Jones are borrowed by the British Government and pledged, and all the income from those borrowed securities, withholding tax at the now higher rate is being charged. The first question is this: Has the U.S. Treasury any legal power by which it could waive the withholding tax in such cases, on the grounds broadly that while those securities happen to be borrowed

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rather than vested, they are in fact the property of the British Government because they will have to call them up in event of default, and the income is going in fact to repay this loan to the Reconstruction Finance Corporation. That is the point.

- Kades: I don't like to give a curbstone opinion on such an important point, but my impression would be that we have no authority, because the only amendment that went into effect this year, as I recall it, was the shifting of the - increasing of the rate. There was no subsequent change in the law, but I would be glad to look into it.
- White: I was wondering whether that might not be helpful, if you could just present a small note setting out the case, so Mr. Kades would have something formal to work on, and then let him take that up in the legal division and see what can be done with it.
- Phillips: I am merely asking for advice.
- Kades: Surely, I know. Have we already ruled that the withholding tax need not be paid on the securities pledged with the RFC?
- White: Yes.
- Kades: Not because they are pledged, but because you have invested them --
- Phillips: Because they are owned by our Government.
- Kades: The pledge is immaterial, as I see it. It is the fact that it was vested in the British Government.

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- Phillips: That is right.
- Kades: These securities you are speaking of now, the title to them has not been taken into the British Government by vesting orders, is that correct?
- Phillips: We have the legislation which would enable us to take title at any moment. But actually we have not taken title.
- White: There is a contingent liability there. Presumably in case of default the RFC would - I suppose title would pass to them, but it would have to pass through the British Government. I think that is the point.
- Phillips: Yes. Also, of course, I don't know anything that can be done on this, but assuming you did do something on it, I suspect all you could do would be - what you could do, I take it, would be possibly to repay any withholding tax you would collect to Jesse Jones.
- White: On account of what?
- Phillips: On account of the interest payment on this loan. You see, we had made arrangements - we have made our arrangements with the RFC on the basis that certain income will be forthcoming, which will suffice to pay off the loan, and the effect of raising the withholding tax on these securities is to lessen the income.
- White: In other words, that would be equivalent to turning over the withholding tax to the British Government instead of the British holder.
- Phillips: In order to pay off that loan.

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- Kades: I will be glad to look into it.
- White: And you will see that he gets his note?
- Phillips: Yes.
- White: Item five raises a question of base costs in Iceland. I didn't know there was anything --
- Bewley: I think the story on that is, it was discussed several times at this committee in the past and from the minutes it appears at the last meeting that it was discussed, and the Secretary signified that this was taken over by Lease-Lend. We have heard nothing more about it for some time, and now I understand from the Lease-Lend office that it is not in their province. I wanted to explore the proposition and find what the position really was. As far as I know, the money is being spent for American workmen in Iceland.
- Brown: Yes. A great deal of it has already been spent, as I understand it.
- Bewley: Well, that is not in agreement with the information I had. They told me that a check of two and a half millions had been given to the Navy Department, but that none of it had actually been spent yet. Some of it is handed over and held by the contractors, and some of it is in the bank. That is the story as I am told.
- Brown: I understood that a considerable amount had already been spent.
- Bewley: But is that the governing --

- Brown: That is just one of the factors. It is, frankly, not entirely clear as to why they felt it couldn't be done, but it is a perfectly legal thing. I will just have to find out for you and I will give you a ring.
- Robertson: The original theory was that it was just to be labor costs. That was how it originally came up, that it was going to be labor costs paid that way, and at that time it was decided that labor costs could be Lend-Leased, as distinct from materials which would then be taken over --
- Bewley: Later on I think it was decided that as the United States was practically taking over Iceland, that this was labor on an American project.
- Brown: No, I am afraid I just don't have the answer right at my finger tips.
- White: Is it something that you will find out?
- Brown: I will do it and call Mr. Bewley this afternoon.
- White: You will get in touch with Mr. Bewley?
- Brown: Yes.
- White: The remaining item, film settlement in London. You had mentioned something like that a couple of months ago.
- Phillips: I just wanted to say, as you will probably recall, the dollar obligations we have undertaken, that under the instructions of the President and Mr. Cordell Hull, the U.S. Ambassador in London has discussed at length with the Chancellor of the Exchequer the position of the U.S. film

companies and I understand they have reached an agreement, or are at the point of reaching an agreement which would be to this effect. Up to the present these companies have been required to keep part of their earnings in blocked sterling, so that they only permit so much in dollars. The Chancellor has agreed to release fifty per cent of the sterling blocked so far in two instalments, and he has also laid down a fresh rule for future years. The funds involved might well exceed five million pounds a year, which is about twenty million dollars. Broadly speaking, it is the same kind of an arrangement as has been made in previous years, but on the whole more generous to the companies.

White: Their total blocked sterling was the result of a prior arrangement, was it not? Then in effect this is an ex post facto - this releases something which you already agreed would be blocked?

Phillips: It is rather complicated, but I might say the general idea is that, looking to post-war developments and so on, we don't think ourselves we can very well block sterling belonging to these companies to an extent possibly of fifteen million pounds, so this arrangement that looks complicated will probably result in more sterling, getting up in the next two years to fifteen million pounds.

White: How much does this release of blocked sterling involve?

Phillips: About four million pounds in two instalments.

White: Over a period of how long?

Phillips: Six months.

White: Four million pounds?

Phillips: Yes.

Coe: So you would give them four million and then give them five million during the next year?

Phillips: About that much, which is an improvement for them over last year's arrangement, but not on the whole - it is rather an amendment of the previous ruling, and something entirely new.

White: Do they have any substantial sterling expenditures in London?

Phillips: Oh, yes, of course. We are trying to persuade them to spend more sterling.

White: Despite those expenditures, their balances have accumulated to that amount?

Phillips: They are making far too much money. Every other kind of pastime has been knocked out, and no one has anything else to spend money on, and the receipts of moving picture companies have gone up tremendously. That is a thing to be dealt with, however, by taxation.

White: Is there any significant increase in the earnings of British film companies here? I seem to see more British pictures around. I don't know how general it is.

Phillips: Yes. It doesn't come to very much in total money. I expect the proportion of increase is pretty substantial. Actually, your taxation is fairly heavy on British films, eighteen per cent or something like that.

White: Then I gather there is nothing that you --

Phillips: No, I simply mentioned it because this will be the cause of some increase in our dollar expenditures next year.

White: How much of an increase is that over what you had anticipated formerly?

Phillips: I haven't got the final settlement yet, so I can't give you much of a figure. It can't be more than between ten and fifteen million dollars.

White: A year?

Phillips: Yes. Do you think it is more than that?

Bewley: I thought I had seen a figure of twenty-four.

Phillips: Well, that could only be if in fact --

Bewley: It depends on a good many other factors.

Phillips: You mean the increase?

Bewley: I thought I had seen that.

Phillips: Anyhow, you shall have the figures as soon as we have the details of the funds.

White: That is all there is on the agenda. Is there anything, Mr. Brown, that you want to raise?

Brown: No, sir.

Keyes: I would like to submit these sheets.

White: That will be the last item. Is there anything that we have, Frank?

Coe: No. We have an export complaint. Whom should we route those things to?

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- Brown: Send those over to Stettinius. If it is a complaint on the export of Lend-Lease goods, send it to him.
- White: Are there any items here that you want to discuss?
- Phillips: Well, there were two which we had some question on.
- White: Do they raise any question of principle which involves additional items?
- Phillips: Two hundred ninety-six and three hundred and six, wasn't it? The last one was very trifling.
- Bewley: One was gasoline for the manufacture of bicycles in Australia. Of course gasoline would be saved, that is the point.
- Brown: It is for the manufacture of bicycles and maintenance. We didn't think it was essential to war equipment.
- Bewley: I don't want to press it, but the point of both of them is to save gasoline. That is the purpose of it. I don't think it is worth pressing.
- White: You are not precluding re-examination of that, should a larger amount come along on the same basis, Brown, is that right?
- Brown: No. We would much rather not provide bicycles if we can help it.
- Phillips: Even when they are saving a lot of petrol?
- Brown: That is very logical, sir, but it is sometimes hard to explain to an unfriendly critic, and unless there is an awful lot

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involved, we would rather duck that one.

(Discussion off the record).

White: I presume that if a similar amount is --

Brown: Oh, surely. None of these things are to be considered binding. We would like to be free to change our minds, and would like to have you feel free to ask us to.

White: All right. As soon as I hear any word from the Secretary on Secretary Stimson's reply, I will get in touch with you.
All right, gentlemen.

October 20, 1941

Agenda for 12 o'clock meeting in Mr. White's office.

1. Dominion and Colonial Lend-Lease
2. Withholding tax
3. Gold Mines
4. Russia
5. Base costs in Iceland
6. Take-outs
7. Film settlement in London

EH:bvl
10-20-41

October 20, 1941
2:23 p.m.

Operator: I'll have him in just a moment for you. Go ahead.

HMJr: Hello. Hello.

Allan Soroul: Hello.

HMJr: Hello, gentlemen.

S: Mr. Rouse has the figures here on the banks you gave us this morning, and he'll read them to you if you wish.

HMJr: All right. He'll have to talk up a little louder.

Rouse: All right, sir. On the RFC.

HMJr: Yes.

R: The Guaranty.....

HMJr: Yes.

R:ninety million.

HMJr: Wait a minute. What do you want me to do, check this as you go along?

R: I didn't know whether you'd care to. In general, the situation is this, that during the past week there's only been one that sold any securities.

HMJr: Just - which is that?

R: That's J. P. Morgan.

HMJr: J. P. M.

R: Yes. They sold ten million RFC; they still have six.

HMJr: Wait a minute. Sold ten. Yes.

R: And that's the only sale.

HMJr: And are - J. P. M. sold ten, and.....

R: That leaves them six million RFC and seven million CCC.

HMJr: Well, they haven't got as good a pipe line as they used to, have they?

R: (Laughs) I don't think they have any pipe line at all.

HMJr: (Laughs)

R: I'd be glad to give you the other figures, if you.....

HMJr: No, I have these figures - what each has - but if that's.....

R: Well, there might have been sales in between before this past week; but in general, they said they'd all been sitting tight.

HMJr: Well, RFC and Guaranty - what have they got?

R: Ninety million.

HMJr: That checks. They're up a little bit. Metropolitan.

R: Twenty-one million.

HMJr: That's exact. Irving Trust.

R: Ten million RFC; twelve million CCC.

HMJr: Now wait a minute. Give me the - you see, that's on another page.

R: RFC is ten million.

HMJr: National City.

R: Eight million.

HMJr: Well, they're off a million. New York Trust.

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R: New York Trust I haven't been able to get.

HMJr: That's all right. Now, the National City on CCC.

R: National City, twenty-two.

HMJr: Well, they're off a million. The Irving Trust.

R: The Irving - CCC is twelve million.

HMJr: That's the same. First National.

R: First National, five million RFC - no, excuse me - three million.

HMJr: But now, this - we're doing CCC - First National. First National Bank. How much CCC?

R: Well, I have down eight million three hundred thousand.

HMJr: That's exact. Exact. And, let's see, what else? That's all. Well, then the only.....

R: Bank of Manhattan still has ten million RFC. That's another large one.

HMJr: Wait a minute. Wait a minute. Yeah, that's exactly the same amount as I've got.

R: All right.

HMJr: Well, then, the only situation that's changed is J. P. M.

R: Yes.

HMJr: Now, on the news ticker, did you see that - they had a story at twelve forty-five that maybe we were going to give them some rights after all.

R: No, I haven't seen that.

HMJr: Well, I suppose that's a result of your telephoning. That would be natural. But, well - this - let me

ask you this as long as I've got you gentlemen. Do I have to do this this week?

S: I don't think you have to do the financing this week, but I think it would be desirable to clear up the situation with respect to what you're going to do, in so far as you can, with respect to rights and therefore, that would seem to make it desirable to do it this week.

HMJr: Yeah.

Well, I'll try to make up my mind. Now.....

R: If you are going to give any rights to the RFC.....

HMJr: Yeah.

R:I should think you'd have to do it this week.

HMJr: I see. Well, I'm working on it. There's something else I want to ask you. Well, will you be around again around three-thirty?

S: Yes, we'll be here.

HMJr: I'll call you gentlemen back. If I don't call you, you call me.

S: All right. Three-thirty

HMJr: Thank you so much.

S: Right, sir.

October 20, 1941
3:06 p.m.

HMJr: Hello.

Senator
Barkley: Henry.

HMJr: Yes.

B: Barkley.

HMJr: Morgenthau - Henry.

B: Yes. Junior.

HMJr: Right.

B: I don't like to bother you with a small, local matter, but there's a situation that has arisen in Kentucky that I feel that I ought to call to your attention.

HMJr: Well, it cannot be too small if you're interested.

B: Well, you know the Treasury is working out some sort of a program for the sale of these Defense Bonds and Stamps throughout the states.

HMJr: I've heard about it.

B: Back in April, Gale Johnson, who is an awfully fine fellow.....

HMJr: Yes.

B:who is, I believe, in charge of the field force under Mr. Sloan.....

HMJr: That's right.

B:called me up and told me that when the time came he wanted to confer with me about the setup in Kentucky.

HMJr: Yes.

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B: He said it hadn't been decided then whether the Collector of Internal Revenue in each state would be charged with the responsibility; but if that was not done, then they would want somebody outside of the Treasury to take it over.

HMJr: Yeah.

B: He said there'd be a committee of some kind - a voluntary committee wanted - and then there'd be a sixty-five hundred dollar a year man to be Administrator, and a forty-six hundred dollar man to be Executive Director or something.

Well, the thing went along and they finally decided that the Collector in Kentucky was busy enough with his work and that he couldn't take over this extra job, and Gale asked me to submit somebody's name to him for consideration.

HMJr: Yeah.

B: I submitted to him the name of James T. Howington of Louisville, an outstanding business man and - although a business man in a pretty large way - a New Dealer and in sympathy with the program of the Roosevelt Administration from the beginning.

HMJr: Yeah.

B: But he'd never been in politics, never had run for any office, never took any part in politics.

HMJr: And he lives in Kentucky?

B: He lives in Kentucky - lives in Louisville.

HMJr: Must be peculiar.

B: He must be. (Laughs) I don't mean he's not interested in politics, but I mean he wasn't a politician.

HMJr: Are you going to tell me he doesn't drink?

B: I don't know whether he drinks or not. He might

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take a little nip every now and then - just about like you.

HMJr: I see.

B: Yeah. Well, he came up here on another matter and I told him - I asked him if he'd be interested in taking this job over.

HMJr: Yeah.

B: And he said that he had arranged his private business so that he would be interested and that he wanted really to get in and help out - to do something for defense.

HMJr: Right.

B: I sent him down to see Gale.

HMJr: Yeah.

B: And they had a long talk. He came back to my office and said they'd had a satisfactory talk. That was two months ago.

HMJr: Yeah.

B: And that they were going to send a man down there to check up, and that he'd come in to see him and they'd work it out. Well, that was two months ago. Last week he was here and came around to see me and said that he'd never heard anything more from that, but that the OPM had asked him to take charge of Priorities down there and that he'd agreed to do it.

HMJr: I see.

B: So I went down to Kentucky last Saturday to confer with some people down there as to who would be a good man - a good sort of man - to suggest up here for that work, and to my amazement I found that the press had carried a statement last week or week before last, that the Treasury had appointed Colonel R. H. Jewett,

who is the General Counsel of the L & N Railroad, as Chairman of this committee.

HMJr: Yeah.

B: And I found also that he had recommended a man up here for this sixty-five hundred dollar job who was a Hoover hangover and who is a Republican - lifelong Republican - Colonel Jewett is supposed to be a Democrat but he's been a very bitter critic of the whole Roosevelt Administration, and the only thing he's approved of is aid to England.

Now, I just feel that while we want to be non-partisan and appeal to business and all that, I don't think that the - that thing ought to be turned over to anti-Roosevelt people.

HMJr: You're right.

B: So I just called you to ask you to look into it.

HMJr: I'll do it right away.

B: I've just got word from Gale Johnson that he didn't know anything about it and that he thought this thing was done by - through Mr. Graves down there.

