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TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Saturday, November 1, 1941.
10/31/41

Press Service
No. 28-28

The Secretary of the Treasury announced last evening that the tenders for \$150,000,000, or thereabouts, of 91-day Treasury bills, to be dated November 5, 1941, and to mature February 4, 1942, which were offered on October 29, were opened at the Federal Reserve Banks on October 31.

The details of this issue are as follows:

Total applied for - \$199,998,000
Total accepted - 150,098,000

Range of accepted bids:

High	- 100.				
Low	- 99.944	Equivalent rate	approximately	0.222	percent
Average					
Price	- 99.962	"	"	"	0.151 "

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

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November 1, 1941.

Memorandum for the Files

(Oct 29, 1941)

On last Wednesday afternoon around 5:45, Secretary Morgenthau asked Ed Foley to ride home with him. On the way one of the things discussed was a telephone call Mrs. Klotz had received from Mrs. Merle Cochran between 2:00 and 2:30 o'clock that morning.

In her conversation Mrs. Cochran gave Mrs. Klotz reason to believe that she was suffering from some kind of persecution mania. She complained of people spying on her and was afraid that Secretary Morgenthau would cause her arrest for taking some form of medicine which her physician, Dr. Levitt, had prescribed for her. The call upset Mrs. Klotz considerably and she was unable to get back to sleep.

The Secretary said that he had called Dr. Daniels after he had learned from Mrs. Klotz at the office that morning of the telephone conversation, and asked him to suggest a psychiatrist who could examine Mrs. Cochran. Dr. Klein was suggested, and during the day Dr. Klein and Dr. Levitt had called on Mrs. Cochran. A conference was scheduled for the following morning in Dr. Daniels' office and Secretary Morgenthau asked Foley to pick him up at 8:15 a.m. and go with him.

The Secretary asked Foley if it wouldn't be possible from a legal standpoint to have Mrs. Cochran sent to some institution where she would be cared for properly until Mr. Cochran returned from China. Foley cautioned him to be careful of such action and suggested in lieu of this, constant observation and care by trained nurses until Cochran's return.

The conference at Dr. Daniels' office was attended by Doctors Daniels, Levitt and Klein, Secretary Morgenthau and Foley. Dr. Klein reported the result of his examination. He said that he had seen Mrs. Cochran only with great difficulty; that she is mentally a very sick woman; that she is definitely a paranoid; that she is not apt to do herself bodily harm, but at the same time she should not be left unattended. He thought the best thing was to play to her mental weakness and not arouse her suspicions unduly; that it wouldn't make a great deal of difference

if she was not placed in an institution for the next few hours, but she should definitely not go beyond that time without being committed to Gallinger Hospital.

Dr. Daniels then inquired how long Mrs. Cochran had been treated by Dr. Levitt. Dr. Levitt replied that she had been under his care for about two years. During that time Dr. Levitt admitted that he had been prescribing a drug to quiet and soothe Mrs. Cochran's nerves. Upon inquiry by Dr. Daniels, Dr. Levitt admitted that the doses prescribed were rather large and had been continued over a long period of time. Dr. Levitt pointed out, however, that he had attempted on many occasions to stop the prescription but Mrs. Cochran always became emotionally upset with the result that her husband would usually intercede with him to issue the necessary prescription. Dr. Levitt stated that Mrs. Cochran was mentally abnormal and should not be left alone.

Dr. Daniels asked Dr. Klein what he thought should be done. Dr. Klein said steps should be taken at once to have Mrs. Cochran committed to Gallinger. He explained that it would be necessary for two physicians who had examined Mrs. Cochran to sign certificates that she was mentally unbalanced and that he and Dr. Levitt were prepared to sign such certificates. (A memorandum discussing the procedure for commitment to Gallinger Hospital was prepared later at Mr. Foley's request and is attached.)

Secretary Morgenthau said that he wanted to avoid such drastic action if the medical authorities thought it was compatible with the best interest of Mrs. Cochran and the public, and as a stop-gap measure suggested that nurses with psychiatric training be secured who could watch Mrs. Cochran constantly. He said he was willing to provide guards to protect the nurses if necessary. The doctors thought that this was feasible if the cooperation of Mrs. Cochran and the apartment house authorities could be obtained. Dr. Daniels suggested that Dr. Levitt call on Mrs. Cochran at once and endeavor to obtain her consent to such a plan. The meeting broke up around 9:15.

Secretary Morgenthau and Mr. Foley came immediately to Secretary Morgenthau's office and Norman Thompson, Chief Wilson and Mrs. Klotz were sent for. Secretary Morgenthau and Mr. Foley explained what had happened. Foley was then requested by

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Secretary Morgenthau to take charge of the situation and to do whatever was necessary to carry out the plan which had been agreed upon. Messrs. Thompson, Wilson, Charles Bell and Frank Dietrich then discussed the details with Foley in his office. Foley called Dr. Levitt and asked him to engage nurses with psychiatric training when it developed that nursing assistance from Public Health and Gallinger Hospital did not appear to be feasible. Dr. Levitt said he would be glad to attend to the securing of nurses, and asked that the Secret Service men meet him in the lobby of the Jefferson Apartments at 10:45.

While Foley was discussing the matter with the group Secretary Morgenthau sent for him and told him that Mrs. Cochran was in Mrs. Klotz' office. After a brief consultation between the Secretary, Foley and Mrs. Klotz, it was decided that the Secretary should see Mrs. Cochran and endeavor to get her to go voluntarily to a private sanitarium near Washington. Foley then stepped out of the Secretary's office and telephoned Dr. Levitt to come to the Treasury at once. Secretary Morgenthau then talked with Mrs. Cochran in the presence of Foley and Mrs. Klotz. He told her that she was sick and should go to a hospital to await Merle's return. Mrs. Cochran replied that this was ridiculous; that people in the apartment house thought she was an Italian spy; that she was constantly being watched by people in the apartment above her and in the adjacent apartments; that listening devices had been installed in all the wall plugs; that mirrors were lowered outside her windows, and everything she said or did was observed by others. The Secretary then told her for Merle's sake that she should listen to him and take his advice. She then remonstrated that she would not go to a hospital under any circumstances and if she was a burden to Merle then he could divorce her. Secretary Morgenthau then urged her as strongly as he could to permit him to make arrangements for her to go to a private sanitarium outside Washington. This Mrs. Cochran flatly refused to do. Mrs. Cochran then retired to Mrs. Klotz' office where Mrs. Klotz endeavored to keep her while some plan could be developed. Dr. Levitt arrived and telephoned the Chestnut Lodge Sanitarium in Rockville. When Dr. Levitt explained to Dr. Bullard the nature of the case Dr. Bullard said there were no beds available at Chestnut Lodge. Dr. Levitt then called Sheppard-Pratt Hospital at Baltimore and was told by Dr. Petrell that there were no beds. Secretary Morgenthau then got on the phone and asked Dr. Petrell as a favor

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to him to take Mrs. Cochran off his hands. Dr. Petrell said that the Secretary's problems were greater than his and he would be glad to take care of Mrs. Cochran when she arrived.

The Secretary then sent for Chief Wilson and two Secret Service men. It was decided that an attempt would be made to get Mrs. Cochran into Dr. Levitt's car and drive her to Sheppard-Pratt Hospital. An attempt was then made to get Mrs. Cochran, who was still in Mrs. Klotz' office, to accompany Dr. Levitt. Mrs. Cochran became very excited and rushed out of Mrs. Klotz' office and ran down the Treasury corridor to Fifteenth Street. She shoved one of the female Secret Service attendants away from her and left the building. She was followed by the Secret Service men to the State Department.

In the meantime Miss Youngquist, the manager of the Jefferson Apartments called Mr. Foley and told him that something would have to be done about Mrs. Cochran; that she had become violent during the night and had hacked up all of the wires in her apartment and had gone down into the lobby with a butcher knife and had begun cutting up the moulding. She said that many of the tenants were afraid to return to their apartments and that Mrs. Cochran could not stay there any longer. Mr. Foley then explained to Miss Youngquist what Secretary Morgenthau had attempted to do. However, Foley told Miss Youngquist that, in the light of the facts which she had just communicated to him, the Secretary and Foley could not assume the responsibility for keeping Mrs. Cochran in the apartment and the matter was between Dr. Levitt, who was responsible for the safety of his patient, and the apartment house owners who had a duty to protect their tenants. Miss Youngquist told Mr. Foley that the apartment house owner had sent for his lawyer and they would take action to protect themselves and the tenants in the building.

In the late afternoon Chief Wilson telephoned Mr. Foley that Mrs. Cochran had been given the option by the local police authorities of going to Callinger or to Sheppard-Pratt. When the police arrived and she was faced with arrest or an ambulance ride to Sheppard-Pratt, she accepted the latter course.

On Saturday Mr. Foley called Dr. Petrell at Sheppard-Pratt and asked him to do whatever was necessary to see that Mrs. Cochran was properly cared for until Mr. Cochran returned from China.

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Foley explained to the doctor that a seat had been arranged for Cochran on the first Clipper and he was expected back at the office around the middle of November. Dr. Petrell said that he would be glad to care for Mrs. Cochran until her husband's return.

Attachment.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 30, 1941.

TO Mr. Foley
FROM Mr. Feidler

The following are the procedures in the District of Columbia, as set forth in D.C. Code (1940 ed.) title 21, for securing commitment of an alleged insane person to the proper institution:

(1) Any person at whose house an alleged insane person may be may apply for a writ de lunatico inquirendo and an order of commitment by filing in the District Court for the District of Columbia a verified petition therefor, containing a statement of facts upon which the allegation of insanity is based. The petition must be accompanied by the affidavits of two residents of the District of Columbia setting forth that they believe the person in question to be insane, the length of time they have known such person, that they believe such person to be incapable of managing his own affairs, that such person is not fit to be at large, that if such person is permitted to remain at liberty the rights of persons and property will be jeopardized or the preservation of public peace imperiled and the commission of crime rendered probable, and that the person is a fit subject for treatment because of mental condition. Upon the filing of

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the petition and the affidavits, the Court, or any judge thereof in vacation, has discretion to issue an attachment for the immediate apprehension and detention, for preliminary examination, of the person in question in Gallinger Municipal Hospital, and, unless found by the staff of Gallinger Hospital to be sane, in St. Elizabeth's Hospital for a period not exceeding thirty days. The person must be examined within five days of his admission into Gallinger Hospital by the staff of that Hospital.

(2) In the alternative, the Superintendent of Police is authorized to order the apprehension of any alleged insane person of dangerous tendencies upon the filing with him by two residents of the District of Columbia of affidavits setting forth the same material as required in the affidavits mentioned in (1). The Superintendent of Police must secure certificates from two physicians that they have examined the person and that he should not be permitted to remain at liberty. Upon arrest, such person is detained in Gallinger Municipal Hospital until the filing of a petition containing a statement of the facts upon which the allegation of insanity is based. Such petition must be filed within 48 hours after the person is admitted to the Hospital (or by noon of the next day, not a Sunday or holiday, if such time expires on a Sunday or holiday), and the Court, or any

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Judge in vacation may, being satisfied of the sufficiency of the petition, authorize the continued detention of said person in the Gallinger Municipal Hospital, and unless found sane by the staff of Gallinger Hospital, in St. Elizabeth's Hospital for a period not exceeding thirty days. If the staff of Gallinger Hospital find such person to be of unsound mind and suitable for treatment, the Superintendent of the Hospital may order immediate transfer to St. Elizabeth's Hospital, and must report the fact of transfer to the Commission on Mental Health.

(3) Under either (1) or (2), after the filing of the petition and detention of the person, the petition for the aforementioned writ and order of commitment must be referred by the Court to the Commission. The Commission conducts an examination of the insane person and other persons, holds hearings, and makes a report and recommendation to the Court within seven days. If the Commission finds the person in question to be insane, the Commission applies to the Court for a date for a hearing. The report and recommendation of the Commission and notice of hearing are served upon the alleged insane person and his nearest relative. The insane person or anyone in his behalf, including the Court, may demand a jury trial. If the Court is satisfied that the person is insane, or if a jury shall so find, the judge may

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commit the insane person as he in his discretion shall find to
be for the best interests of the public and of the insane person.

CAF

November 1, 1941.

MEMORANDUM FOR THE SECRETARY'S FILES:

A meeting relative to the administration of Executive Order 8389 was held in Mr. Foley's office at 4:00 P. M. on October 31, 1941, attended from time to time by the following:

Messrs. Foley (Chairman), Pehle, B. Bernstein, Coe, E. M. Bernstein, Carre, DuBois, Lawler, Dietrich and Timmons for the Treasury; Messrs. Acheson, Luthringer and Fisher for State; Messrs. Shea, Jurenev and Kreeger for Justice; and Messrs. Goldenweiser and Knapp for the Board of Governors of the Federal Reserve System.

Mr. Bernstein reported that Mr. Molekamp had recently discussed with him the question of the Dutch obtaining representation on the board of directors of General Aniline & Film Corporation. Mr. Molekamp had discussed this matter with Mr. Tuttle, attorney for the management group of General Aniline & Film Corporation, but Mr. Tuttle had not accepted Mr. Molekamp's suggestion. Mr. Bernstein told Mr. Molekamp that it was a question he would raise with this committee. The committee indicated that it did not feel that this was a request that could be supported.

Mr. Bernstein mentioned a circular that is being despatched to all Federal Reserve Banks, stating that reports filed on Form TFR-300 after October 31, 1941, should be handled in the same manner as those submitted before such date. If the Federal Reserve Banks discover after October 31, 1941, that a person is obliged to file a report, such person should be so notified in writing and a date for the filing of the report fixed.

Mr. DuBois reviewed for the committee the trip which he and Mr. Hooker of the State Department made to Haiti, the Dominican Republic and the five Central American Republics. In Guatemala, coffee fincas on the Proclaimed List own or control 45% of the coffee production of the country. It is therefore necessary to work out a plan to accomplish the two-fold purpose of allowing the coffee to be exported, thus maintaining the local economy,

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and preserving the objectives of the Proclaimed List. The Central Bank of Guatemala will supervise the sale and export of coffee produced by Proclaimed List fincas, freeze the proceeds thereof, and allow a limited amount of funds to the owners of such fincas for operating and living expenses. It was recognized that this plan does not completely carry out the basic objective of the Proclaimed List. However, only something less than an ideal program can be applied to Guatemala at this time, since it is not possible to limit Guatemalan exports of coffee to coffee produced solely by native Guatemalans. This is true for two reasons -- the native fincas do not produce enough coffee, and the coffee that they do produce is of a lower grade than that produced on the German fincas. Mr. DuBois further stated that the American Naval Attache in Guatemala reported that German interests participated in drawing up the plan of control for the government, who later submitted it to the American Legation. Mr. DuBois said that the American Legation will at all times have access to complete information as to how the plan is functioning. It was agreed that if the proposed plan is accepted we should send one or more good men to Guatemala to administer this interim arrangement and to devise a permanent solution. It was agreed that the proposed plan was only a "modus vivendi" until further steps can be taken. Mr. DuBois pointed out that the original Guatemalan plan made the Coffee Advisory Board responsible for administering the plan, but this had later been changed so as to make the Central Bank responsible. He emphasized that the American Legation in Guatemala must determine whether the plan is working satisfactorily. Mr. Acheson said he felt the best course to pursue was to accept the plan and send several men to Guatemala. Mr. DuBois said that whatever changes are to take place in Guatemala must be gradual, for the Germans have gained a strong foothold in the country and cannot be easily dislodged. Guatemala undoubtedly will have to be offered something substantial in return, such as loans by the Export-Import Bank. Mr. Foley emphasized the importance of having observers trained in the administration of the freezing control stationed at strategic points in Latin America. Mr. B. Bernstein is to send a memorandum to Mr. Acheson on this point.