HMJr: I don't know, but I'll look into it right away.

B: I just don't want to see anything - a mistake made down there.

HMJr: Oh, no. I don't either.

B: I want to get outstanding people of ability, and there are plenty of them down there, but I don't like to see it turned over to the enemies of this Administration.

HMJr: You're perfectly right.

B: I just happen to agree with it on one thing.

HMJr: Yeah.

B: Now - that's - Colonel Jewett is eighty-one

years old.....

HMJr: Oh, my heavens.

B:and he's the general counsel of the L & N Railroad; and I don't know whether you can undo that or not. It may be that if the Treasury has announced his appointment as the chairman of this voluntary committee - it might be embarrassing to undo that; but I don't want him naming these people who are to really do the work.

HMJr: Yeah.

B: These jobs that will pay something and that ought not to be in charge of the fellows that we can't talk to or see or who have no sympathy with what we've been doing up here all these eight years.

HMJr: Albert, give me a chance and I'll look into it myself. I frankly - I'm not acquainted.....

B: I knew you hadn't heard anything about it. You've got so many things that you can't fool with those things.

HMJr: Well, I'm certainly going to do my best to keep you happy.

B: Well, it isn't a question of keeping me happy. I just don't want to - I don't want anything to make the people of Kentucky unhappy.

HMJr: Well, it's the same thing.

B: I don't like to see this.

HMJr: No.

B: Fellows down there who have been fighting us every inch of the way, and then come along here and in a national situation in which we want to of course, create unity - but I don't believe we ought to turn the whole thing over to those who haven't been in sympathy with us on anything.

HMJr: You're right.

B: Well.....

HMJr: Thank you.....

B:you look into it, and.....

HMJr: I appreciate your calling.

B: Well, you look into it and.....

HMJr: I will.

B:you can let me - I just wanted to get it stopped before it got too far, if we can work it out satisfactorily.

HMJr: It's stopped right now.

B: Thank you.

HMJr: Thank you.

B: How are you getting along?

HMJr: I'm all right. I sent - what's-his-name - John Sullivan up to see you. I don't know if he's gotten in to see you or not.

B: No, I haven't seen him.

HMJr: Well.....

B: I was in committee all morning.

HMJr: He may come around. I wanted to get your opinion whether you thought it was all right for me to go ahead and convert these RFC and Commodity Credit obligations into regular Treasury obligations.

B: Well.....

HMJr: And only have one kind of obligation on the market.

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B: Yeah. Well, I'll be glad to talk with him about it.....

HMJr: He'll be up.....

B:and get all the facts.

HMJr: Right.

B: All right.

HMJr: Thank you.

B: Good-bye.

HMJr: I want a copy of this - am I talking to you?

Operator: Yes.

HMJr: Am I to you?

Operator: Yes, just to me.

HMJr: I want a copy of this to go in to Mr. Graves' office, and let me talk to his secretary.

Operator: All right. I can't get anybody in Mr. Graves' office. I think his secretary is out.

HMJr: Well, you tell her - as soon as this is copied and when she gets it - I want to see her.

Operator: All right.

HMJr: See her myself.

Operator: Right.

October 20, 1941
3:38 p.m.

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HMJr: Roy.....

Roy
Blough: Yes.

HMJr: Can you hear me?

B: Yes, I can.

HMJr: All right. I wish you could prepare for me comparable tables on England, Canada, and our own present tax bill - both individuals and corporations - and then with a little simple explanation so that I can understand it.

B: All right.

HMJr: See?

B: In the United States, do you want any recognition of the State taxes, like New York?

HMJr: Yeah, you'll have to.

B: With New York - let's take that as a sample - it's one of the high ones anyway.

HMJr: Yeah.

B: All right. I think those are already available, but if they're not, we'll have them very shortly.

HMJr: Right. Thank you.

B: Yes, indeed.

October 20, 1941
3:40 p.m.

RE FINANCING

Present: Mr. Bell
Mr. Haas
Mr. Murphy
Mr. Hadley

H.V.Jr:

I spoke to Sproul earlier, and the only fellow that sold any of these things is J.P. Morgan, but they sold a million. On balance, they are the only people that went out selling a million.

(The Secretary held a telephone conversation with Mr. Sproul and Mr. Rouse as follows):

October 20, 1941
3:43 p.m.

HMJr: Hello.

Operator: Mr. Sproul.

HMJr: Hello.

Allan
Sproul: Hello.

HMJr: Go ahead. This is Morgenthau.

S: This is Allan Sproul.

HMJr: Yes.

S: We have nothing new on the situation here.

HMJr: Yeah. Well now, Allan, let me get this thing straight. Bell's here and the other boys are here. I want to take a couple of minutes.

S: Yeah.

HMJr: Bell's under the impression that we're going to have to do something - we'd have to do it Thursday.

S: Well, that's our feeling here, to get it done before the first, you ought to do it Thursday.

HMJr: Well, now, I have press here in fifteen minutes. Do I want to go off on this rights business until I've had a chance to think it through?

S: Well, I can't say about you. As far as I'm concerned, I'd be willing to go off on a partial - giving only a partial exchange on whatever you do on this issue.

HMJr: Well, I think we'd better think it through; at least I had, which I haven't. I don't know what kind of an issue we're going to give.

S: Well, the only difference there is, the market is now just waiting for some clarification

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and is - although there's not so much confusion as there was - I think they're pretty well of the opinion they're going to get something, nevertheless they are sitting back and waiting to see what you're going to tell them.

HMJr: Well.....

S: Now, if you don't tell them anything today, they'll expect it tomorrow or the next day, I suppose, and it won't gain us much time.

HMJr: Well, here's my trouble. I've had somebody - two men up on the Hill - talking to the Senators and the Congressmen to find out how they feel about it.

S: I see.

HMJr: And we haven't finished yet; so I don't think until I hear from them I ought to say anything.

S: Well, I don't think you ought to - I don't think you ought to say anything until you can speak pretty clearly; because just to give them something that leaves them in doubt again, wouldn't be any good.

HMJr: Right. Well, now, let me ask you - then I won't say anything - I mean, thank heavens I remembered that Sullivan is up on the Hill.

S: (Laughs)

HMJr: And he's not back. Now, let me ask you this: Let's say we are going to do something - let's say we want to give them the right to convert entirely, let's say that, for, I mean, argument.

S: Yeah.

HMJr: What kind of a security should I offer of the Treasury?

S: Well, my idea is that you should offer them a very short security that fits in with this whole

general program of trying to get out long securities with substantial coupons to invest in other than banks, and to the extent that you have to finance with banks doing it with very short securities, bills and notes; and my own preference in this situation would be to add onto the March '43 note.

HMJr: I see.

S: And I think that could be done as far as the market's concerned. The banks, of course, and the big holders of these maturing obligations would rather have something that carries a larger coupon. I think their first preference would be for an intermediate bond and their second preference would be for a five-year note; but I don't think from the Treasury standpoint that you need to nor should cater to that preference, necessarily.

HMJr: Well, on a five-year note. Let's see, what would this thing - I think it amounted to six hundred and fifty million, didn't it? Wait a minute. (Talks aside)

It would be about a five hundred million dollar issue.

S: Yeah.

HMJr: What coupon would a five-year take?

S: We figure it would take a one and one-eighth. It's not a very definite area in which to work, but we figure one and one-eighth.

HMJr: I see. Well, I'll be on the phone with you again the first thing tomorrow morning. I'll hear then the reaction from the Hill. And I'm asking both the Republican and Democratic Party leaders how they feel about it.

S: I see. Well, then I think you're right not to say anything until you have something to say.

HMJr: I think I'd better sit tight.

S: Right.

HMJr: And.....

S: But we are getting pressed for time to do this job - to do it by the first we really ought to begin on Thursday.

HMJr: Yeah. Well, I'll be in touch with you the first thing in the morning.

S: Fine.

HMJr: But I swear I don't know, because we could handle the whole damn thing with bills, but then there wouldn't be any rights.

S: No, that almost - no, that does automatically eliminate rights as far as this exchange is concerned; and I think, myself, that a partial grant of rights would be the best thing to do in this case.

HMJr: Uh huh.

S: I think you're working toward an elimination of rights, and you ought to have partial rights for these maturing issues of possibly for the January issues of an indication that so far as you can see, there wouldn't be any more in the future on the guaranteed.

HMJr: Okay.

S: All right. I'll be here in the morning.

HMJr: Thank you.

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- H.M.Jr: I wish when you go out of here that you would call up the Federal Reserve Board and let them get to thinking on this thing.
- Bell: They have been thinking about it since Friday. I don't know whether the Board has, but Piser has. Piser favors an intermediate bond. He favors a long bond, but he thinks.--
- H.M.Jr: That is the trouble with these things. You could have one every two weeks. What would happen if I did the whole thing?
- Bell: Well, I think you would be criticized severely.
- H.M.Jr: Let's just forget the criticism for a minute. Could I do it? I mean, have we got enough money that I could pay off the whole damn thing?
- Bell: Yes, you have got a billion two hundred million dollars coming in today, but you have got to raise your bills pretty fast.
- H.M.Jr: Well, it will come due the fifteenth.
- Hadley: One of them comes due on the first.
- Bell: There are two of them on the first. USHA and RFC are on the first, and CCC of two hundred million is on the fifteenth.
- H.M.Jr: Well, I will not issue anything less than a five years. I will issue a billion or a five year.
- Bell: A five year suits me. I think these boys are having a little trouble pricing a five year.
- H.M.Jr: Well, that is what they are hired for.
- Bell: I think they lean toward a three quarters note.

- Haas: The only trouble, Mr. Secretary, it could be done, but to play safe it is liable to result in too high a premium. Now, you could have worse things than that happen.
- H.M.Jr: Now, boys, get this thing straight. I am going to keep the next three and a half years that I am here open for the emergency which will come, and one of the reasons I want to get rid of this RFC and the other thing is to clean up this five year area. Now, I will borrow bills or I will go five years, but I want to clean up the gap, so while I am here and the fellow that follows me, he won't have all this stuff which will keep coming in on him. You know, that is what started me on the whole thing.
- Bell: That is right.
- H.M.Jr: That is what started me on the whole thing.
- Haas: Yes, we knew about that.
- H.M.Jr: So I am not going to borrow less than five until the day will come when I will come around and say, "Gee, do you think I can borrow for eighteen months?" It is true. How many times has it happened to me?
- Hadley: At least twice in the last two years.
- H.M.Jr: Yes. So it is five years or bills. Now, the way I am feeling tonight, I would like to give these fellows the rights and keep them sweet.
- Bell: You would like to give them the rights?
- H.M.Jr: Yes, the way I feel tonight.
- Bell: Would you like to refund the whole maturities, all the maturities, or would you like to give them just partial --

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H.M.Jr: No, I would do the whole business.

Bell: Partial exchange?

H.M.Jr: The way I feel tonight.

Hadley: You certainly are going to pay off the U.S. Housing?

H.M.Jr: Oh, yes, that is settled.

Bell: It means three hundred million for RFC and two hundred million for Commodity Credit. Commodity Credit wanted to pay off half of theirs. They have got a hundred million credit on the books. The RFC pays --

H.M.Jr: How much is in the hands of the public?

Bell: Two hundred million, but you see they have got about twenty-five million in cash and they have got eighty million dollars due from RFC. What we will have to do is loan RFC the money to pay off that eighty million to the Commodity Credit.

H.M.Jr: The way I feel tonight, I would give those five hundred million dollar fellows the rights. That is the way I feel.

Bell: Of course you could save cash by also giving the hundred and twelve the rights. That saves your cash.

H.M.Jr: No, I have said not.

Haas: He wouldn't be consistent with what he has already said.

Bell: Has he definitely made that statement?

Haas: Yes.

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Bell: I see.

H.M.Jr: If Dan will stay, we will get at this thing
the first thing tomorrow morning.

Prepared by: Mr. Lindow
Mr. Tickton
Mr. Murphy
Mr. Mans

DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE October 20, 1941

TO Secretary Morgenthau
FROM Mr. Haas
Subject: Refunding of the guaranteed issues maturing
in November.

1. There are two guaranteed securities maturing in November which must be provided for now that the decision to pay off the maturing USHA note in cash has been announced. These issues are the 7/8 percent RFC notes maturing on November 1, in the amount of \$300 millions, and the 1 percent CCC notes maturing on November 15, in the amount of \$204 millions. This means that a \$500 millions financing operation must be undertaken and we assume that it will be handled through the offering of Treasury securities rather than guaranteed securities. This operation may be in the form of a new cash offering with the proceeds being used to pay off the maturing guaranteed issues or it may be a straight refunding in which Treasury securities are offered in exchange for the guaranteed issues. We have been informed by the General Counsel's office that such an exchange offering is permitted by the statutes under which public debt operations are conducted.

2. The problem of whether or not the existing "rights" values should be given consideration is the major problem in determining whether the financing should be a cash offering or an exchange. An important element in the market interpreted the Secretary's remarks at his press conference on Thursday, October 16, to mean that "rights" on guaranteed issues would be eliminated, and has directed considerable criticism at the Treasury. Although there are strong advantages in eliminating "rights" generally, their elimination in the present case on such short notice might cause hard feelings on the part of many holders -- an undesirable reaction at a time when the defense financing program is being expanded -- and yet would appear to provide no fiscal advantage to the Treasury. In the light of these considerations it would appear desirable to extend full exchange privileges to the holders of the "rights" and to postpone any fundamental change in the treatment of "rights".

Secretary Morgenthau - 2

3. The maturing issues are held principally by commercial banks as appears from the following table based upon the monthly Treasury Survey of the Ownership of Government Securities.

Holdings by Commercial Banks of the RFC and CCC
Issues Maturing November 1 and November 15

	Amount Out- standing	Amount Held by Commercial Banks	Percent Held by Commercial Banks
(In millions of dollars)			
RFC 7/8's due November 1	300	222	74
CCC 1's due November 15	204	166	81
Total	504	388	77

While a short-term issue would not be desirable for a new cash offering because it would tend to increase bank deposits, it could well be offered in the present instance because it would merely replace securities already in commercial bank portfolios. A short-term issue is also desirable because it would have a smaller premium than a longer issue and the market has never expected a large premium in the refunding of the maturing issues.

4. The attached table lists several possible Treasury notes which might be offered in exchange for the maturing guaranteed issues. Since it would seem desirable that the new issue should not carry a premium of more than the 1/2 point or thereabouts originally anticipated by the holders of the RFC and CCC issues we would suggest as our first choice the reopening at 1/4 point premium of the 3/4 percent note of March 15, 1943. The disadvantage in offering a long note at this time is the technical difficulty in pricing an issue in this maturity area. In order to be entirely safe with a five year note, for example, it would be necessary to give it a 1-1/8 percent coupon in which case it might sell at a much higher premium than would be desirable.

Estimated Premiums and Yields of Proposed Issues
of Treasury Notes

Based on closing quotations, October 18, 1941

Maturity	Coupon	Estimated yield basis	Probable premium
<u>Old issue to be reopened at 1/4 point premium</u>			
March 15, 1943 (1 year, 4-1/2 months)	3/4%	.30	20/32 gross 12/32 net
<u>New Issues:</u>			
March 15, 1944 (2 years, 4-1/2 months)	3/4%	.56	14/32
March 15, 1946 (4 years, 4-1/2 months)	1%	.86-.82	19/32-25/32
November 1, 1946 (5 years)	1-1/8%	1.02-.96	16/32-26/32

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

October 20, 1941.

Estimated Premiums and Yields of Proposed Issues
of Treasury Notes

Based on closing quotations, October 20, 1941

Maturity	Coupon	Estimated yield basis	Probable premium
(Percent)			
March 15, 1946 (4 years, 4-1/2 months)	1	.87-.83	18/32-23/32
September 15, 1946 (4 years, 10-1/2 months)	1-1/8	1.01-.95	18/32-27/32
November 1, 1946 (5 years)	1-1/8	1.03-.97	15/32-24/32

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

October 20, 1941.