With respect to the proposed transfers of gold by the Swiss National Bank, which was discussed at the meeting of this committee on October 30, 1941, Mr. Foley gave to Mr. Acheson a

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memorandum prepared by the Division of Monetary Research stating the objections to these transfers. Mr. E. M. Bernstein pointed out that we had actually received from Portugal a cable stating that when Portugal receives from Switzerland gold under earmark in the United States, gold will be released to the Swiss National Bank from amounts Portugal has in Switzerland. Dr. Goldenweiser indicated that he also favored denial of permission to effect the proposed transfers.

Mr. Fisher said that the Associated Press and the United Press had requested permission to send a small quantity of food-stuffs to their representatives in Japan. It was agreed that we should permit such shipments. The Swedish Legation has requested similar permission and Mr. Fisher is to inform the Swedish Legation that the requested permission cannot be granted.

Mr. Carre presented to the committee a second group of applications filed in connection with the purchase of the Silesian Holding Company and a loan to the Silesian-American Corporation by European interests. (Previous similar applications were denied; see Minutes of July 26, 1941). The bond issue of Silesian-American matured on August 1, 1941 and went into default. The new application differs from the old in two respects, (1) the purchase price (except that amount used to pay off the bond holders) of the Silesian-American Corporation and all of its assets in this country are to be placed in escrow, and (2) Lazard Freres is removed from the picture and Ikap comes in directly as an applicant. It was pointed out that there are two basic objections to this application -- it is probable that we can never ascertain that there is not a German interest in this and similar transactions, and in this case the escrow agreement has no protective value, for in view of the fact that the Germans are in physical possession of the properties, the securities in escrow can be cancelled and new securities issued by agreement of the parties in interest. After consideration of all the facts and circumstances of this case, it was agreed that the application should be denied. A statement announcing the denial was immediately given to the press.

Mr. Lawler discussed an application, NY 256650, filed by a group of nineteen persons to purchase the Schering Corporation.

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Fifteen of such persons are employees of Schering, the other four include two attorneys and the president of the Orpheum Circuit. It is proposed to make a cash down payment of \$300,000, and a further payment of \$1,000,000, to be paid in twenty-two semi-annual equal installments. The first installment is payable June 30, 1944. Mr. Lawler pointed out that this offer was accepted while an offer of \$2,000,000 in cash was recently rejected by the alleged owner of Schering Corporation, Chemical and Pharmaceutical Enterprises, Ltd., of Lausanne, Switzerland. Mr. Lawler also stated that the E. R. Squibb Company and the Vick Chemical Company are interested in purchasing Schering. The committee unanimously agreed that this application should be denied, and a statement was given to the press to that effect.

Mr. Lawler referred to an application filed by Sterling Products to remit \$45,000 in liquidation of obligations owed by its subsidiary in Cuba, Laboratorios Farmaco, which is now on the Proclaimed List. Mr. Lawler said that the statement of obligations which it desired to liquidate was vague and incomplete. It was agreed that Sterling should be told to submit exact statements in order that the matter could be further considered.

Stacy May asked me to ^{approve}
 give you this message: 11-1-41

On June 7 a request was made
 to R.F.C. for 600 million
 pounds of new capacity for
 producing Aluminium

At the present time Contracts
 have actually been signed
 for 330 million.

Letters of intent have been
 issued, but contracts have
 not been signed for 160
 million Annual Capacity.

Thus, to date, only
 490 million out of the
 600 million requested have
 been committed in any form.

110 million have no
 status whatever

Treasury Department

TELEGRAPH OFFICE

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HENRY M MORGENTHAU JR

SEC TREAS

UNFORTUNATELY RECORD DELIVERED TOO LATE THIS EVENING TO BE PACKED IN
TIME TO CATCH PLANE SHALL EXPRESS IT FIRST THING TOMORROW REGARDS

JEROME KERNS

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DEFENSE

BUY
UNITED
STATES
SAVINGS
BONDS
AND
STAMPS

FIELD ORGANIZATION *News Letter*¹⁷

DEFENSE SAVINGS STAFF

TREASURY DEPARTMENT, WASHINGTON, D. C.



NOVEMBER 1, 1941 NUMBER 24

TO THE FIELD STAFF:

From many of the tens of thousands of volunteer workers who make up the Defense Savings army there come expressions of appreciation for the opportunity to serve the nation in these critical days. These volunteers, in no uncertain terms, express gratitude for a privilege — a privilege of helping to build the internal lines of defense as well as to help finance the cost of the external lines.

The Navy, the Air Force, the Army, the Coast Guard, constitute those external outposts which will protect our shores against any enemy. The internal lines of defense are built upon the moral fibre of the citizens of the land. The two lines are inseparable and equally important. The mightiest of armaments are of small value unless behind them is the united support of a people believing strongly in their Government and their own future.

Every owner of a Defense Savings security is a better citizen of this Nation. His stake in the future becomes greater. He realizes more fully his responsibilities as an American.

Therefore, it is understandable why busy men and women, carrying a normal load of business, civic and social responsibilities, consider it a privilege to volunteer the necessary time for the Defense Savings Program. Every time the Program is explained, each time an American becomes a buyer of a Bond or Stamp, our Nation is made stronger and greater. One who plays so important a role in his Nation's well-being will consider it a decidedly worthwhile privilege.

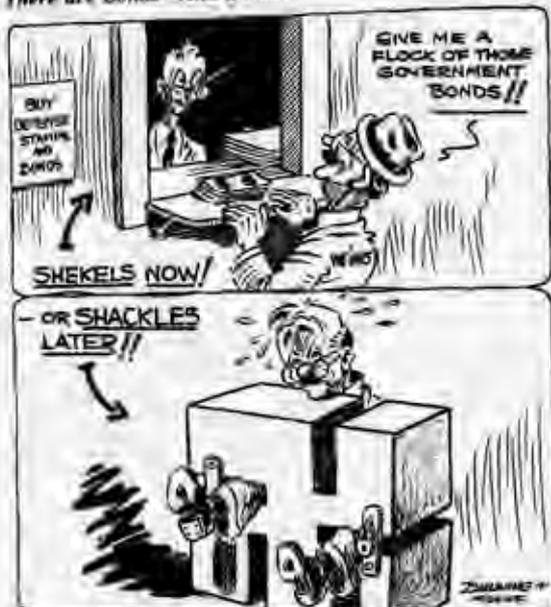
The tonic of the great task before us lies in the full knowledge that our every move for Defense Savings builds and strengthens that powerful inner line of defense so important in these critical days.

Sincerely yours,

GALE F. JOHNSTON

Field Director, Defense Savings Staff.

There are Bonds...And Bonds!



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NATIONAL CONVENTION OF THE AMERICAN LEGION
ADOPTS RESOLUTION OF ENDORSEMENT

THE FOLLOWING RESOLUTION, adopted by the official delegates to the 23rd annual national convention of The American Legion will be of interest to all members of the field staff:

"WHEREAS, the Defense Savings Bond Program of the United States is an essential part of our National Defense, and

"WHEREAS, the Defense Savings Bond Program will be an effective factor in developing national unity and will make a needed contribution to our economic welfare by encouraging continuous thrift, and

"WHEREAS, the National Executive Committee of The American Legion has endorsed the Defense Savings Bond Program and has urged definite support and cooperation;

"NOW THEREFORE, BE IT RESOLVED, that The American Legion in annual convention assembled the 15th to 18th days of September, 1941, hereby urges complete cooperation with the National Defense Savings Bond Program; and that every Post of the American Legion, and every individual legionnaire take a part in this important program by the generous purchase of bonds and by rendering every possible service to the Defense Savings Committee of each State; and

"BE IT FURTHER RESOLVED, that this Convention recommends that every citizen participate in this constructive method of safeguarding our American values and ideals."

THE COOPERATION OF THE AMERICAN LEGION with the Defense Savings Program began in April, when the National Executive Committee of the organization adopted a resolution urging all posts and all Legion members to invest to the limit of their ability in Defense Bonds. On May 1, as soon as Defense Bonds became available, Legion posts began to act upon this advice until today the total amount of Legion funds invested in Defense Bonds has reached a very substantial figure.

THROUGHOUT THE SUMMER AND EARLY FALL, the various state departments of the Legion met in annual convention, heard addresses on the Defense Savings Program by state administrators, state chairmen and others, and adopted strongly-worded resolutions pledging full cooperation of Legion posts and Legion members. Such action was taken, for example, by the Legion departments of Arizona, California, Hawaii, Maine, Massachusetts, Missouri, Nevada, North Carolina, Oregon, South Carolina, Utah, Vermont, Washington and Wisconsin.

IN EVERY COUNTY AND CITY IN THE UNITED STATES, American Legion posts have been and will continue to be depended upon to help bring the Defense Savings message to the people of their communities.

INSURANCE BUSINESS MOBILIZES TO SUPPORT DEFENSE SAVINGS PROGRAM

A concerted effort to secure installation and widespread acceptance of the payroll allotment plan for the regular purchase of Defense Bonds has been launched by the National Association of Insurance Agents, which recently concluded its annual meeting in Kansas City, Missouri.

Composed of the members of approximately 16,000 "agency firms," which employ nearly one billion persons and write more than 80 per cent of all fire, casualty, surety and marine insurance, this Association is obviously in a position to make a major contribution to the Defense Savings Program.

The Association's ultimate objective was defined by its Executive Committee as: "100%-of-all-employees in 100%-of-all-agencies adoption and participation" in Defense Savings payroll allotment plans.

Brought to the convention floor, the recommendation of the Executive Committee was given enthusiastic endorsement by the convention delegates and the following resolution was offered and unanimously adopted:

"The National Association of Insurance Agents, fully in sympathy with the plan of the Treasury Department for the sale of Defense Savings Bonds and Stamps, urges upon its own members and the entire industry the adoption of the payroll allotment plan as the most efficient manner of swinging the great economic power of a unified citizenship behind the government in this national emergency."

Secretary Morgenthau addressed the convention immediately following adoption of this resolution and thanked the Association for the action which it had just taken. He spoke by long distance telephone from his desk in Washington through the convention hall's public address system.

A transcription was made of this portion of the convention proceedings and will be circulated among the 48 state associations and 700 local boards affiliated with the National Association.

Indicative of the spirit with which the Association is approaching the task of enlisting the full participation of its members are the following remarks of Walter M. Bennett, general counsel of the Association, in a recent address before the Kansas City Chamber of Commerce:

"Defense Savings is insurance, insurance for the future of your own business, insurance for the future of America. The payroll allotment plan is a perfected 'insurance policy' which can insure the maximum degree of steady participation in the process of owning a share in their America for and by the most people -- a process which cannot help but go a long way towards insuring national unity."

At this convention, the Defense Savings Staff was represented by Jerome Van Wiseman, consultant on trade association publicity, and Jonas S. Touchstone, consulting expert on payroll allotment. Mr. Van Wiseman is the director of public relations of the National Association of Insurance Agents.

CHRISTMAS GIFT PROBLEM SOLVED!

"Everybody's seeing 'em,
Defense Stamps are okay,
They make a lasting Christmas gift
And help the U. S. A."

Defense Stamp Christmas cards are now available. In cooperation with the Defense Savings Program, all greeting card publishers are presenting a series of eight attractive Christmas cards each containing a Defense Bond album for collecting Defense Stamps of the ten-cent denomination.

These specially designed cards, illustrated below, were created and produced by a corporation set up for this particular purpose known as the "Greeting Card Industry, Inc.", (300 Fifth Avenue, New York City). The cards, which sell for five cents apiece, are to be sold only if at least one ten-cent Defense Stamp is simultaneously purchased and placed in the album. Technically, the albums attached to the cards are on loan from the Government and regulations do not permit their distribution unless they contain one or more stamps.

The cards carry a variety of sentiments, some formal, some humorous and some particularly appropriate for children.

Business firms would find some of them particularly appropriate for transmitting to their employees gifts of Defense Stamps, which take the place this year of the usual gifts of cash.



ST. LOUIS "WHITE HOUSE" DEDICATED



The replica of the White House pictured at the left is a small building about 12 feet high which now stands in front of the Federal Building in St. Louis, a contribution of the Life Underwriters' Association of that city to the Defense Savings Program.

The building which cost about \$2700 was paid for by Life Underwriters who raised a fund of \$5000 for its construction and maintenance. Since it was dedicated to the sale of Defense Bonds and Stamps on October 10, it has been a much frequented spot. Postal employees are on duty there from nine to six daily, ready to sell either Bonds or Stamps. Each week a different organization acts as its sponsor. For example,

the first week was known as "City of St. Louis Week", and Mrs. William Dee Becker, wife of the Mayor of St. Louis, was the sponsor. The Missouri Federation of Women's Clubs was the sponsor for the following week.



Participants in the dedication ceremonies; from left to right, (at the microphone) Field Director Gale F. Johnston; (seated) James Callahan, Chairman of the Breakfast Meeting which preceeded the dedication and which was attended by more than 1200 business and civic leaders; George L. Dyer, Sr., Co-Chairman, St. Louis Life Underwriters' Committee; Postmaster Rufus Jackson; Branch Rickey, Chairman, Missouri State Defense Savings Committee; The Rev. C. Oscar Johnson; Mayor William Dee Becker; (standing) Lester Becker, Missouri Chairman, Life Underwriters' Committee for National Defense Savings; Fred T. Rensch, Treasurer, Underwriters' Defense Drive; Adam Rosenthal, Chairman, Life Underwriters' Arrangements Committee.

IDEAS GET AROUND

Montana State Administrator William Bartley recently forwarded to us a copy of a letter from Leo C. Graybill, Chairman of the Defense Savings Committee in Great Falls, which we found of interest and which we believe will interest readers of the NEWS LETTER:

"Dear Bill: On behalf of the Cascade County Defense Savings Committee, I would like to express appreciation for the Field Organization News Letter, which our Committee is finding very valuable. . . .

"In one issue there was an item about a free movie matinee for school children who would present savings stamps for admission. I clipped this out of the letter and sent it to Mr. Steege, our local Fox Theatres' Manager. He at once called up and gave us a children's matinee, which was quite a stimulus in the inauguration of the sale of stamps in retail establishments.

"I saw another item about some billboard company furnishing a fine billboard in some city back East and sent that part of the letter to Mr. Al Farmer of the Fall Sign Service, and Mr. Farmer is now busy lining up a fine billboard for us which we hope to install at or near the Civic Center Building.

"Our Committee is using other items from the News Letter which we think might stimulate various groups in the city, and right at present Mr. Karl Tomaschoff, head of our marketing division, is interesting our retailers in securing badges for clerks in stores to wear, asking the customers to take their change in Defense Savings Stamps."

* * * *

"WHAT IS THE TIME?" "TIME FOR DEFENSE SAVINGS!"

More than a million and a half personal telephone Defense Bond messages each week! This is the contribution to the Defense Savings Program being made by users of Audichron equipment, according to John L. Franklin, President of the Audichron Company.

Audichron equipment is used to deliver to telephone subscribers correct time signals along with brief messages advertising some product or service. Many banks use this equipment to advertise their services and some of these banks are using transcribed Defense Bond messages either exclusively or interspersed with other regular messages.