UNITED STATES SAVINGS BONDS

Comparative Statement of Sales During
First Sixteen Business Days of August, September, and October, 1941
(August 1-19, September 1-19, October 1-18)
On Basis of Issue Price

(Amounts in thousands of dollars)

Item	Sales			Amount of Increase or Decrease (-)		Percentage of Increase or Decrease (-)	
	October	September	August	October over September	September over August	October over September	September over August
Series E - Post Offices	\$ 25,006	\$ 25,052	\$ 26,492	-\$ 46	-\$ 1,440	- 0.2%	- 5.4%
Series E - Banks	<u>48,107</u>	<u>43,522</u>	<u>49,928</u>	<u>4,585</u>	<u>- 6,406</u>	<u>10.5</u>	<u>- 12.8</u>
Series E - Total	73,113	68,574	76,419	4,539	- 7,845	6.6	- 10.3
Series F - Banks	13,804	10,887	13,981	2,917	- 3,094	26.8	- 22.1
Series G - Banks	<u>75,024</u>	<u>69,290</u>	<u>84,861</u>	<u>5,734</u>	<u>- 15,571</u>	<u>8.3</u>	<u>- 18.3</u>
Total	<u>\$161,942</u>	<u>\$148,752</u>	<u>\$175,261</u>	<u>\$13,190</u>	<u>-\$26,509</u>	<u>8.9%</u>	<u>- 15.1%</u>

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

October 20, 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.

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UNITED STATES SAVINGS BONDS

Daily Sales - October 1941
On Basis of Issue Price

(In thousands of dollars)

Date	Post Office Bond Sales Series E	Bank Bond Sales				All Bond Sales			
		Series E	Series F	Series G	Total	Series E	Series F	Series G	Total
October 1941									
1	\$ 1,450	\$ 3,029	\$ 1,286	\$ 8,271	\$ 12,587	\$ 4,479	\$ 1,286	\$ 8,271	\$ 14,036
2	1,870	2,786	867	4,324	7,977	4,656	867	4,324	9,847
3	2,150	3,299	1,065	6,323	10,687	5,449	1,065	6,323	12,837
4	1,270	1,696	612	6,400	8,707	2,966	612	6,400	9,978
6	3,449	4,778	1,444	9,286	15,508	8,226	1,444	9,286	18,956
7	1,207	2,595	572	2,913	6,080	3,802	572	2,913	7,287
8	1,363	3,674	821	3,611	8,106	5,037	821	3,611	9,469
9	1,652	4,270	903	3,654	8,827	5,923	903	3,654	10,479
10	1,495	3,672	989	5,272	9,933	5,167	989	5,272	11,428
11	1,291	2,400	632	4,098	7,129	3,690	632	4,098	8,420
13	2,515	3,624	1,164	4,989	9,778	6,139	1,164	4,989	12,293
14	437	1,022	261	511	1,794	1,459	261	511	2,231
15	879	2,175	759	3,482	6,417	3,055	759	3,482	7,296
16	1,376	3,054	724	3,908	7,685	4,429	724	3,908	9,060
17	1,422	3,609	860	4,969	9,438	5,031	860	4,969	10,861
18	1,180	2,424	846	3,013	6,283	3,604	846	3,013	7,463
Total	\$ 25,006	\$ 48,107	\$ 13,804	\$ 75,024	\$ 136,935	\$ 73,113	\$ 13,804	\$ 75,024	\$ 161,942

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

October 20, 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.

October 20, 1941
3:50 p.m.

RE AID TO RUSSIA

Present: Mr. Dietrich
Mr. Bernstein
Mr. Bell

H.M.Jr: What is the situation on the Russian gold?

Dietrich: The ship arrived in San Francisco yesterday and the mint opened up out there to take the gold in, just for deposit, not to do anything with it, for safekeeping.

H.M.Jr: Is the gold in and how much is it, Frank?

Dietrich: I can't tell you how much there is, Mr. Secretary.

H.M.Jr: Well, is there five million?

Dietrich: That is what the Russians said they were delivering, and based on the form of shipment, it should come out to about five million six hundred thousand dollars.

H.M.Jr: And they owe us four million six. So it is perfectly safe to say they paid us back for ten.

Bernstein: I think you might say they delivered all the gold they agreed to sell to you within ninety days, and they delivered it within three and a half weeks less time than necessary.

- 2 -

H.V.Jr: When will the ninety days be up?

Dietrich: November 13, about three weeks.

H.V.Jr: Now, would you say anything about the other loan? Do you think I ought to ask their permission? The way I feel, it is much better to say it than to have somebody find out about it.

Bernstein: If you say it now, will the papers say, "Well, what you have really done is kind of rolled it over and extended their time on the first one by making them a new loan before they made delivery on the old one"?

H.V.Jr: I don't have to tell them. I can simply say I have lent them another thirty million.

Bernstein: Instead of "loan" may I just suggest that you bought another thirty million dollars' worth of gold?

H.V.Jr: I bought it.

Bernstein: They have delivered to you the ten million that you bought, and you have bought another thirty million.

H.V.Jr: What is the name of the fellow up there?

Dietrich: Andrei Gromyko.

There is an excess of dollars on this gold shipment if it stands up to five million six. We paid them ten million and they will have delivered to us about eleven million two hundred thousand dollars. That makes an excess of a million two hundred.

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H.M.Jr: I told you myself Friday, young fellow, when that came in let me know right away.

Dietrich: That is right and I --

H.M.Jr: I told you to come in and tell me, didn't I?

Dietrich: Well, I get to you through Dan, Mr. Secretary.

H.M.Jr: Well, if you had told Dan that the Secretary wants to see you, he would be the last person to say not to go in. Right?

Bell: Yes, but it is my fault really, because I had it. I should have brought it to you when I had the conference before, and didn't.

Dietrich: You have got my face all red here.

H.M.Jr: But in the future, Dan or nobody, if I say, "Walk into my office and tell me as soon as it comes," please do it, will you?

Dietrich: Surely.

H.M.Jr: It is all right with you, isn't it?

Bell: Sure.

H.M.Jr: Because this is the time to say something we have done for the Russians, and not two weeks from now when they have got their backs to the wall.

Dietrich: They have done better than the agreement called for.

H.M.Jr: When was this thing coming in?

Dietrich: The gold got in yesterday.

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Bell: When was it due, when was the ninety days up?

Dietrich: November 13.

H.M.Jr: Well, I will announce it anyway. He isn't there. I didn't ask their permission last time.

Bernstein: Bear in mind that you bought thirty million dollars' worth of gold for delivery in a hundred and eighty day period. This other was for delivery in a ninety day period, and they delivered it within --

H.M.Jr: When was the ninety days up?

Dietrich: November 13.

Bell: They delivered it in less than seventy days.

Bernstein: They delivered it in about sixty-five days, and we gave them ninety.

H.M.Jr: They had ninety days and they delivered in --

Bernstein: In sixty-five days.

H.M.Jr: And the other thing, you made that --

Dietrich: October 10, for a hundred and eighty days, roughly six months.

Bell: All right.

H.M.Jr: The way I feel, I would much rather say it, then it is always out and nobody can catch me, you see.

Dietrich: There is this much, too, Mr. Secretary. We sent a cable to Casaday last week telling him about this, so Averill Harriman would know

- 5 -

it, and it may get out through London if you don't say something here.

H.M.Jr:

O.K.

Remember where my door is, Frank.

Dietrich:

Yes, sir.

TREASURY DEPARTMENT

313

INTER OFFICE COMMUNICATION

DATE October 20, 1941.

TO The Secretary
FROM Bernard Bernstein

Pursuant to your instructions I called Mr. Gromyko, charge d'affaires of the Soviet Embassy. I told him that you had announced to the press that you had purchased another \$30 million of gold from Russia; that before announcing it you had tried to reach him but were unable to do so and that you had made the announcement because you thought it would be helpful to and good for the Russians.

Mr. Gromyko stated that he agreed with your action and had no objection to it.

B Bernstein

Miss Chauncey

TREASURY DEPARTMENT

314

INTER-OFFICE COMMUNICATION

DATE October 20, 1941

TO Secretary Morgenthau
FROM Mr. Dietrich

The Russian gold shipment has been deposited in the Mint at San Francisco and its value will probably be in the neighborhood of \$5,600,000. This makes a total of \$11,250,000 in gold delivered against the \$10,535,000 contracted to be purchased. There will probably be an excess of about \$1,200,000 due the Russians, the disposition of which will be the subject of a special memorandum.

submitted to
Secretary by
Mr. D. G. Beer

CHASE NATIONAL BANK

October 18, 1941

Mr. L. W. Knoke,
Vice President Federal Reserve Bank,
33 Liberty Street,
New York, New York.

Dear Mr. Knoke:

For your information the following telegram was received
by us this morning from our San Francisco representative:

"S.S. Dneprostroy will arrive too late Saturday for
delivery but have arranged to deliver to Mint early
Sunday morning for storage until Monday. This
done at shippers request."

Yours very truly,
(Signed) E. C. Funck,
Second Vice President

(Rec'd by phone from Cameron's sec'y, F.R.B., N.Y. 9:45 a.m. 10/20/41
imc)

TREASURY DEPARTMENT

316

Telegraph Office

San Francisco, California

October 19, 1941 - 1:02 p.m.

D. W. Bell

Acting Secretary of Treasury.

Retel October 14 this day received 84 boxes of gold which was imported into the United States from Russia Stop This shipment will be purchased under Article Six of Gold Regulations on Monday, October 20 in accordance with your instructions in wire dated October 14.

P. J. Haggerty
Superintendent, United States Mint
San Francisco, California.

Chase National Bank,
New York, N. Y.

October 20, 1941.

Mr. Knoke, Vice President,
Federal Reserve Bank of N. Y.,
New York, N. Y.

Dear Mr. Knoke:

Pursuant to our letter of October 18 we are pleased to quote herewith for your information, the following telegram received by us today from our San Francisco representative: "Dneprostroy gold delivered to mint Sunday for storage and liquidated today total 420 bars weighing 158,561.38 ounces."

(Signed by Mr. Funk)
Second Vice President.

(Rec'd from Mr. Knoke's office, 3:10 p.m., 10-21-41, hr.)

TREASURY DEPARTMENT
INTER-OFFICE COMMUNICATION

318

DATE October 20, 1941

TO Mr. D. W. Bell
FROM Mr. Dietrich

Under the agreement of August 15 with the U.S.S.R. we agreed to purchase \$10,535,000 in gold against an advance of \$10,000,000. The Russians have now deposited the second shipment of gold and if the value of this shipment should be about the same as the previous one they will have delivered gold valued at approximately \$11,250,000 to the United States Mint at San Francisco for account of the Secretary of the Treasury, the proceeds of which will amount to about \$11,200,000. The difference between the value of the gold delivered and the amount of the advance will be about \$1,200,000.

1. Should the amount of \$1,200,000 be paid to the Federal Reserve Bank of New York for account of the State Bank or should it be applied against the advance made on October 11?
- 2.(a) Should any excess of gold delivered over the amount purchased under the August 15 agreement be applied against the October 10 agreement?
(b) If so, then the value of such gold should be applied against the October 11 advance.

It will be necessary for the Treasury to obtain appropriate instructions from the Russian Charge d'Affaires if it is decided to apply the excess amount of dollars and gold to the October 10 agreement.

You will probably want to discuss this matter with the Secretary.

*Submitted to
Secretary by
Mr. D. W. Bell.*

October 20, 1941

Files

Mr. Dietrich

With reference to my memorandum of today to Mr. E. W. Bell relative to the application of the excess amount of gold delivered under the agreement of August 15 by the Government of the U.S.S.R., Mr. Bell told me that the Secretary said that all gold delivered was to be applied concurrently against the agreements of August 15 and October 10, 1941.



C
O
P
Y

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DEPARTMENT OF STATE

WASHINGTON

In reply refer to
FF

October 20, 1941

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses copies of a paraphrase of telegram No. 4550, dated October 18, 1941, to the American Embassy, London, England, transmitting a message from the Secretary of the Treasury to Mr. Casaday concerning financial relations with the U.S.S.R.

Enclosure:

To Embassy, London,
No. 4550, October 18, 1941.
(5 copies of paraphrase)

PARAPHRASE OF TELEGRAM SENT

321

TO: American Embassy, London, England.

DATE: October 18, 1941, 6 p.m.

NO.: 4550.

FROM THE SECRETARY OF THE TREASURY FOR CASADAY.

The United States Treasury has agreed to buy gold from the Government of Russia in advance of delivery in order to facilitate the flow of supplies to Russia. The Government of Russia has agreed to sell thirty million dollars of gold on this basis. The representative of the British Treasury in Washington has been informed about this matter.

The Department would appreciate it if the Embassy would inform Mr. Harriman and Ambassador Winant about the foregoing matter.

HULL
(FL)

EA:HF:LWW FF

FF:ME

Copy:hr:10-21-41

October 20, 1941
5:05 p.m.

HMJr: Henry Stimson.....

Secretary
Stimson: Yes.

HMJr: Henry Morgenthau.

S: Yes.

HMJr: I have a very important letter which I've
written you, which I'd like to be sure gets
into your hands and not a subordinate. Now
if I send it over, how can I get it to you?

S: Can you get it to my house?

HMJr: To your house.

S: Yes.

HMJr: I can do that.

S: Then it'll be sure to get to me.

HMJr: What time would that be?

S: I'm going right up now.

HMJr: I'll send it up with one of our Secret Service
Agents.

S: Yes.

HMJr: I'll tell him to wait there until you get
there.

S: All right.

HMJr: Is that all right?

S: I'm just starting.

HMJr: Because it's - I know that if it gets into
your hands, I can stop worrying.

S: (Laughs) Well.

HMJr: It's a legal matter in connection with some Army official and Customs man.

S: Some Army official what?

HMJr: A Customs man shot an Army man, and we can't - we think that our man's being railroaded through. We can't get the evidence.

S: Oh, I see.

HMJr: We can't get the.....

S: Is it something that has happened recently?

HMJr: In Honolulu about a month ago.

S: Oh, all right. I'd be very glad to look at it personally. It hasn't been called to my attention.

HMJr: We think our man is being railroaded through; and I know if it gets into your hands, I can stop worrying.

S: All right. I certainly won't permit any injustice if I can help it.

HMJr: Well, at least - we can't get any evidence. We're being stopped all over by the Army people in Honolulu.

S: Yes. All right.

HMJr: Thank you.

11/20/41

My dear Mr. Secretary:

On September 22, 1941, Lieutenant Martin E. Connelly of the United States Army was fatally shot by Customs Guard John K. Young at Honolulu, T. H., as the former was leaving the United States Army Transport **PERSIDENT CLEVELAND**.

I am informed by the acting collector of customs at Honolulu that the shooting occurred while the guard was on official duty, in connection with an attempt of Lieutenant Connelly to pass through the customs lines with a package without submitting it to inspection upon the guard's request. Criminal prosecution of Mr. Young on a charge of second degree murder has been instituted in the territorial court, and I am informed by the Department of Justice that the case has been removed to the federal court. The case has been set for trial on October 27, 1941, and efforts of the counsel for the defendant to obtain a delay have been unsuccessful.

The Customs Agency Service of this Department is conducting an investigation to ascertain the facts and evidence in the case. Information has been received indicating that Lieutenant Connelly and an army nurse and two naval officers, who were with him, were all under the influence of liquor at the time of the shooting. A man and woman, who apparently were waiting for Lieutenant Connelly outside the customs barrier, allegedly witnessed the scene and then fled.

The customs agent conducting the investigation has consulted Lt. Colonel Thomas E. Green of the Judge Advocate's office, Honolulu. Colonel Green indicated that he would insist upon a speedy trial; that he would prevent the agent from interviewing the navy witnesses; and that the navy bitterly resented statements (which Colonel Green incorrectly attributed to the acting collector of customs) appearing in the press regarding Lieutenant Connelly's mental condition. Colonel Green at first refused permission for the agent to interview the army nurse. On October 18, 1941, however, he stated that

- 2 -

the agent would be permitted on October 30, but not sooner, to ask the nurse if she cared to make a statement. The impression gained by the agent from the manner in which this permission was granted was that the nurse would probably refuse to furnish information.

The information available to me indicates that an employee of the Bureau of Customs of this Department is awaiting trial on a charge of murder for a shooting which apparently occurred in the course of performing his official duties; that the case is being rushed to trial before the Treasury Department has an opportunity to make the necessary investigation; and that the Treasury Department has been prevented from completing such investigation by the attitude of army officials in Honolulu. I am, therefore, constrained to urge upon you that you immediately instruct the appropriate army officials in Honolulu, by telegraph, to cooperate not only in making all witnesses available for interview by the customs agent, but also in encouraging such witnesses to disclose fully and freely the information in their possession. It is also requested that the local army officials be instructed to cooperate in further efforts of counsel for the defendant to delay the trial until the investigation can be completed.

Very truly yours,

15/ H. Morganthau, Jr.

Secretary of the Treasury.

The Honorable

The Secretary of War.

W:hl 10-30-41

*Mr. Shelton had Secret
Service man deliver to
Sen. Stimson's house
at 5:30 Oct. 29, 1941.*

TREASURY DEPARTMENT

326

INTER OFFICE COMMUNICATION

DATE OCT 20 1941

TO Secretary Morgenthau
FROM Mr. Foley

In accordance with the request in your memorandum of October 17, I have had a check made with reference to the billion dollar navigation and power program legislation referred to in the newspaper item attached to your memorandum.

Investigation reveals that this program involves approximately two hundred projects all over the country which have been investigated by Army engineers. Authorization for these projects is to be included in the omnibus bill now being prepared by the House Rivers and Harbors Committee for introduction in the House probably the week of October 20, 1941. No preliminary print of the bill is available.

The bill will not actually make any appropriation but will authorize appropriations for the projects involved. It does not necessarily follow that Congress will make an appropriation for all of the individual items. It is true, however, that the first place for

- 2 -

attack on nonessential expenditures is the authorization bill, but if an attempt at that time should fail, it is possible to renew the attack at the time an appropriation is sought for the actual work.

Pursuant to your suggestion, I have asked Mr. Bernard to check closely on this and other bills authorizing or appropriating for nondefense purposes involving substantial sums.

S.W.F.h.

October 20, 1941

Mr. Carl Alpert
The New Palestine
1720 Sixteenth Street, N.W.
Washington, D. C.

Dear Mr. Alpert:

Here is my note on Justice Brandeis which you
requested for the November 14th issue of the New Palestine.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

JG:TE

Henry Morgenthau, Jr.

n.m.c.

During my formative years everyone in the United States was stirred from time to time by the legal battles of the great humanitarian Louis D. Brandeis. In 1907 he fought for and won the limitation of the length of the workday for women. Two years earlier he had already become prominent in his fight for the establishment of Savings Bank Insurance, which was necessary, according to the principle he enunciated, in order that 'The thrifty working man, like people of larger means, should have the opportunity of obtaining life insurance at more nearly its necessary cost.' Thereby he anticipated social security legislation by fully thirty years. Five years later he was again seeking legislation of still another aspect of social security, namely, Old Age Pension. His ideas on this issue, as on the rights of labor, the misuse of trusts, the need for minimum wage laws, federal control of industry insofar as it affects the welfare and pocketbook of the consumer, the conservation of natural resources, price and competition, as well as all the other major issues on which Mr. Brandeis expressed himself and fought for before he became a Justice of the Supreme Court, were founded on sound logic and good humanity. His records after he became a Justice was a natural development of the same great talent and devoted to the impregnable fortification of our Constitution which guarantees the rights, the freedoms and the opportunities of all the people under it.

Justice Louis D. Brandeis' attainments in constitutional law shall remain forever to guide the perplexed; and his own life shall for long remain a symbol and a model for all who aspire to be good Americans.

Henry Morgenthau, Jr.

Jan

The New Palestine

The American Zionist Weekly Devoted to Jewish Affairs

1720 SIXTEENTH STREET, N. W.,

WASHINGTON, D. C.

October 16, 1941

Honorable Henry Morgenthau, Jr.,
2211 30th Street
Washington, D. C.

Dear Mr. Morgenthau:

I had planned to dedicate the November 14th issue of The New Palestine as a birthday tribute to Justice Louis D. Brandeis. It now becomes my sad duty to issue a memorial number instead, and to this end I am obtaining the cooperation and participation of several outstanding scholars and men of letters whose contributions should make this special edition a genuine literary and historical monument to the memory of the beloved Justice.

I hesitate to request a full-dress manuscript from you, but hope that you will find time -- certainly the inclination is not lacking -- to send a short message of tribute and appreciation for publication in this issue. The number would somehow be incomplete without a few words from your pen. I place no limit on the length of your manuscript -- and hope you will take full advantage.

My deadline is November 1st, but I should appreciate your dropping me a note informing me that I may expect an article or message from you.

Sincerely yours,

Carl Alpert
Carl Alpert
Managing Editor

CA:eg

TREASURY DEPARTMENT

331

INTER-OFFICE COMMUNICATION

CONFIDENTIAL

DATE October 20, 1941

TO Secretary Morgenthau
FROM Mr. Haas
Subject: The Business Situation,
Week ending October 18, 1941.

Summary

(1) Recent declining tendencies in basic commodity prices were brought to a climax on Thursday with the Dow-Jones index of commodity futures showing the largest drop since its computation was begun in October 1933.

(2) Due in part to the market break generated by international developments and to other factors, the BLS index of 28 basic commodities declined 2 percent in the week ended October 17. The BLS all-commodity index in the week ended October 11 (prior to last week's price break) was unchanged at 91.6, the high for the year.

(3) Weekly business indexes indicate a slight easing in business activity in early October, after allowance for seasonal factors. The New York Times index in the week ended October 11 continued its gradual decline from the late July peak and fell to 126.5 from 127.4 in the previous week. Barron's index of business activity during the same week declined 0.8 to 138.2.

(4) Steel tonnage scheduled for production last week reached a new high by a narrow margin. However, labor troubles and scrap shortages continue to harass the industry. By the end of the week the Lackawanna plant of the Bethlehem Steel Corporation was forced to close 3 open hearths due to lack of scrap.

(5) United States exports of domestic merchandise in August rose sharply to a new high for the war period, due to accelerated shipments of defense supplies to the British Empire. Agricultural exports declined moderately below July levels.

Prices drop as international tension rises

The recent declining tendency in basic commodity prices reached a climax on Thursday, as adverse news from Russia and a resurgence of tension over Japanese-American relations touched off a wave of selling in the commodity markets. The decline was led by grains, with wheat and rye futures off the daily limit of 10 cents a bushel. In addition, cotton, cottonseed oil, lard and most other basic commodities also declined sharply. As a result the Dow-Jones futures index dropped 3.76 points -- the largest decline for any day since the computation of the index was begun in October 1933. (See Chart 1.) Cash prices fell sharply, and Moody's index of spot commodity prices dropped nearly 5 points to the lowest level since July 7. Stock prices also weakened and reached a new low for the recent decline, although losses were much less than in the commodity markets. However, in the last two days of the week, both commodity and stock prices rallied substantially.

Basic commodity index lower

Partly as a result of the acute weakness generated by international developments, the BLS wholesale price index of 28 basic commodities declined 2 percent in the week ended October 17. As a result the index stood at the lowest level since August 19.

Although the index of 11 import commodities declined 1.0 percent, a sharper drop occurred in the domestic commodities group which fell 2.7 percent. (See Chart 2.) The decline was led by oils and fats, wheat and cotton, and the breadth of the selling movement is evidenced by the fact that only one commodity, barley, showed a gain for the week. The announcement during the week of the signing of an Argentine-United States trade pact effective November 15 is believed to have contributed somewhat to weakness in certain affected commodities, particularly in the oils and fats group.

BLS all-commodity index unchanged

The BLS all-commodity index in the week ended October 11 (prior to the market break) remained unchanged at 91.6, which is the high for the year. Price movements during the week were mixed, with declines in foods, fuel and lighting materials, metal and metal products, being offset by advances in the other major groups. The largest price changes were shown by the housefurnishings and miscellaneous commodities groups, which rose 1.2 percent and 1.1 percent respectively.

Price break follows excessive speculation

The severe break in prices of domestic commodities last week reveals the extent to which the previous rise in prices of basic commodities, particularly of farm products, had been due to speculative activity rather than to actual demand and supply factors. A rather widespread speculative buying movement (discussed in connection with cotton prices in an earlier memorandum) had been evident in recent months in wheat and other grains, cotton, cottonseed oil, soybeans, and various other farm commodities. The heavy speculative holdings made the commodity markets vulnerable to any news of a disquieting nature, and frightened liquidation on last week's war news consequently brought on a severe break in prices. In the cotton market, the liquidation of growers' "seller's call" contracts added momentum to the decline.

The change in the trend of speculative commodity prices, which has been under way since early September (refer to Chart 1), appears to be associated in some degree with a broader change in consumer sentiment. Consumers of many kinds of goods, spurred by reiterated talk of supply restrictions and price inflation, as well as by the definite prospect of higher prices from increased excise taxes, apparently anticipated their needs during the summer and early fall and bought heavily in advance. General Motors' new car sales in May, for example, rose to 60 percent above those of the same month in 1940. Department store sales in August, on a seasonally-adjusted basis, rose far above any previous record. Orders for various types of household equipment were placed in volumes much above those of the previous year, and sales of fur coats, liquors, and jewelry in September were reported far above seasonal expectations.

A turning point apparently came with the date of the new excise taxes on October 1. While it is yet too early to measure the importance of this change in consumer sentiment, it is of interest that department store sales in the second week of October dropped from 35 percent above 1940 to 13 percent above. (See Chart 3.) Automobile dealers report that customers show a lack of interest in the new model cars, partly because their needs have been anticipated.

The break in basic commodity prices will tend for a time to accentuate this change. It will increase consumer resistance to recent retail price advances, since it will tend to allay recent fears over inflation. It may therefore cause consumer purchases for a time to be curtailed, particularly in view of the anticipation of consumers' requirements

in recent months. Speculative commodity buyers, following this week's severe shock, are likely for some time hereafter to buy with greater caution.

Weekly business indexes lower

General business activity (after allowance for seasonal factors) continues to show signs of easing off slightly. Thus, the New York Times index of business activity in the week ended October 11 was reduced 0.9 point to 126.5. This is a new low on the gradual decline from the peak reached near the end of last July. (See Chart 4, top section.) The recession in the Times index was confirmed by Barron's index of business activity, which fell 0.8 point to 138.2 during the same period.

The most important factor in the decline in the Times index again was freight carloadings, which dropped nearly 14,000 cars, whereas only a very slight decrease is customary. (Refer to Chart 4, lower section.) Part of the drop in carloadings, however, was due to lower ore shipments resulting from the collapse of a bridge over the Soo Canal, which for a time interfered with the movement of ore boats. On the other hand, miscellaneous carloadings declined over 4,000 cars when a moderate rise should have occurred.

Gain in automobile production less than seasonal

Another factor in the decline in the Times index has been a less than seasonal rise in automobile production. Last week, output increased 7,000 units to nearly 86,000. While this is the highest point yet reached in 1942 model production, it is still short of the usual seasonal expansion, and is 25 percent under the corresponding week in 1940. (Refer to Chart 4, lower section.)

The decline in other components of the Times index was partially offset by a rise in electric power production to a new record high. (Refer to Chart 4, middle section.) The power requirements of the defense program have expanded to the extent that rationing of power may be necessary in a few critical areas, according to reported opinions of OPM officials. The lack of normal rainfall recently along the Atlantic coast has hindered output of hydro-electric plants. It is said that in the southeastern states unusually heavy rains will have to occur this month and next in order to avert an acute power shortage. Hydro-electric plants in the New England area are also reported to be hampered by low water levels.

Steel operating schedule at new peak

Steel operations last week were scheduled to rise 0.3 point to 98.4 percent of capacity. (Refer to Chart 4, middle section.) Converted to tonnage, the resulting weekly production figures of about 1,626,000 tons would set a new high for the industry by a slight margin. As will be noted in the chart, the operating rate reached higher levels in the first half of the year, but the tonnage produced was somewhat less because of a lower rated capacity prior to July 1.

In the current week, however, the scheduled operating rate has fallen back to 97.8 percent of capacity. Due to labor troubles, scrap shortages and other difficulties, the industry is hard pressed to maintain current high operating schedules. Thus, during the past week labor troubles shut down 2 blast furnaces of the Shenango Furnace Company, threw 8,100 men out of work at the Great Lakes Steel Company, and prevented the scheduled rate being reached in the Chicago district. In addition, near the end of the week it was reported that the important Lackawanna plant of the Bethlehem Steel Corporation had to shut down 2 out of 28 open hearth furnaces due to lack of scrap. A third furnace was due to be closed down by the week-end, and still more shut-downs were in prospect unless some additional sources of scrap could be uncovered.

New orders index higher

Our index of new orders in the week ended October 11 rose 12 percent and reached the highest levels since the end of July. (See Chart 5.) New orders for steel rose to 121 percent of capacity from 114 percent in the previous week, while textile orders slightly extended the sharp rise which occurred in the first week of the month. The gain in the combined index, however, was chiefly due to a substantial gain in aggregate orders for other products, principally to heavy orders for electrical equipment.

Exports sharply higher in August

Largely as a result of increased shipments of defense supplies to the British Empire, United States exports of domestic merchandise in August rose to a new high for the war period at \$438,000,000. This figure is 26 percent above the previous month and 16 percent above the recent peak reached in April.

Nearly all nonagricultural exports increased during the month, although the major part of the rise was due to gains in shipments of machinery, iron and steel, aircraft and chemicals. (See Chart 6.) Exports of firearms and ammunition as well as motor trucks and busses also showed good gains. Agricultural exports fell about 5 percent below the previous month, although they were still more than double year-earlier levels. Despite a 13 percent decline from the July peak, meat products and lard continued to be shipped abroad in heavy volume.

Freight storage in New York harbor at new high

Lighterage freight in storage and on hand for unloading in New York harbor in the week ended October 11 reached a new high. (See Chart 7.) While freight receipts in the early part of October declined from the peak reached at the end of September, exports declined to an even greater extent. (See Chart 8.) As a result freight in storage and on hand for unloading climbed to a new high somewhat above the previous peak reached in the latter part of May.

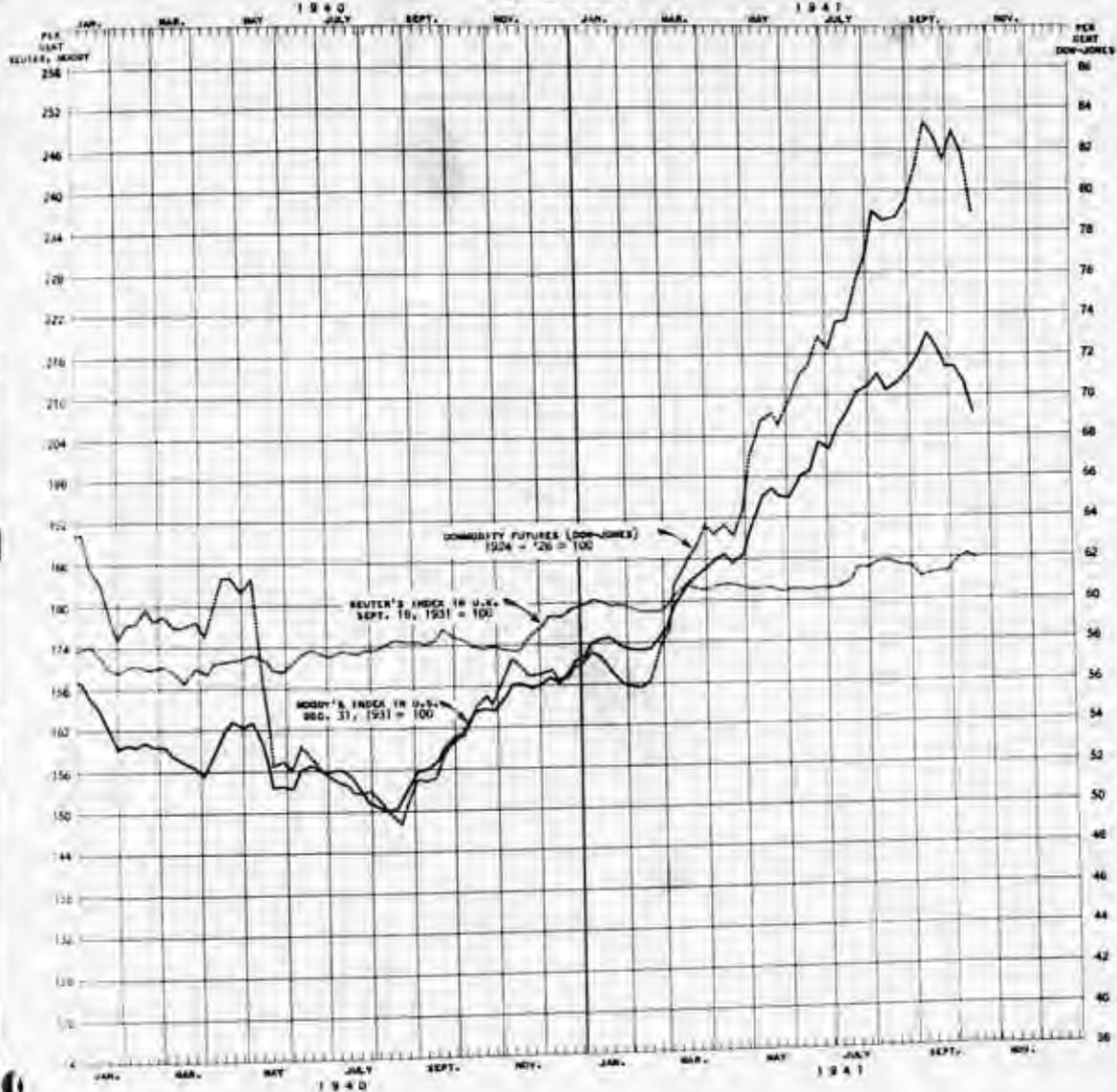
A recent confidential report of the Surplus Marketing Administration indicated that toward the end of September a shortage of shipping space for lend-lease shipments to the British developed, and as a consequence all supplies on hand could not be shipped. In a speech made last week, the manager of port traffic control for the Association of American Railroads asserted that the traffic situation at the port of New York was "liquid." Figures on operating conditions in New York harbor as of October 17 showed additional storage space available for 13,935 cars, or twice as many as the 6,956 cars in storage on that date.