News Letter

TO THE LADIES

Kits of Materials for Women's Organizations

Kits or packets of publications of special interest to women's organizations are now being assembled. Within ten days, these will be sent to State Administrators and to women members of state Defense Savings Committees.

Each packet will include, first of all, a mimeographed copy of the publication, Madame Chairman! This is designed to serve as a guide to women's club presidents, in the setting up of Defense Savings programs for their organizations. Until Madame Chairman! is ready in printed form, mimeographed copies will be available for use by State and local committees.

Also included in the kit will be many of the Defense Savings Staff publications referred to in Madame Chairman! including:

1. A suggested 12-minute speech for a club president to use at a Defense Savings meeting of her club.
2. A suggested 12-minute speech for a Defense Savings Bond chairman of a women's club to give before the same session of the club.
3. Discussion Questions and Answers to be used at the conclusion of the same meeting.
4. Rapid Fire Quizzes on Puzzling Points. A series of questions and answers to be used as Defense Savings reminders at the beginning or close of subsequent meetings of the club.
5. A copy of a 15-minute radio round table for women's clubs, designed for participation by a Chairman, the President of a local Women's Club, and the Mayor or other Civic Official. This is the first of a monthly series, for use over local radio stations.
6. Two leaflets, We Gals Have to Stick Together and It Is Not Too Late, suitable for general distribution to women's club members. Included also will be:



★ FOR AMERICA'S FUTURE

7. Mrs. Brown Buys a Bond. This is a new 32-page illustrated booklet, printed in two colors and intended for use in women's club study groups. Just as soon as the new order is off the press, it will be sent in quantities to state Defense Savings offices for distribution to club study groups. In addition, two or three booklets will be sent direct from Washington to each beauty shop, doctor's and dentist's office, and library in the country.

TO THE LADIES
(CONTINUED)

Food for Thought

In the last month, the National Women's Division of the Defense Savings Staff received 240 letters from Presidents of Women's Clubs in 42 States, asking for material on inflation. This is a strong indication that the women of the country, who are said to spend 85% of the money spent every year, are beginning to take notice of rising prices to the extent of trying to find out what they can do to keep them from going up any more. One of these letters came from an attorney's wife in Biddeford, Maine. It bears quoting here:

"Within the last hour, I paid 8¢ for a pint of milk, read a pamphlet on price control, heard over the radio that a Congressman says price control is 'the enemy of the farmer' and read in Commonweal that things are getting better because farmers are getting a higher price for their milk, and hogs are bringing twice what they used to bring.

"I should like to know what is the use of the farmer getting three times the value of a bottle of milk, if he has to pay four times what he should pay for a pair of cotton stockings for his wife or himself. It's a vicious circle.

"Prices are higher. Some short-sighted people seem to think they are benefitting by it, and thus are in favor of it. To others it looks like too big a battle to take on. Some people say, 'What can a few little women do to prevent inflation? It's like a little mouse squeaking among a lot of lions.' Well I say, isn't there a story about a mouse that was victorious? Send on your materials on the Defense Savings Program and inflation. Here in Biddeford we'll see what we can do."

The Ladies Are Lending

From each according to her means . . . In Nampa, Idaho - a woman gave a bridge party and presented 50¢ Defense Savings Stamps to her two guests having highest scores. In Greenwich, Connecticut - a prominent hostess who used to present her guests with expensive favors, recently put Defense Savings Bonds under the plates of her dinner guests.

In Jackson, Mississippi, those who stop at the department store Stamp booth staffed by the Women's Division of the Hinds County Committee and wish to purchase Defense Bonds may fill out bond application forms and leave their money. Attendants at the booth arrange with a local bank for the issuance of the Bond, and the customer stops later in the day at the booth and picks up the Bond purchased.



*The
Fight
Against
Inflation*

The Answer
* * *

News Letter

ILLINOIS

Organization Taking Shape; Many Activities Publicize Program

PROGRESS in the formation of the Illinois State Committee, in the selection of county chairmen, in the opening of downstate offices (in Peoria and Springfield), and in publicizing the Defense Savings Program in a wide variety of ways is reported by State Administrator Norman B. Collins and Deputy State Administrator John G. Gallaher.

BIG EVENT scheduled for November is a "Defense Show" which, taking the place of the cancelled Auto Show, will relate National Defense to the Defense Savings Program. The Junior Chamber of Commerce and various other organizations have promised to give Administrator Collins full cooperation to make this show a great success.

MANY NATIONAL ORGANIZATIONS meeting in annual convention in Chicago learn of the Defense Savings Program through special booths and displays arranged by the Chicago office. For example, at the annual meeting of the National Restaurant Owners Associations, the film "America Preferred" was shown and Stamps were sold and Defense Bond questions answered at a booth staffed by experienced personnel from downtown banks. Special arrangements have also been made to bring Defense Savings prominently to the attention of delegates to the annual convention of the Polish National Alliance, to be held November 2 at the Chicago Civic Opera House.

EDITORS OF FOREIGN LANGUAGE PAPERS in Chicago met recently in the state headquarters office to learn how they could cooperate with the program. A similar meeting of the editors of neighborhood and suburban newspapers has also been scheduled.

CHICAGO'S 5,000 CHINESE have pledged themselves to a man to buy Defense Bonds and Stamps. The Chicago branch of the Chinese Emergency Relief Association has assumed responsibility for boosting the Savings Program in Chicago's Chinatown.

STARS OF THE ENTERTAINMENT WORLD are frequent visitors at the Chicago Defense Savings Staff headquarters. For example, Jack Benny of radio and movie fame recently called and was photographed there buying a Defense Bond from Clifford F. Young, President of the Federal Reserve Bank of Chicago.



THE CHIMES OF "OLD HEIDELBERG," well known restaurant in Chicago's Loop, now play "Any Bonds Today?" As these chimes are played outside the building, they are heard by thousands of passers-by, particularly during the noon hour.

CAR CARDS advertising Defense Bonds and Stamps have been donated by the Chicago Motor Coach Company.

News Letter

ILLINOIS (Continued)

FIRST BIG STATE STREET STORE to install a payroll allotment plan is The Fair.

FIRST THEATER CHAIN in Illinois to install an allotment plan was Balaban and Kats.

BEST RECORD FOR PARTICIPATION IN A PAYROLL ALLOTMENT PLAN of any Chicago concern is believed to have been hung up by the Engineering Department of the Chicago Surface Lines. This Department, which includes track maintenance workers and has about 1,800 employees, reports that 87% are saving for Defense Bonds through payroll allotments. At the same time, more than 40% of the entire force of 15,600 employees of the Surface Lines are participating in the plan. The photograph at the right is from a recent issue of the Surface Service Magazine.

OTHER PROMINENT CHICAGO FIRMS which have installed allotment plans include:

Armour and Company
Cudahy Packing Company
Fairbanks Morse Scale Company
International Harvester Company
Kellogg Switchboard & Supply Co.
Peoples Gas Light & Coke Co.
Rock-Ols Company
Rudolph Wurlitzer Co.
Spiegel Incorporated

INSURANCE MEN in the Chicago area have volunteered their services to Administrator Collins, and plans are now being completed for using them in connection with a systematic effort on behalf of payroll allotment.

THE FOLLOWING INCIDENT, although unusual in itself, typifies the full measure of cooperation which Illinois bankers are giving to our Program:

During Retailers for Defense Week, Eugene W. Kasper, President of the First National Bank of Cicero, came to the Chicago office. He stated that he had noticed that many retailers in his community were not displaying Defense Savings posters, and presented an itemized list of the supplies he felt were needed in Cicero — a list which included some 5,000 items. When the material was assembled, he loaded all of it into a truck and rode off with the driver to personally supervise its distribution.



SIGNING UP FOR BONDS

Typical of the Truck Department employees, who made the best showing in buying Defense Savings Bonds under the Pay Roll Allotment Plan of workers in any major department, are those Brothers Dryden Truck workers, who listen while Assistant Foreman Carl Mendenhall (left) explains how to fill out the allotment card.