COMMODITY PRICE INDEXES IN U.S. AND U.K.

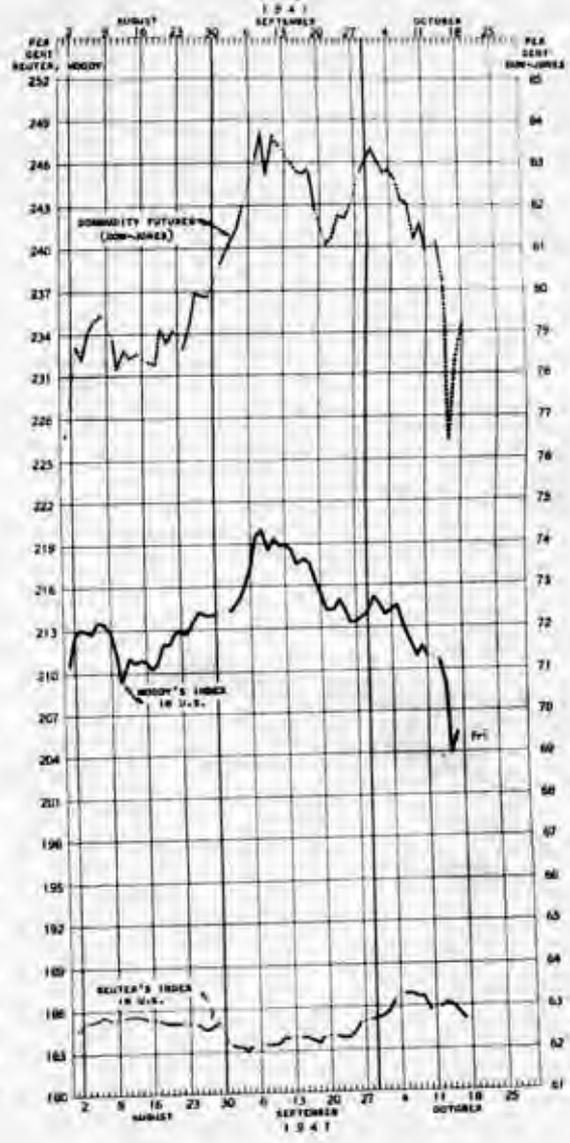
1837

Chart 1

Weekly
(AVERAGE OF DAILY)

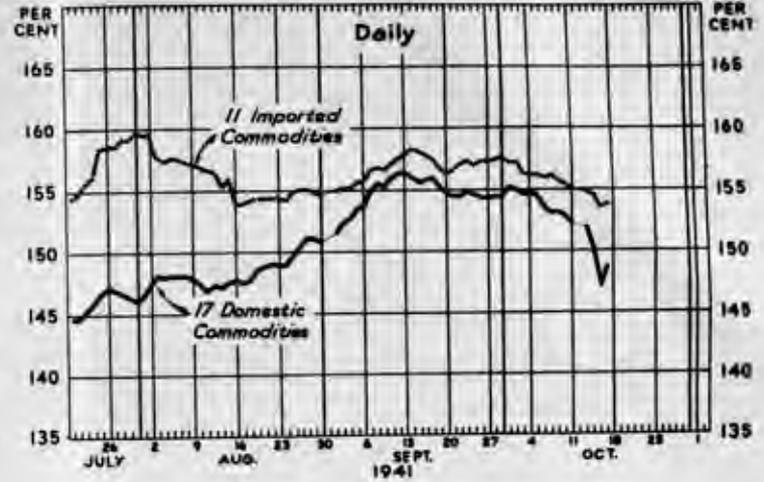
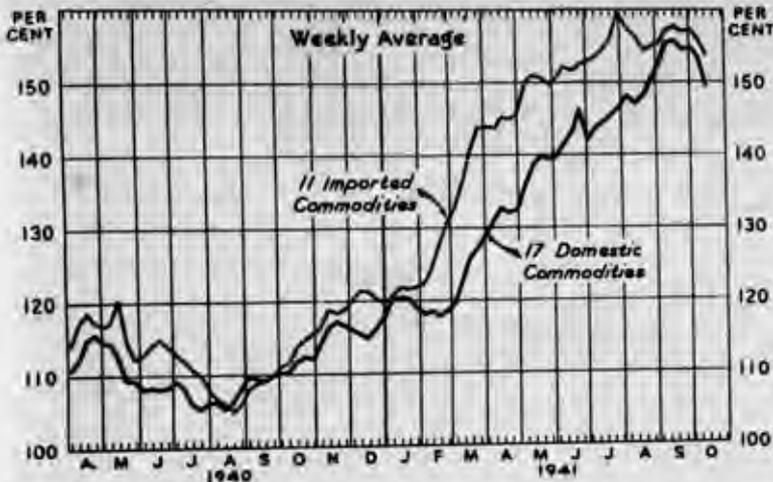


Daily

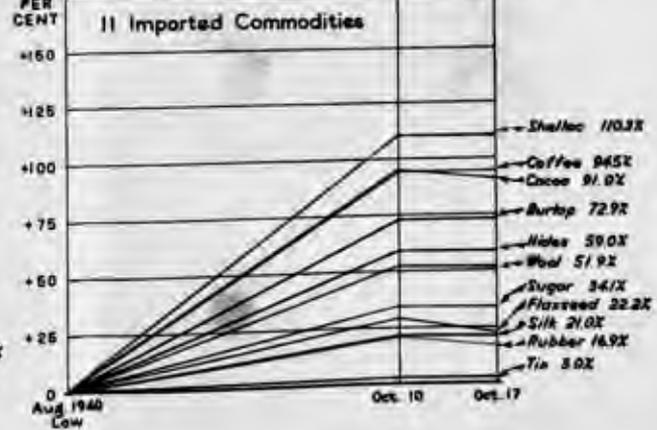
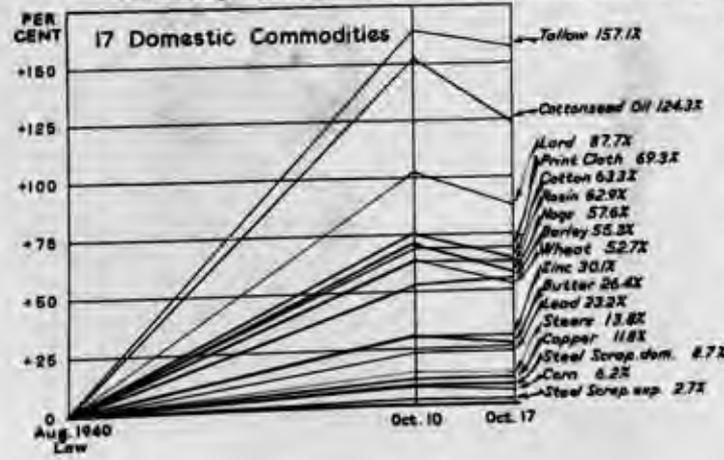


MOVEMENT OF BASIC COMMODITY PRICES Domestic and Imported

AUGUST 1939 = 100



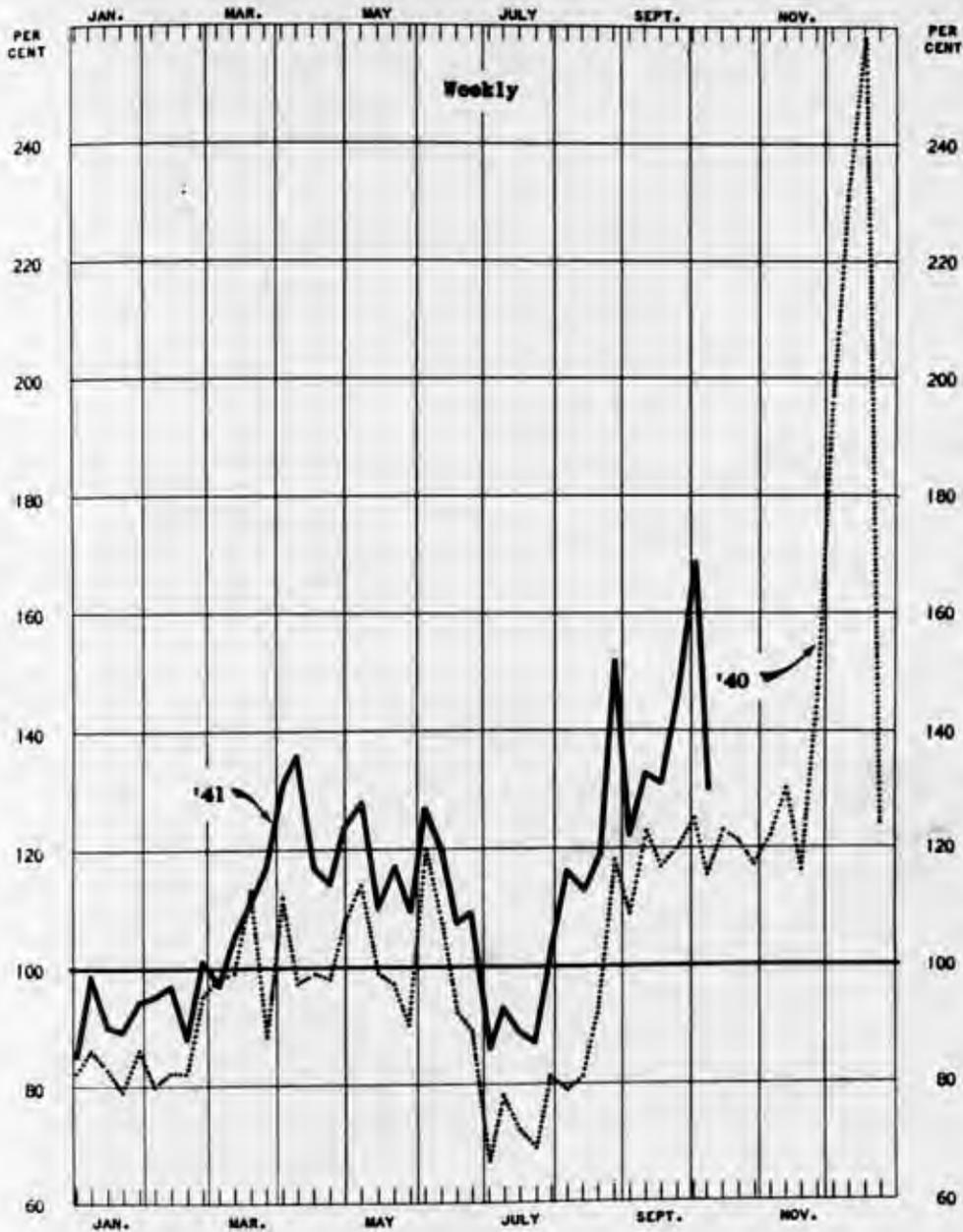
Percentage Change for Individual Commodities, August 1940 Low to October 10, and to October 17, 1941



U.S. GOVERNMENT PRINTING OFFICE: 1941

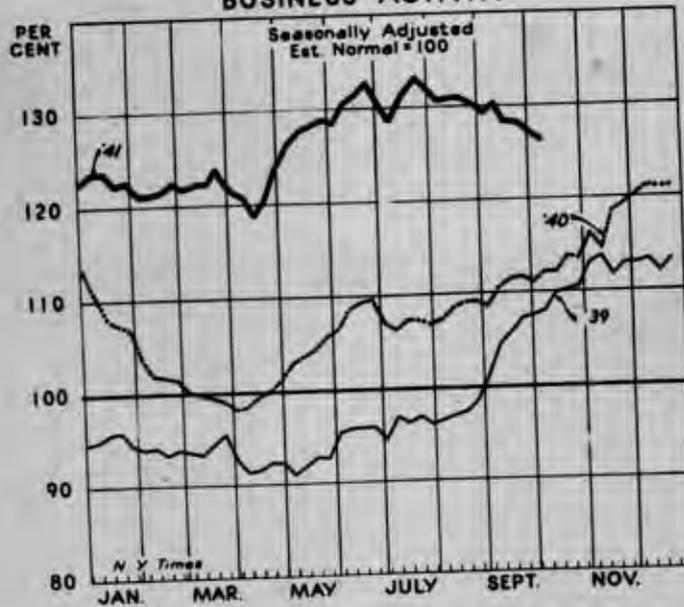
DEPARTMENT STORE SALES
1935 - '39 = 100, UNADJUSTED

339

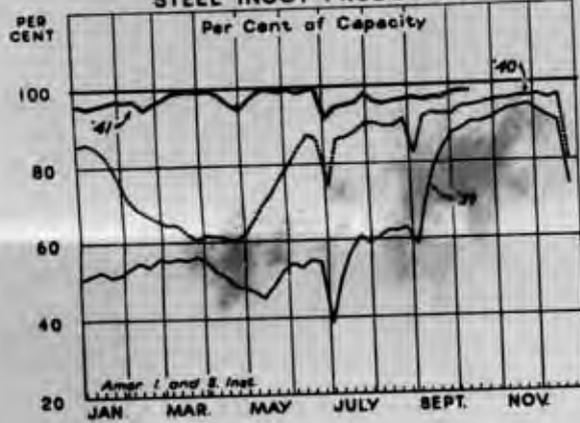


SELECTED BUSINESS INDICES

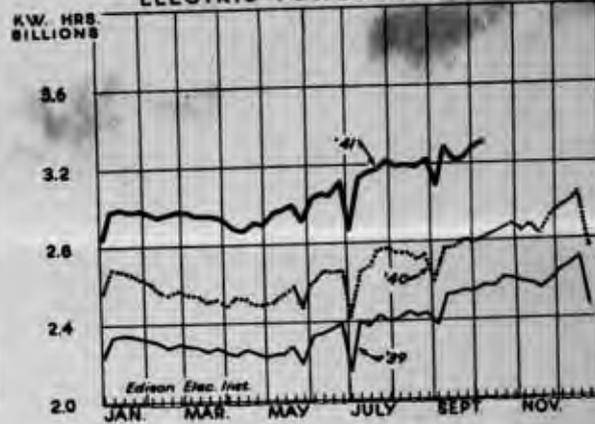
BUSINESS ACTIVITY



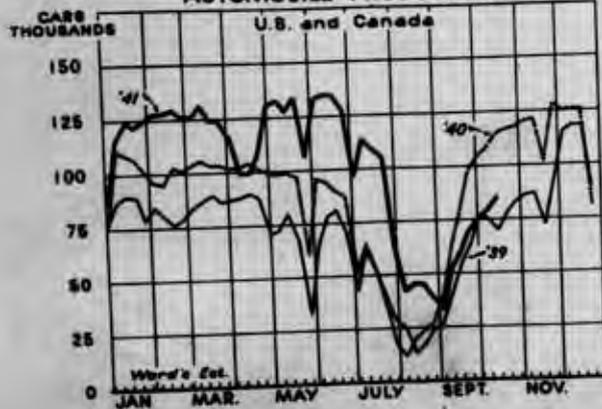
STEEL INGOT PRODUCTION



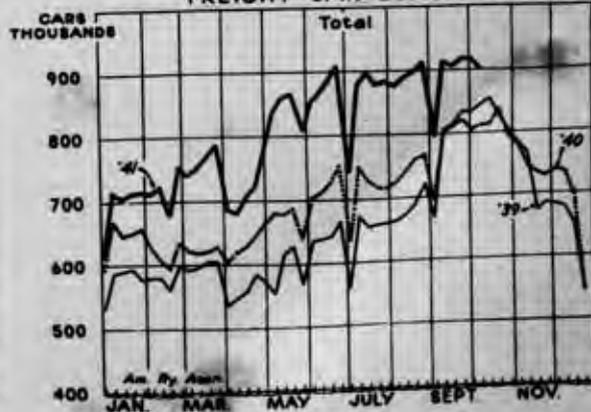
ELECTRIC POWER PRODUCTION



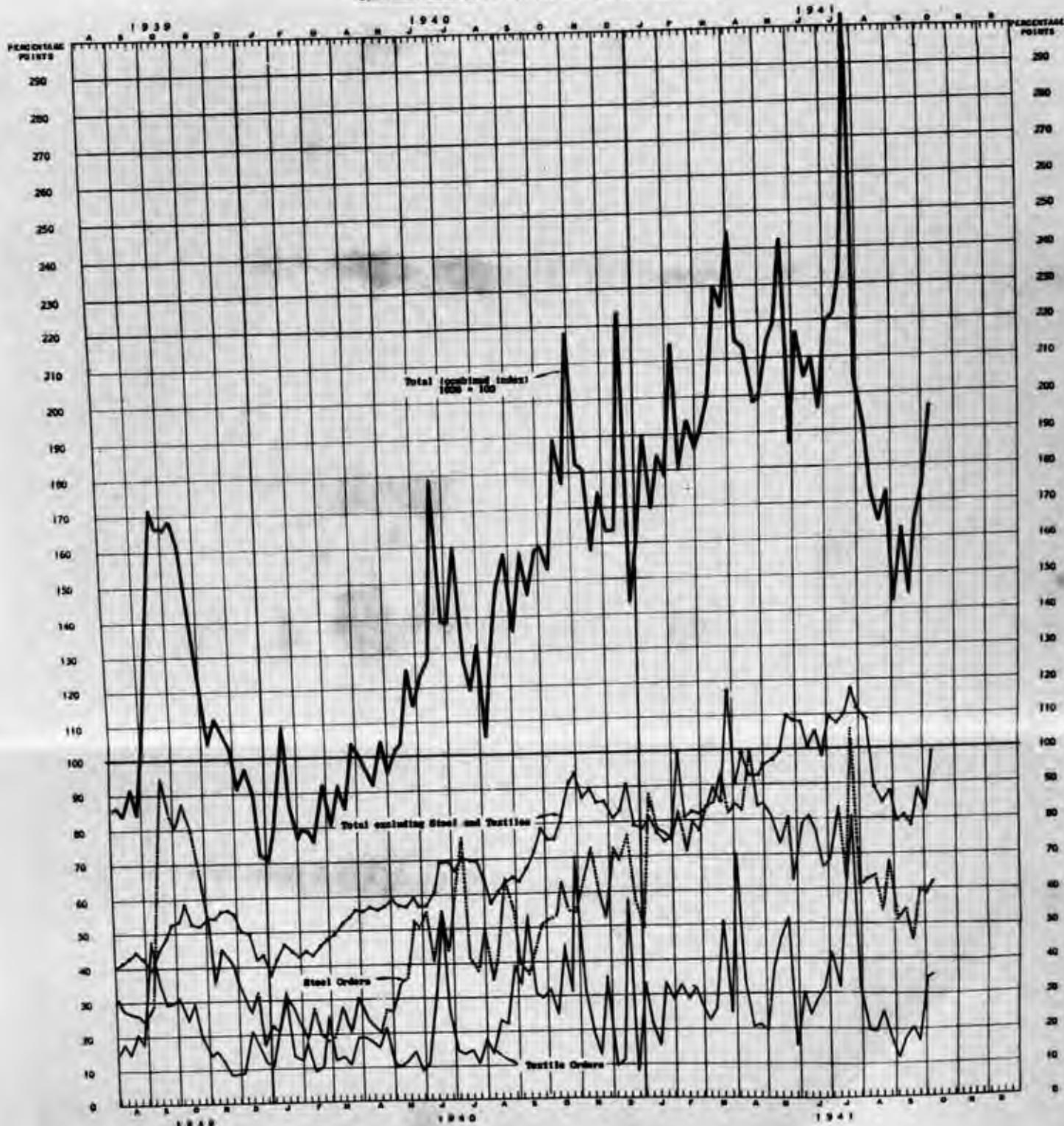
AUTOMOBILE PRODUCTION



FREIGHT CAR LOADINGS



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

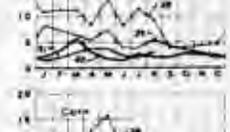
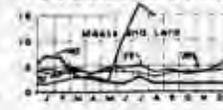
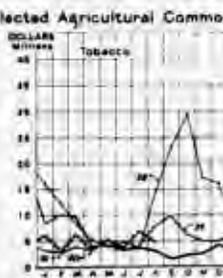
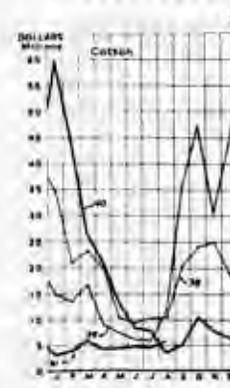
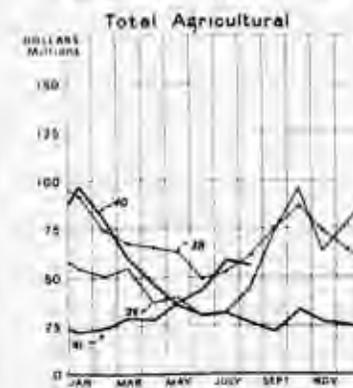
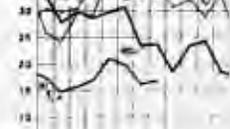
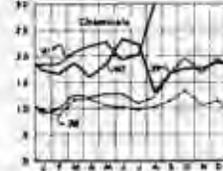
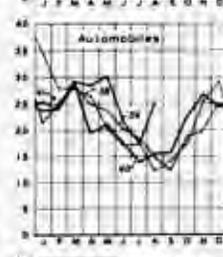
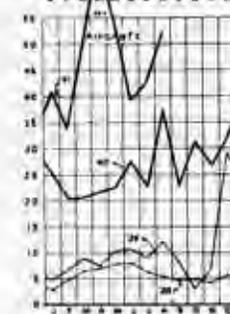
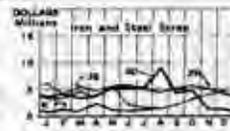
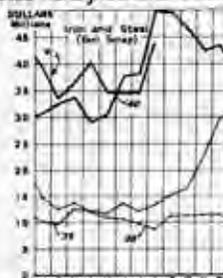
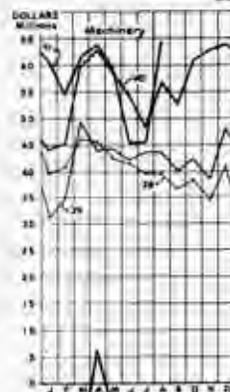
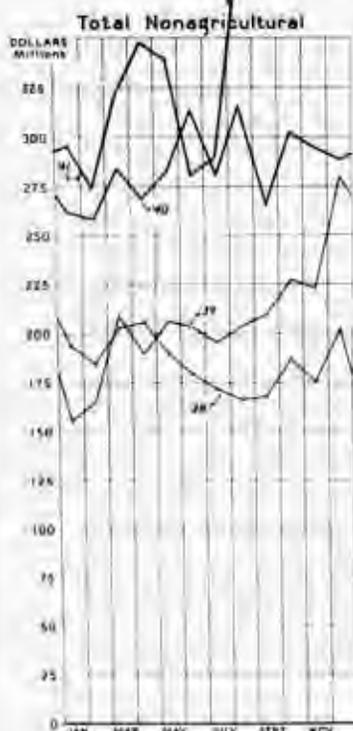


U.S. TOTAL TRADE AND EXPORTS BY COMMODITIES

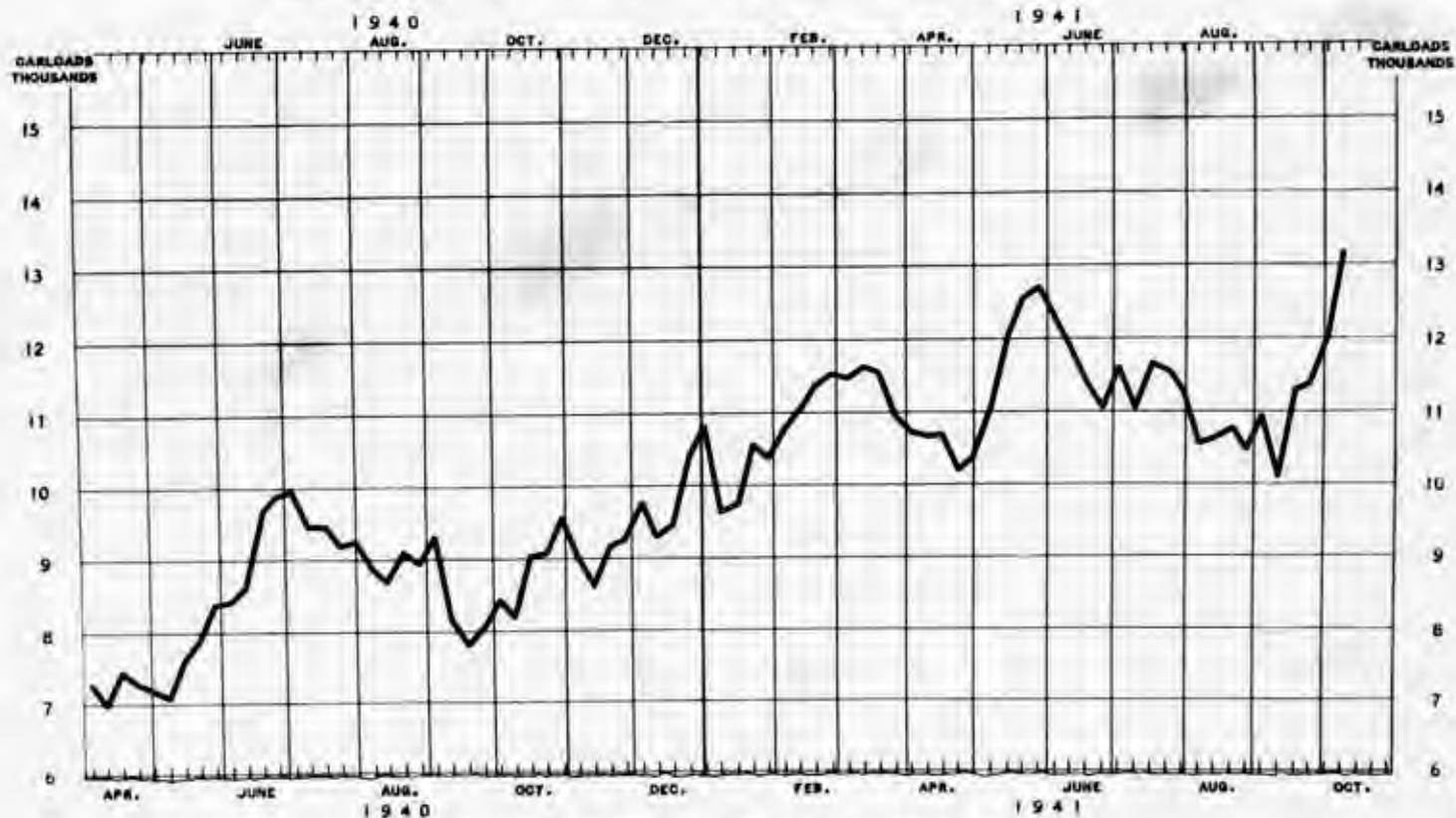


EXPORTS OF U.S. MERCHANDISE

Selected Nonagricultural Commodities

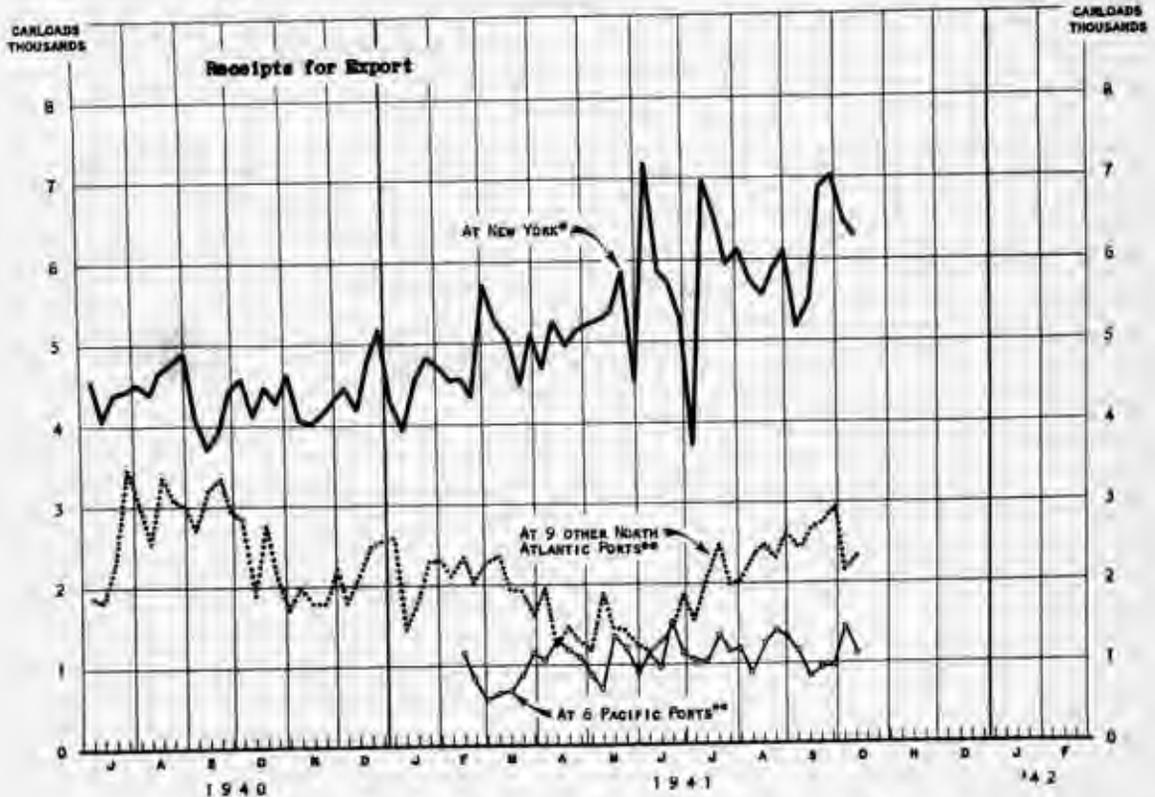
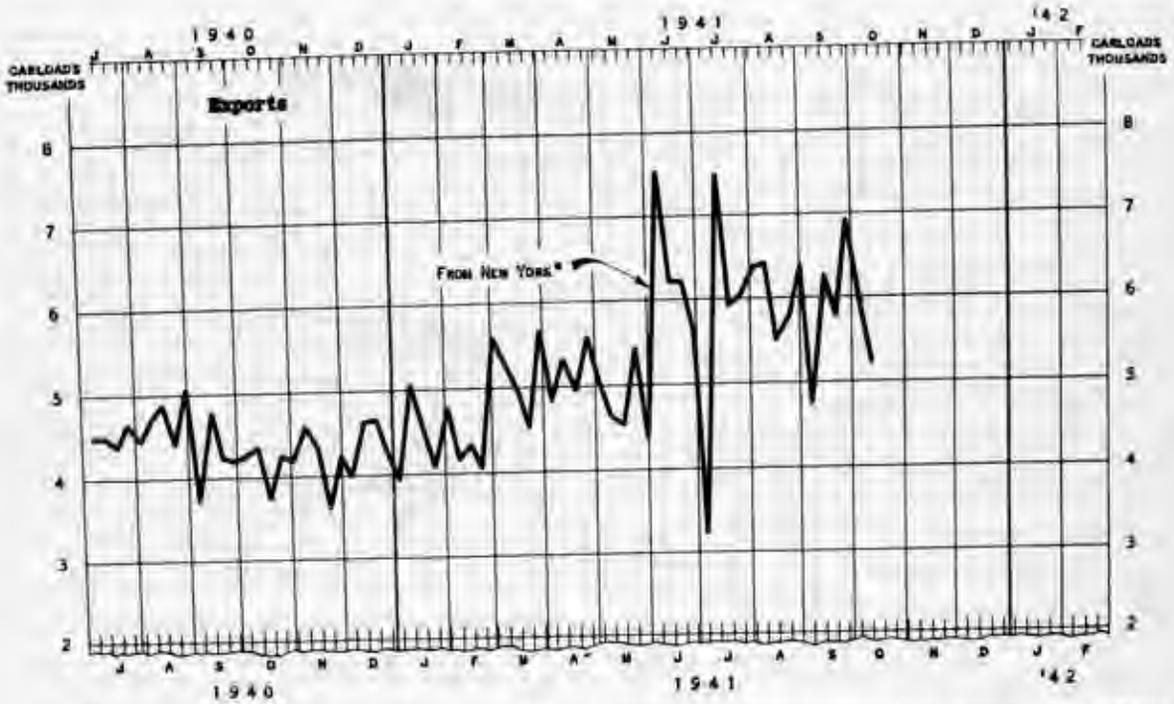