Left to right, the men are: Mr. Mendenhall, Miss Lynch, Jerry Smith, Matthew Rosemark and Dorothy Peterson.

News Letter

NEW JERSEY

County And City Committees Being Formed; Cities Install Allotment Plan

COUNTY COMMITTEES are being set up in each of New Jersey's 21 counties. In the populous counties in the Northern part of the State these committees are composed of (1) an Honorary Chairman; (2) a general chairman; (3) a member at large, usually representing organized labor; and (4) the Honorary Chairman and general chairman of the Defense Savings Committees for each of the county's cities. This makes a committee which is representative and at the same time small enough to function effectively. City and town committees are organized along functional lines according to the standard pattern.

BANKS in New Jersey are making it possible for their customers to authorize periodic drafts on their accounts to purchase Defense Bonds. One of the first to take advantage of this plan was Mrs. Mary T. Norton, Member of Congress for New Jersey's Thirteenth Congressional District. In a letter to her bank, the First National of Jersey City, which was made public at the first meeting of the Jersey City Committee, Mrs. Norton said:

"I consider the buying of Defense Savings Bonds not only a very good financial investment but the patriotic duty of every American. . . . I would go further and say that I believe that every American should buy Defense Savings Bonds even though it means a personal sacrifice to do so."

A DEFENSE BOND DISPLAY BOOTH at the Trenton State Fair was arranged by the New Jersey Bankers Association and staffed by members of the Trenton Clearing House Association.

FIRST CITY in New Jersey to install a salary allotment plan for municipal government employees was NEWARK. Seven girls applied simultaneously for the honor of being the first to sign an allotment authorization and at the suggestion of Administrator Manning, they drew lots to determine who would have this distinction. Below, Miss Juanita West, an employee of the City's Department of Revenue and Finance, the winner of this drawing, signs her card



in the presence of (left to right) Mayor Vincent J. Murphy, State Administrator John E. Manning and Postmaster John F. Sinnott, Jr.

SECOND CITY in the State to have an allotment plan was JERSEY CITY, which has issued a pamphlet describing its allotment procedure in detail.

THIRD CITY in this group was PERTE AMBOY.

NEW JERSEY
(Continued)

Perth Amboy is the home of G. C. Miller, member of the Labor Division of the State Defense Savings Committee and he was largely responsible for securing adoption of the payroll allotment plan by this municipality.

PROGRESS OF THE SALARY ALLOTMENT PLAN in New Jersey is summarized statistically in the September issue (the second) of the New Jersey News Letter: 255,000 or approximately 30% of all workers in the state are employed by firms which have installed the plan. This represents a very substantial increase from the comparable figure (162,000) as of the end of August.

NATIONALLY KNOWN New Jersey concerns not previously mentioned in the NEWS LETTER, which have recently announced the installation of payroll allotment plans include:

American Cyanamid Company
Bamberger's Department Store
Colgate Palmolive Peet Company
Edison Industries

ONE OF THE MOST ACTIVE MEMBERS of our Field Staff is the Chairman of the New Jersey State Committee, Albert W. Hawkes. Mr. Hawkes, as president of the Chamber of Commerce of the United States, has just returned from a trip which took him into fifteen states in each of which he addressed large gatherings of business leaders. In these addresses, he stressed Defense Savings as one of the important movements to strengthen the Nation and guarantee the future of the individual.

"Nothing is more important than for business management to teach all employed in business that we must have individual thrift and saving in this Nation in order to strengthen the individual against the problems of delay in employment in the post-Defense period," said Mr. Hawkes in a recent address. "Every individual should be taught that he should save all or part of his additional earnings in this period when employment is plentiful and wages high."

In private life, Mr. Hawkes is President of the Congoleum-Nairn Company of Kearny, New Jersey, where recently a payroll allotment plan was enthusiastically adopted by a large percentage of the employees.

* * *

PRIZES at the annual golf dinner party of the United States Trust Company were Defense Bonds. State Administrator John E. Manning, number one Defense Bond dispenser, by winning the non-golfers prize - a \$25 Defense Bond - gave New Jersey newspapers a "man bites dog" type of story.

News Letter

Introducing the members of the

STATE DEFENSE SAVINGS COMMITTEE FOR NEW JERSEY

HONORARY CHAIRMAN:
Governor Charles Edison

STATE ADMINISTRATOR:
John E. Manning

CHAIRMAN:
Albert W. Hawkes
Congoleum-Mairn, Inc.

DEPUTY STATE ADMINISTRATOR:
Paul M. Canada

COMMITTEE MEMBERS

AGRICULTURE - Willard H. Allen, State Department of Agriculture; David H. Agans, New Jersey State Grange; Robert M. Dillatush, Jr., Association of Cooperative Mkt. Associations; H. H. Hollinshed, United Milk Producers.

BANKING AND FINANCE - Horace K. Corbin, Newark; F. Morse Archer, Camden; George R. Beach, Jersey City; Robert W. Cowan, Newark; Kelley Graham, Jersey City; Caleb S. Green, Trenton; Frank C. Mindnich, Newark; Ernest A. Minier, Newark; Julius S. Rippel, Newark; W. Paul Stillman, Newark; W. D. Vanderpool, Newark; Carl K. Withers, Newark.

EDUCATION - Dr. Harold W. Dodds, Princeton; Dr. Robert C. Clothier, Rutgers; Harvey N. Davis, Stevens Institute; Monsignor James F. Kelley, Seton Hall.

INDUSTRY AND TRADE - F. P. Schluter, Thermoid; George E. Batt, Dugan Brothers, Newark; Harry L. Derby, American Cyanamid; Arthur C. Dorrance, Campbell Soup; M. B. Gordon, Wright Aeronautical; George Merck, Merck & Company; Col. Arthur Walsh, Edison Industries; Richard Weil, Jr., L. Bamberger, Newark.

INSURANCE - John R. Hardin, Mutual Benefit Life; John R. Cooney, Firemans; Franklin D'Olier, Prudential; Paul B. Sommers, American.

LABOR - Hon. John J. Toohy, Jr., State Commissioner of Labor; C. H. Carr, Brotherhood of Railroad Trainmen; John Green, Marine & Shipbuilding Workers Industrial Union; Louis Marcianti, State Federation of Labor; Joseph Quinn, Hudson County Central Labor Union; Samuel L. Rothbard, C.I.O.; Sal Maso, New Jersey Building Trades Council; George C. Miller, Brotherhood of Railroad Trainmen; Frederick Scholl, New Jersey Building Trades Council.

PUBLICITY - Arthur J. Sinnott, Newark Evening News; Leonard Dreyfuss, United Advertising Corporation, Newark; James Kerney, Trenton Times.

SPEAKERS - A. Harry Moore and Harold G. Hoffman, former Governors of New Jersey; Commander Edward Elleberg, Westfield.

WOMEN - Mrs. Patrick Henry Adams, Maplewood; Mrs. Henry C. Barkhorn, Newark; Mrs. Oswald R. Carlander, Merchantville; Mrs. Stuart Henderson, Ridgewood; Mrs. Samuel I. Kessler, Newark.

HOOSIER CO-ED AND FOOTBALL PLAYERS GIVE US A SEASONABLE PICTURE



"Publicity directors at Indiana colleges and universities have been giving fine publicity to the Defense Savings Program," writes State Administrator Will H. Smith. "Loud speaker announcements, the distribution of Defense Bond circulars, and pictures like the enclosed have all helped". The picture referred to, shown above, was taken recently in Greencastle, and includes Miss Jean Cooley of St. Louis, Queen of the DePauw University "Home Coming", and football players George Crane of Dayton, Ohio, Captain of the DePauw Tigers, and Warren Brown of Chicago, star half-back of the Butler University team.