LIGHTERAGE FREIGHT IN STORAGE
AND ON HAND FOR UNLOADING IN NEW YORK HARBOR*



* LARGELY EXPORT FREIGHT, BUT ABOUT 10% REPRESENTS FREIGHT FOR LOCAL AND DOMESTIC SHIPMENT. FIGURES EXCLUDE GRAIN.

EXPORT FREIGHT MOVEMENT



*AS ESTIMATED FROM DATA OF GENERAL MANAGERS' ASSOCIATION OF NEW YORK.
 ** ASSOCIATION OF AMERICAN RAILROADS.

TREASURY DEPARTMENT

345

INTER OFFICE COMMUNICATION

DATE October 20, 1941

TO Secretary Morgenthau
FROM Mr. Haag

Work Projects Administration employment increased from 1,032,000 persons to 1,037,000 during the week ended October 8, 1941.

Attachments

WORK PROJECTS ADMINISTRATION
Number of Workers Employed - Weekly
United States

Week ending 1941	Number of Workers (In thousands)
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
September 24	1,033
October 1	1,032
October 8	1,037

Source: Work Projects Administration

WORK PROJECTS ADMINISTRATION
Number of Workers Employed - Monthly
United States

347

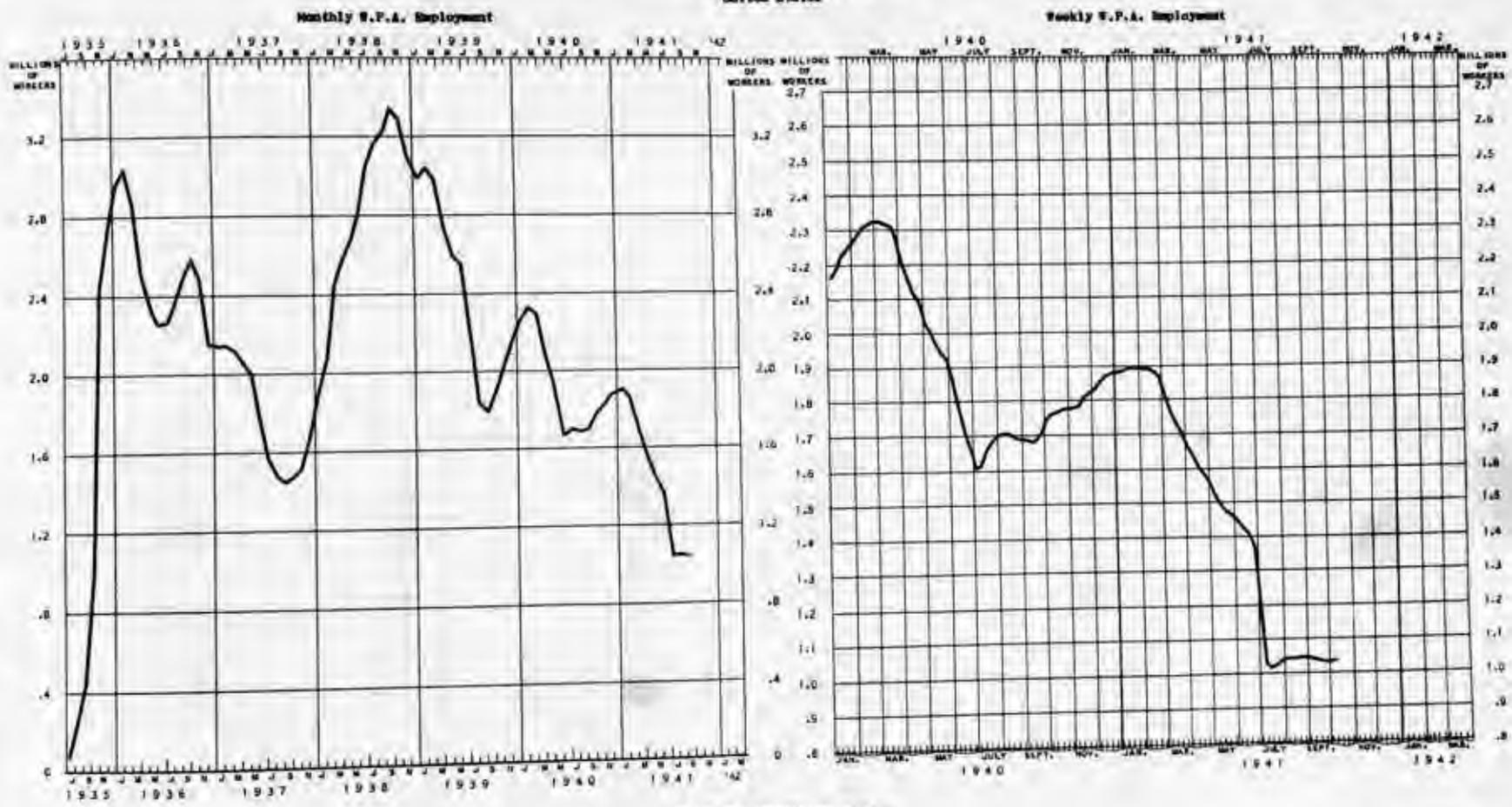
	Number of Workers (In thousands)
1939	
January	2,986
February	3,043
March	2,980
April	2,751
May	2,600
June	2,551
July	2,200
August	1,842
September	1,790
October	1,902
November	2,024
December	2,152
1940	
January	2,266
February	2,324
March	2,288
April	2,092
May	1,926
June	1,665
July	1,701
August	1,691
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
September	1,033

Source: Work Projects Administration

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

They include certified and noncertified workers.

WORK PROJECTS ADMINISTRATION
Number of Workers Employed
United States



SOURCE: WORK PROJECTS ADMINISTRATION

2 - 221 - 0

TREASURY DEPARTMENT

349

INTER OFFICE COMMUNICATION

DATE October 20, 1941

TO Secretary Morgenthau
FROM Messrs. Foley and Pehle

As of the opening of business October 20, 1941, there were 2292 pending applications in the Foreign Funds Control.

J. W. Pehle
E. H. Foley

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

350

Week ended October 18, 1941

	: JAPAN :	RUSSIA :	SPAIN :	GREAT BRITAIN :
PETROLEUM PRODUCTS				
Fuel and Gas Oil (including Diesel Oil)	--	--	--	515,000 Bbls.
Crude -				
Blended or California High Octane Crude*	--	--	--	--
All Other Crude	--	--	--	--
Gasoline -				
Gasoline A**	--	--	--	352,000 Bbls.
Gasoline B*	--	--	--	796,500 Bbls.
All Other Gasoline	--	--	--	--
Lubricating Oil-				
Aviation Lubricating Oil***	--	--	--	48,302 Bbls.
All Other Lubricating Oil	--	--	--	--
Tetraethyl Lead***	--	--	--	--
"Boosters", such as Iso-Octane, Iso-Hexane, or Iso-Pentane	--	46,908 Bbls.	--	--
SCRAP IRON AND SCRAP STEEL				
Number 1 Heavy Melting Scrap	--	--	--	595 Tons
All Other Scrap	--	--	--	1,410 Tons

Office of the Secretary of the Treasury, Division of Research and Statistics.
October 20, 1941.

Source: Office of Merchant Ship Control, Treasury Department.

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

** Aviation Gasoline.

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

AIR MAIL

OCT 20 1941

Hon. Murray D. Van Wagoner,
Governor of Michigan,
Lansing, Michigan.

My dear Governor:

Receipt is acknowledged of your telegram of October 15, 1941, in reference to the disposal of aluminum scrap collected in Michigan in the recent campaign.

There has been accumulated in the State of Michigan the total of 383,951 pounds of this scrap. This amount has been allocated to the following smelters in the amounts and on the dates set opposite each name thereof:

American Smelting and Refining Company	211,708 lbs.	Sept. 5
	7,430 "	Oct. 16
U. S. Reduction Company	37,834 "	Aug. 29
	16,450 "	Sept. 5
	25,580 "	Oct. 16
Bohn Aluminum & Brass Corporation	62,813 "	Aug. 29
	22,136 "	Oct. 16
Total	383,951	

The allocations of this scrap were made by the Office of Production Management immediately upon receipt of notification by that Office from the State Director of the Michigan Defense Council of the accumulation of such scrap at central points, and coincidentally there were orders given by the State Procurement Officer of the Procurement Division to the smelters to ship such scrap.

As you know there was a long delay throughout the State in the delivery of this scrap by the local committees to the concentration points, approximately only 20 per cent thereof

having been delivered by August 21, 1941. While this delay was occurring, the Aluminum Company of America announced a reduction in the price of virgin aluminum of 2¢ per pound, effective October 1, 1941. The smelters, because of the delay in making the scrap available to them and the fact of such reduction in price, refused to accept the scrap on the basis of the prices established by the Office of Price Administration.

This matter has therefore been the subject of continuous negotiation between the smelters and the Office of Production Management and the Office of Price Administration. A revised plan for the disposition of this scrap has been formulated but has not as yet been accepted by all of the smelters. However, I am informed that pending the acceptance of such plan, the American Smelting and Refining Company in the last ten days has actually started to ship such scrap; that the major portion of the accumulation at Detroit has already been shipped and the U. S. Reduction Company has agreed to commence shipping immediately. The third company to which this scrap was allocated has not as yet agreed to move such scrap, but the matter is being taken up with them to the end that they too will ship the scrap pending the acceptance of the revised plan.

I appreciate your calling the matter to my attention, and you may rest assured that everything will be done by this Department within its power to expedite its disposition.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

TAM:mf

File to Mr. Tolson

TAM:mf

OCT 20 1941

The Honorable

The Secretary of State

My Dear Mr. Secretary:

The Procurement Division of the Treasury Department is entering into contracts with The Tams Company (China), Ltd., for approximately 2,000,000 gallons of Regular Grade Motor Fuel Gasoline and with the Standard-Warren Oil Company for approximately 10,500,000 gallons of Regular Grade Motor Fuel Gasoline. This gasoline is being purchased with the intention of immediately transferring it to the possession of the Chinese Government under the Lend-Lease Program. It will be appreciated if the services of the American Consul at Nanking, China, could be utilized to represent this Government and to contact Mr. E. C. Chen of China Defense Supplies, Inc., who will represent the Chinese Government. It is desired that, as each delivery of gasoline is made under these contracts, possession of it be transferred to China Defense Supplies, Inc., obtaining therefor signed receipts. One signed receipt should be forwarded to the Procurement Division by your department. However, it is requested that telegraphic advice of each delivery be obtained from the American Consul and transmitted to the Procurement Division as soon as each delivery is made.

The conditions of these contracts will be similar to those previously made with these two companies for aviation gasoline, copies of which contracts have been furnished to your department.

Any expense in this transaction may be billed to the Procurement Division.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

HLS/vsh

By Messenger

5:05 Sturges
H.M.C.

TREASURY DEPARTMENT

354

INTER-OFFICE COMMUNICATION

DATE

October 20, 1941

TO Secretary Morgenthau

FROM Mr. Foley

The Procurement Division has practically completed an arrangement pursuant to which it will purchase the entire output of three high-cost Michigan copper mines as a lend-lease purchase. The contracts are ready, all the details have been worked out, and we are waiting only for a letter from Donald Nelson which we must have before closing the deal. In general, the arrangement is that the Procurement Division will pay the producers the cost of production plus one cent a pound for the copper. I understand that this will probably mean that the copper will cost lend-lease about fifteen cents a pound. The price of copper generally, as fixed by Leon Henderson, is twelve cents a pound.

The arrangement is essentially one of subsidizing the high-cost producers, in order to keep production up without a general increase in the price level, and will result in very substantial savings to the Government in the cost of copper to it.

The plan was worked out by the Procurement Division in cooperation with OPM and OPA, and with the approval of the lend-lease authorities. It was originally hoped that Jesse Jones would handle the deal, but he was apparently unwilling to go through with it.

I do not have exact figures on what the amount of the subsidy will be, but understand the contract is for six months and involves 20,000 tons of copper. If my information is accurate, the additional cost would be about \$1,200,000. In view of the fact that each one cent rise in the general level of copper prices represents about \$30,000,000 a year in cost to the Government, it is certainly correct to say that it will be much less expensive to subsidize these mines, which produce less than 10 percent of the domestic supply, than it would be to permit the general level of copper prices to rise

to such a point as would enable these particular mines to operate at a profit. The arrangement will also enable the Michigan mine owners to increase the wages paid their employees by a substantial amount. I am informed that the general wage level in the community is at present disgracefully low.

S. H. F. H.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

356

DATE October 20, 1941

TO Secretary Morgenthau

FROM Mr. Kamarek

Subject: Plane Shipments to British Forces

Comment

1. In the week ending October 14, a total of 167 planes were dispatched to British forces; in the preceding week, 156 planes were sent. These totals for the first time include planes to Canadian forces. In the week ending October 14, out of the total of 167 planes, 41 were delivered to Canada (37 trainers) and in the week ending October 7, out of a total of 156, 30 planes (21 trainers).

2. Including Canada, these deliveries are almost triple the average weekly deliveries reported in the last ten statements. Excluding Canada, these deliveries are about double the average.

3. The first delivery of a North American Mustang is mentioned in the week ending October 7. This is a single seat fighter, powered with an Allison engine. The Cessna T-50 is a two-motored training plane produced by the Cessna Aircraft Company of Wichita, Kansas, for the Canadian pilot training program.

4. These figures are not strictly comparable with the earlier statements we received. Not only are shipments to Canada included, but the weekly period covered is different. The older statements gave the shipment of planes by air for one week and the shipment of planes by sea three weeks earlier. The present statement covers all aircraft dispatched during the week in question.

The totals shown are incomplete. The British Air Mission is sending us the necessary data to complete them. The present totals do not include deliveries to Canada prior to October 1. Also, the shift in period covered has left a gap between the old series of statements and this new statement.