* * * * *

"At the Vanderbilt-Georgia Tech game in Nashville," writes Robert H. Horeley, assistant to the Tennessee Deputy Administrator, Jo Gibson, Jr.. "I arranged for the tune 'Any Bonds Today?' to be played on the public address system just before the game started. . . During the game at time-out periods, the announcer used three or four announcements which I had written about Defense Bonds and Stamps. Then, as the game was over and the crowd started for the exits, the tune 'Any Bonds Today?' was played again. The crowd seemed to get a kick out of it and we have heard a great deal of favorable comment. . . For the Vanderbilt-Princeton game, I arranged for one of our Defense Bond folders or pamphlets to be placed in each football program sold at the game."

News Letter

AN EMPLOYER WRITES A FINE LETTER TO HIS EMPLOYEES

Below is the full text of a letter addressed to all of the 63 employees of the Motor Supply Company of Savannah, Georgia, by W. C. Thompson, President of this Company. This is printed here because the spirit of the letter is so fine and because Mr. Thompson has expressed so well the thoughts which we believe have been in the minds of many business men who this year have either given or have planned to give their employees bonuses in Defense Bonds.

"Dear Frank: Attached is a \$25.00 United States Defense Bond for you.

"We have decided to make a present of one of these bonds to each member of our organization, as we thought it would be something you would appreciate and think lots of as a gift from us. If you do not now own one of these Defense Bonds, we hope you will strive to accumulate more of them by saving a part of your earnings and investing it in these Defense Bonds. We feel that there is no finer way for us to show our patriotism in a time like this than to deprive ourselves of some of the pleasures we now enjoy and investing in a cause so worthy.

"This little token is being given to you in hopes that as long as you are in our employ, that at the end of each year, you will be able to look back and see that you have accumulated some little something for the future. We want every member of our organization to go forward.

"If the younger ones in our organization will look around at those who have been with us for a long time, they will see that those who have been thrifty and tried to accumulate something, have succeeded. We hope that every member of our organization will be better and better off as the years go by.

"Let's put forth our efforts towards a goal which will mean success, security, and happiness for each one of you and your families."

A QUOTABLE QUOTE:

"Save for yourself while you save the democratic way of life! Defense Savings Bonds offer everyone a chance to take his part in the defense of his country. Build up your bond balance while building your nation's bombers!"

--Frank C. Rand, Jr., Chairman of the Defense Savings Committee for the State of New Mexico.

News Letter

DIGS DEEP FOR NATIONAL DEFENSE



J. H. Googe of Whitmarsh Island, near Savannah, Georgia, is shown above as he begins to dig up a strong box containing \$600 in coins which had been buried beneath a pecan tree in his back yard for two decades. On the right he is lifting the box from the ground. He later took it to the Citizens & Southern National Bank and purchased Defense Bonds.

"I have really dug deep for this money," said Mr. Googe, who is an engineer on the Seaboard Railway. "I would like to see everybody in this country do the same. This is a time when every man should do his part to help in the National Defense Program."

TAX REFUND HELPS BUY DEFENSE BOND

Andrew Duka, a druggist in Bridgeport, Connecticut, recently received an income tax rebate check for \$4.40. After pondering the matter he sat down and wrote to State Administrator Thomas S. Smith:

"We do not think it is right to take money back from the United States at this time. So we add a check for \$95.60 to make it an even \$100 for one Defense Savings Bond."



Understandably impressed, Administrator Smith arranged for this unusual purchase to be properly recorded. At the right is the scene in Mr. Duka's drug store when the transaction was formally completed. Deputy Collector of Internal Revenue Ralph A. Piccolo, (left) hands the refund check and Mr. Duka's personal check to Mr. Duka; Postmaster Peter M. Davey prepares to receive the checks and deliver a \$100 Defense Bond. At the extreme right, Alpheus Winter, Chairman of the Defense Savings Committee for Bridgeport looks on. (Of course, Mr. Duka did not have to pay \$100 for his bond as he had expected. The issue price of Series E Bonds of this denomination is \$75.00.)

ANOTHER TOWN 100%

HILLMAN, Michigan through its Mayor, Frank Andrews, has recently reported that every one of its 400 citizens now has an investment in Defense Savings Bonds or Stamps. The Chamber of Commerce donated Stamps to the few persons unable to buy them.

As reported in previous NEWS LETTERS, MEDDYSHEMPS, Maine (population 100) and SHELBYVILLE, Missouri (population 756) have made similar announcements.

Are there other towns in the United States which have equaled the record of these three?

What town or city will be the first to report 100% of all families enrolled in a systematic purchase plan - a Bond-a-Month or a Stamp-a-Week?

YOUTH OF NATION ALREADY WELL SOLD ON DEFENSE BONDS

If given \$100 "all his own," one out of every three youngsters in the United States would invest the entire amount in United States Defense Savings Bonds, results of a nation-wide poll recently made public indicate.

William T. Reed, Chicago manufacturer, has informed the Treasury Department that ten thousand children between the ages of eight and thirteen were included in the poll conducted by his organization with the cooperation of the Y. M. C. A. and other groups sponsoring summer camps. Children from families of all income groups were included in the poll.

Thirty-five per cent of the boys and twenty-eight per cent of the girls representing thirty-three per cent of all children in the poll, said they would invest the \$100 in Defense Bonds. Forty-seven per cent said they would put the money in the bank, one per cent would buy toys, seven per cent would purchase clothing, and two per cent would take "special lessons."

NEW CAR CARDS IN MANY CITIES

The Wrigley Chewing Gum Company is now completing the distribution of some 52,000 car cards which will advertise Defense Savings Stamps in more than 140 cities. These car cards reproduce the newly designed Wrigley Marine and "girl in plaid." Except for this colorful and attractive design in the center of the card, there is no indication of Wrigley Company sponsorship, and the text is entirely devoted to a boost for Defense Savings. In addition, the Wrigley Company is placing this design on 6,588 24-sheet posters (12 ft. x 25 ft.), which will appear in about 3,000 cities and towns.

* * *

"YOU CAN'T BUY DEFENSE BONDS IN FRANCE OR POLAND. YOU STILL CAN IN EMPORIA."

-Emporia Gazette

PRISON WALLS NO BARRIERS TO PARTICIPATION

"Esirford Town Hall" is an organization of about one hundred men in the Florida State Prison at Esirford, Florida, who are anxious to keep their minds alert and in touch with current affairs and who merit an extra two hours' free time each week. These two hours are used for meetings at which outstanding speakers talk on current national and international problems and then answer questions during an open forum period.

Florida State Administrator John L. Fahn, several weeks ago addressed this "Town Hall" on the Defense Savings Program. Following his talk, it was agreed that every member should purchase Defense Stamps regularly and then that the Town Hall group should carry the Savings Program to the entire institution.

The following letter recently received by Administrator Fahn from Al Neat, long time inmate and president of the open forum organization indicates the reaction to his address:

"Although we may be among the forgotten men here, I want to assure you that everyone of us are 100% Americans and would gladly give our lives for the great country we are such a small part of. . . We all realize what liberty means, as we are in prison, but there are millions of people in Europe that, although they are free (meaning not in prison), have not the liberty that we convicts have here in the United States. I have lived for years in Germany and know exactly what Herr Hitler and his gang are doing to a people that was once famous for their culture, music and science.

"If there is anything our organization can do to help just a little, please call on us and I assure you that we will be only too happy and proud to be able to do our share, in keeping our Country what it is and what it will always be, a God-loving, free land of liberty and happiness."

Later reports indicate that a great many inmates of this institution are buying Defense Stamps regularly and that the total volume of sales is surprisingly high.

ALBUMS FOR TEN-CENT DEFENSE STAMPS AVAILABLE

School children like the new albums for ten-cent Defense Savings Stamps. Most postoffices have now received a supply of these albums to supplement the supply of cards usually provided for accumulating Defense Savings Stamps of the smallest denomination. However, as the present supply is limited, they have been asked to give preference to school children in distributing them.