Table A - Shipments by Area

	Week ending October 14	Week ending October 7	Incomplete Total Reported to Date *
<u>To the United Kingdom</u>			
Light and medium bombers	32	42	989
Heavy bombers	9	1	54
Naval patrol bombers	0	0	73
Pursuit	<u>20</u>	<u>20</u>	<u>107</u>
Total to United Kingdom	61	63	1,223
<u>To the Middle East</u>			
Light and medium bombers	13	18	233
Pursuit	44	38	598
Trainers	<u>7</u>	<u>0</u>	<u>7</u>
Total to Middle East	64	56	838
<u>To British Pacific Forces</u>			
Light and medium bombers	0	6	24
Naval patrol bombers	1	1	11
Pursuit	0	0	145
Trainers	<u>0</u>	<u>0</u>	<u>55</u>
Total to Pacific Forces	1	7	235
<u>To Canadian Forces</u>			
Light and medium bombers	0	1	1
Naval patrol bombers	0	8	8
Pursuit	4	0	4
Trainers	<u>37</u>	<u>21</u>	<u>58</u>
Total to Canadian Forces	41	30	71
<u>Total</u>			
Light and medium bombers	45	67	1,247
Heavy bombers	9	1	54
Naval patrol bombers	1	9	92
Pursuit	68	58	854
Trainers	<u>44</u>	<u>21</u>	<u>120</u>
	167	156	2,367

* (See footnote page 4)

- 3 -

Table B - Shipments by Types

	Week ending October 14	Week ending October 7	Incomplete Total Reported to Date *
Bell Airacobra	20	19	97
Boeing B-17	0	0	21
Boston III	7	6	13
Brewster Buffalo	0	0	145
Cessna T-50	22	21	43
Consolidated Catalina	1	9	92
Liberator I	0	0	22
Liberator II	9	1	11
Curtiss Kittyhawk	48	38	86
Tomahawk	0	0	516
Douglas Boston I	0	0	1
Boston II	0	0	72
Boston III	31	51	322
Glenn Martin Baltimore	5	3	9
Maryland	0	0	150
Grumman Martlet II	0	0	9
Lockheed Hudson I	0	0	1
Hudson III	1	6	264
Hudson IV	0	0	18
Hudson V	0	1	345
North American Harvard II	22	0	77
Mustang	0	1	1
United Chesapeake	1	0	52
Grand Total-All Types	167	156	2,367

* (See footnote page 4)

Table C - Plane Shipments to the British by Weeks

Week ended	Light and Medium Bombers	Heavy Bombers	Naval Patrol Bombers	Pursuit	Trainers	Incomplete Total *
Feb. 8**	22	-	3	-	-	25
Feb. 15**	39	-	-	100	-	139
Feb. 22**	35	-	-	27	-	62
Mar. 1**	7	-	5	25	-	37
Mar. 8**	16	-	3	10	-	29
Mar. 15**	26	1	4	-	-	31
Mar. 22**	17	-	2	22	-	41
Mar. 29**	25	-	3	18	-	46
Apr. 5**	21	-	7	73	-	101
Apr. 12**	21	2	2	27	-	52
Apr. 19**	20	3	4	5	-	32
Apr. 26**	23	2	3	-	28	56
May 3**	61	1	2	15	27	106
May 10**	36	1	8	10	-	55
May 17**	61	13	7	19	-	100
May 25**	30	10	-	25	-	65
June 1**	28	5	5	21	-	59
June 8**	37	2	7	-	-	46
June 15**	26	1	4	20	-	51
June 22**	28	-	4	52	-	84
June 29**	45	-	1	50	-	96
July 6**	19	-	3	20	-	42
July 13**	34	-	3	48	-	85
July 20**	41	-	1	32	-	74
July 27**	45	-	-	24	-	69
Aug. 3**	45	-	-	11	-	56
Aug. 10**	53	1	-	15	-	69
Aug. 17**	49	-	-	12	-	61
Aug. 24**	36	1	-	11	-	48
Aug. 30**	44	-	-	5	-	49
Sept. 6**	29	-	1	4	-	34
Sept. 13**	34	-	-	17	-	51
Sept. 20**	45	-	-	7	-	52
Sept. 27**	37	1	-	3	-	41
Oct. 7	67	1	9	58	21	156
Oct. 14	45	9	1	68	44	167
	<u>1,247</u>	<u>54</u>	<u>92</u>	<u>854</u>	<u>120</u>	<u>2,367</u>

Total is incomplete. It includes shipments of planes to the British excluding Canadian Forces, from February 1 to September 27 by air, January 11 to September 6 by sea; from October 1 to October 14 to all British forces by air and sea. Not included are shipments of planes to Canada prior to October 1, shipments of planes by water from September 6 to October 1, shipments of planes by air from September 27 to October 1.

Table C - Plane Shipments to the British by Weeks
(Footnotes continued)

** The date given is for shipments by air. Shipments by water start three weeks earlier. That is, the statement reporting the shipment of planes by air for the week ending September 27 would report the shipment of planes by water for the week ending September 6.

For Miss Chauncey

TREASURY DEPARTMENT

361

INTER-OFFICE COMMUNICATION

DATE October 20, 1941

TO Secretary Morgenthau

FROM Mr. Bell

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>
Oct. 13	Nil	Nil	Nil	Nil
14	510	20,778	4,300	4,309
15	10	1,775	5,000	5,314
16	1,040	31,075	5,000	5,406
17	331	38,118	25,000	18,993
18	300	7,914	Nil	Nil
	<u>2,191</u>	<u>99,661</u>	<u>39,300</u>	<u>34,021</u>
Sales from				
Feb. 22, 1940 to				
Oct. 11, 1941	<u>9,816,641-1/2</u>	<u>280,709,998</u>	<u>45,280,716</u>	<u>37,183,173</u>
Total				
Feb. 22, 1940 to				
Oct. 18, 1941	<u>9,818,832-1/2</u>	<u>280,809,659</u>	<u>45,320,016</u>	<u>37,217,194</u>

TREASURY DEPARTMENT

362

INTER-OFFICE COMMUNICATION

DATE October 20, 1941

TO Secretary Morgenthau

FROM Mr. Bell

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>	
Oct. 13	N11	N11	N11	
14	20,778	4,309	25,087	
15	1,775	5,314	7,089	
16	31,075	5,406	36,481	
17	38,118	18,993	57,111	
18	<u>7,914</u>	<u>N11</u>	<u>7,914</u>	
	99,661	34,021	133,682	
Sales from Feb. 22, 1940 to Oct. 11, 1941	<u>280,709,998</u>	<u>37,183,173</u>	<u>317,893,171</u>	
Total Feb. 22, 1940 to Oct. 18, 1941	<u>280,809,659</u>	<u>37,217,194</u>	<u>318,026,853</u>	318,026,853
\$ proceeds of non-vested securities sold Oct. 6, 1941 to Oct. 11, 1941			800,000	
\$ proceeds of non-vested securities sold Sept. 1, 1939 to Oct. 4, 1941			<u>234,700,000</u>	
\$ proceeds of non-vested securities sold Sept. 1, 1939 to Oct. 11, 1941			<u>235,500,000</u>	<u>235,500,000</u>
			GRAND TOTAL	<u>553,526,853</u>
9 Units sold from Aug. 18, 1941 to Oct. 18, 1941 for				\$42
11 Shares Stock Dividend sold from Aug. 18, 1941 to Oct. 18, 1941 for				\$123
200 Rights sold on Oct. 15 for			\$263	
<u>55,572</u> Rights sold from July 24, 1941 to Oct. 11, 1941 for			<u>\$102,590</u>	
<u>55,772</u> Rights sold from July 24, 1941 to Oct. 18, 1941 for				<u>\$102,853</u>

October 20, 1941

CONFIDENTIAL

Dear Mr. Knoks:

Permit me to acknowledge, on behalf of Secretary Morgenthau, the receipt of your letter of October 16, 1941, enclosing your compilation for the week ended October 6, 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. BELL

Under Secretary of the Treasury.

Mr. L. W. Knoks,
Vice President,
Federal Reserve Bank of New York,
New York, New York.

(Init.) P. D.

dm - 10/20/41

October 20, 1941.

Dear Launch:

Thank you for your note of October 15th enclosing the report which spoke so pleasantly of Mr. Fox and his work. I appreciated your sending this to me very much.

With best regards,

Sincerely,

151 H.M.G.

Honorable Launchlin Currie,
Administrative Assistant to
the President,
The White House.

GEF/dbs

By Messenger

Delivered 4:20

H.M.C.

365

THE WHITE HOUSE
WASHINGTON

October 15, 1941.

Dear Mr. Secretary:

The attached was passed on to me
by a friend in the State Department.
You may be interested in the references
to Fox.

Yours sincerely,

Lauchlin Currie
Lauchlin Currie

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

Noted by S. White & noted 10/29/41

Feb 2/1942

*The attached was
the original for my sig.
how it to be let & so.*

TRANSLATION OF EDITORIAL OF SEPT. 15th, SINGAPORE DAILY, HONGKONG

* * * * *

In Praise of Mr. Fox of the Currency Stabilization Committee.

Last month the Currency Stabilization Committee ordered the Chinese and Foreign banks at Shanghai to stop the trade in the so-called Black Market. For a month the market of the legal currency has changed from wavering to stabilization and from a falling rate to a strong. This is the first success of the workings of this Committee. From now on whether the Black Market will be uprooted, or whether there is still some leakage it is not known, but we must recognize that this policy of controlling foreign exchange is something that has not been done since the war started four years ago. We must express our admiration to the Committee. The labors and determination of the American representative Mr. Fox are especially worthy of our praise.

Everybody knows what harm the Black Market at Shanghai has done. In all these years the amount of money lost by our country, but gained by our enemy is incalculable. Chairman Chiang on July 24th, 1939, said:

"The management of foreign exchange at Shanghai is not only not profitable to the Chinese merchants but also supports the currency of the enemy and the puppets. This is giving the enemy the controlling power to destroy the foundation of our own defense economies."

What Chairman Chiang said about the management of foreign exchange at Shanghai is in fact the so-called Black Market which has been maintained by our banks. This has been attacked by all our people. Last winter the puppet government of Wang established the so-called Central Savings Bank which issued bank notes. The Japanese did not want this kind of bank note to be attached to the Japanese yen. Their purpose was to use these bank notes to steal in the foreign exchange. This has been going on for so long that we all know it is very hard to overcome. The situation is like a pond of muddy water where people are fishing. Those who get the larger fish are our enemies, but there are still many small fish so naturally many people had a hand in it.

Therefore, the abolition of this free currency market in Shanghai is already not a problem of policy or theories. It is a problem of execution. This time the Currency Stabilization Committee ordered the fourteen Western banks at Shanghai to stop their foreign exchange. This is a brilliant decision. It is more wonderful that the order could have been executed. It is not an easy matter. We do not need to expose the situation in detail. In a word without the help of U.S.A. this could not have succeeded; without the determination of Mr. Fox this could not have been done.

Since

Since Mr. Fox went to Chungking this May, his diligent works are not well known outside. Especially recently after he came to Hongkong he has travelled to Manila and elsewhere and has not rested yet. This zeal and sacrifice to accomplish a great work for China is greatly appreciated by all the Chinese who also assess the power of judgment.

The future works of the Currency Stabilization Committee are still many, but we may tell Mr. Fox that judging of his spirit in the last few months, he can overcome any kind of difficulties and remove any kind of obstruction. The Government and all the people will back him up. Any obstruction to a work can be overcome by fair management. We hope that the other members of the Committee can render their service with the same spirit as Mr. Fox has. At present we only offer our praise to Mr. Fox and hope that he still give more service for the friendship of America and China.

C
O
P
Y

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DEPARTMENT OF STATE
WASHINGTON

October 20, 1941

In reply refer to
FF

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses five copies of a paraphrase of telegram No. 425, dated October 17, 1941, from the American Consulate General, Hong Kong, China, transmitting a message from Mr. A. Manuel Fox for the Secretary of the Treasury.

Enclosure:

From Consulate General, Hong Kong,
No. 425, October 17, 1941.
(5 copies of paraphrase).

Copy:lc:10/21/41

C
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P
Y

368

PARAPHRASE OF TELEGRAM RECEIVED

FROM: Consulate General, Hong Kong, China, via N. H.

DATE: October 17, 1941, 1 p.m.

NO: 425.

The following is a paraphrased message for the
Secretary of the Treasury from A. Manuel Fox:

I have just been informed by a reliable source that
the compradores of the Chase Bank and the National City
Bank of New York are supplying the Shanghai black market
with currency notes of the United States.

I will discuss the matter with Cochran as I am
departing for Chungking tonight.

SOUTHARD

MSM

FF:ME

PARAPHRASE OF TELEGRAM RECEIVED

369

FROM: American Embassy, Chungking.

DATE: October 20, 1941, 3 p.m.

NO. 1 424.

THIS IS TF-G. SENT IN STRICT CONFIDENCE TO THE
SECRETARY OF THE TREASURY FROM FOX.

I have been informed confidentially that during the recent disturbance in the Shanghai market United States banknotes have been disrupting influence. There are persistent rumors that substantial amounts are being brought from continental United States and smuggled into China from there. If the necessary steps could be taken, through the customs and elsewhere, to check this flow of banknotes immediately, it would help a great deal to control the situation in Shanghai.

GAUSS

HSM

FF:VCL

10 11 1941
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OCT 21 1941
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OCT 21 1941

TREASURY DEPARTMENT

370

INTER-OFFICE COMMUNICATION

DATE October 20, 1941.

TO Secretary ^{W. A. Rugg} Morgenthau

FROM Mr. Dietrich

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£87,000
Purchased from commercial concerns	£ 6,000

Open market sterling remained at 4.03-1/2. The only reported transaction consisted of £2,000 sold to a commercial concern.

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

Canadian dollar	11-1/8% discount
Argentine peso (free)	.2365
Brazilian milreis (free)	.0505
Colombian peso	.5775
Mexican peso	.2070
Uruguayan peso (free)	.4650
Venezuelan bolivar	.2640
Cuban peso	1/8% discount

The Federal Reserve Bank of New York was advised by the Chase National Bank that about \$5,600,000 in gold had been shipped by the Russian State Bank to the Chase in San Francisco on the S. S. Unisprostroy. This gold arrived late October 18 and was subsequently deposited in the San Francisco Mint for account of the Secretary of the Treasury. More than enough gold was contained in the shipment to complete delivery against the U. S. Stabilization Fund's purchase, on August 15, of \$10,535,000 in gold from the Russian Government for delivery within ninety days, against which \$10,000,000 had been advanced to the Russians. The additional amount of gold is being applied against the Fund's purchase, on October 10, of about \$31,605,000 in gold from Russia, to be delivered within 180 days, against which we advanced \$30,000,000 to the Russian Government.

The State Department forwarded a cable to us reporting the following gold shipments from Australia, both of which will be sold to the San Francisco Mint:

\$5,860,000 shipped by the Commonwealth Bank of Australia, Sydney, to the Federal Reserve Bank of San Francisco.

100,000 shipped by the Bank of New South Wales, Sydney, to the American Trust Company, San Francisco.

\$5,960,000 Total

In London, spot silver was again fixed at 23-1/2d. The forward quotation was also 23-1/2d, up 1/16d. The U. S. equivalent of this price is 42.67¢.

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 silver purchases today.

CONFIDENTIAL



RESTRICTED

G-2/2657-220; No. 523 M.I.D., W.D. 11:00 A.M., October 20, 1941

SITUATION REPORTI. Eastern Theater.

Ground: Heavy fighting continues around Moscow.

The German High Command claims a total of 658,000 prisoners captured to date in the encirclement battles of Vyazma and Bryansk.

The city of Taganrog, on the Sea of Azov, has been taken by the German forces.

Air: The German High Command said that a bombing attack against Moscow is comparable to the heaviest raids of the war on London. Russia claims that their bombers have been inflicting heavy damage against German armored concentrations advancing towards Moscow.

II. Western Theater.

Air: Great Yarmouth was the principal objective bombed by Germany yesterday. There is no report of the R.A.F.'s activity in this theater.

III. Middle Eastern Theater.

Air: The British Air Ministry announced that objectives in Sardinia, Sicily and Tripolitania had been bombed over the weekend.

RESTRICTED