The new albums look exactly like the albums for stamps of the higher denomination and have places for fifty ten-cent stamps.

News Letter

"ANY BONDS TODAY?" THE ANSWER IS "YES!"



The 34 executives and employees of the Southern Automatic Music Company of Louisville, Kentucky "V-Up" to display their Defense Bonds. The entire Automatic Phonograph industry is now engaged in a campaign to stimulate the sale of Defense Bonds and Stamps both within the industry and to the public. By November 9, according to leaders of the industry, "Any Bonds Today?" will be found in the first position on practically all of the 300,000 automatic phonographs in the country.

ANOTHER CLUB GOES 100%
FOR DEFENSE SAVINGS



All of the 42 members of the Bald Headed Club of St. Cloud, Minnesota are buying Defense Bonds and Stamps regularly. In the picture above, club members are discussing the Defense Savings Program. (The pictures on the wall are of Honorary Members, Frank Walker and James A. Farley.)

FISHES FOR BONDS!



In the picture at the right, above, Jimmie Gibbons, an Indian guide in the "Northwest Angle" country, presents a string of fish to Postmistress Helen Arnold in final payment for a Defense Bond. This unusual transaction was recorded a few weeks ago in Pense, Minnesota, "the most Northerly Post Office in the United States".

EXECUTIVE ORDER

2062

DIRECTING THE COAST GUARD TO OPERATE AS
A PART OF THE NAVY

By virtue of the authority vested in me by section 1 of the act of Congress approved January 28, 1915, 38 Stat. 800 (U.S.C., title 14, sec. 1), as amended by sections 5 and 6 of the act of July 11, 1941, Public Law 100, 77th Congress, 1st Session, it is hereby directed that the Coast Guard shall from this date, until further orders, operate as a part of the Navy, subject to the orders of the Secretary of the Navy.

All Coast Guard personnel operating as a part of the Navy, subject to the orders of the Secretary of the Navy, pursuant to this order, shall, while so serving be subject to the laws enacted for the government of the Navy: Provided, That in the initiation, prosecution, and completion of disciplinary action, including remission or mitigation of punishments for any offense committed by any officer or enlisted man of the Coast Guard, the jurisdiction shall depend upon and be in accordance with the laws and regulations of the Department having jurisdiction of the person of such offender at the various stages of such action: Provided further, That any punishment imposed and executed in accordance with the provisions of this paragraph shall not exceed that to which the offender was liable at the time of the commission of the offense.

FRANKLIN D. ROOSEVELT



The National Archives

Washington, D. C.

NOTES CONCERNING THE FRANKLIN D. ROOSEVELT LIBRARY AT HYDE PARK, N. Y.

Presidential papers that have recently been transferred to the Franklin D. Roosevelt Library include files of greetings and invitations received by the President, together with copies of replies, 1933-40; daily schedules of appointments, lists of visitors, and travel itineraries, 1933-40; letters of opinion received from the public on various domestic and foreign policies of the Administration, 1933-41; and letters received from clergymen in reply to the President's circular request of September 23, 1935, for advice on problems of social legislation and unemployment. Other recently acquired manuscript material includes correspondence of Mrs. Franklin D. Roosevelt, 1934-37, and files of letters received by James A. Farley from leaders of the Democratic Party during the campaigns of 1930, 1932, and 1936. The collection of printed materials on naval history has recently been supplemented by an additional gift of about 1,000 books from the President. Progress has been made in the work of arranging the manuscripts and books, but they are not yet available for use.

The Franklin D. Roosevelt Library has been visited by nearly 35,000 persons since the museum portions of the building were opened to the public on July 1. The exhibits are frequently changed and include occasional loan exhibits, such as a recent display of drawings made for the WPA Index of American Design and a showing of a set of studies made by Olin Dows for his murals in the post office building at Hyde Park.

November 1, 1941

November 1, 1941

CONFIDENTIAL

Dear Mr. Knobe:

Permit me to acknowledge, on behalf of the Secretary, the receipt of your letter dated October 30, 1941, enclosing your compilation for the week ended October 22, 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. REEL

Under Secretary of the Treasury.

Mr. L. V. Knobe,
Vice President,
Federal Reserve Bank of New York,
New York, New York.

FD:lap-11/1/41

DEPARTMENT OF STATE

WASHINGTON

copy
in reply refer to
611.59 A 31/63

November 1, 1941

My dear Mr. Bell:

With reference to recent correspondence concerning the proposals which the British Government are making to the Icelandic Government with respect to Icelandic-British fiscal relations, there is quoted for your information the following excerpt from a memorandum dated October 21, 1941 of a conversation between a representative of the British Embassy and an officer of the Department of State:

"Under instructions from Assistant Secretary Berle I telephoned Mr. Wyndham White and told him that in the view of the Department of State the proposals which the British Government were considering making to the Icelandic Government with respect to Icelandic-British fiscal relations were fair and reasonable and that we would advise the Icelandic Government accordingly. With respect, however, to sub-paragraph (f) of his memorandum numbered II which reads as follows:

"His

The Honorable

Daniel W. Bell,

Under Secretary of the Treasury.

-2-

"His Majesty's Government agree to relinquish control of Krone - sterling rate provided that Icelandic Government agrees to make available without limit and at present rate the Krone required by His Majesty's Government for British forces in Iceland."

I stated that I wished to observe that the Icelandic Government might object on the ground that there was an apparent inconsistency between the British Government's offer to relinquish control of the Kronur-sterling rate and their desire to have the Icelandic Government agree to make unlimited kronur available to the British at the present rate. I said that in my own personal opinion, the Department might be reluctant to press the Icelandic Government to agree to this point."

Sincerely yours,

For the Secretary of State:

(Signed) Dean Acheson

Assistant Secretary

Copy:lc:11/4/41

CONFIDENTIAL

CONFIDENTIAL - NOT FOR PUBLICATION

32

PARAPHRASE OF TELEGRAM RECEIVED

FROM: AMERICAN EMBASSY, RIO DE JANEIRO
TO : Secretary of State, Washington
DATE: November 1, 1941, noon
NO. : 1631

CONFIDENTIAL -- NOT FOR PUBLICATION

It is very pleasing to me to report that I have just been informed by President Vargas that he has signed a decree law exempting United States banks including, of course, National City Bank branches in Brazil from the law which makes it compulsory for all foreign banks to liquidate by 1946 their business in Brazil.

CAFFERY

eh:copy
11-7-41

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE November 1, 1941

TO *For: Special Chaucery* Secretary Morgenthau
 FROM Mr. Dietrich

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£13,000
Purchased from commercial concerns	£5,000

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

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

Canadian dollar	11-1/4% discount
Argentine peso (free)	.2378
Brazilian milreis (free)	.0505
Colombian peso	.5775
Mexican peso	.2070
Uruguayan peso (free)	.4625
Venezuelan bolivar	.2580
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. 534 M.I.D., W.D. 11:00 A.M., November 1, 1941

SITUATION REPORTI. Eastern Theater.

Ground: Fighting continues on the central front. Russians admit that the Germans have reached Tula.

On the southern front the advance in the Donets Basin continues. Germans claim the capture of Chuguyev and Slavyansk.

German advance in the Crimea has reached Dzhurun (31 miles south of the Isthmus of Perekop).

II. Western Theater.

Air: The R.A.F. last night raided Bremen, Hamburg, and ports along the occupied French coast. There were indications that one of the heaviest daytime raids on France was launched early yesterday morning.

The British claim heavy damage against Axis shipping off the Norwegian coast and the Frisian Islands last night. There is no report of German operations in this theater.

III. Middle Eastern Theater.

Air: The Rome radio reports British raids on Naples, Palermo, and nearby industrial areas.

Ground: There has been no unusual ground activity reported recently.

RESTRICTED

BRITISH EMBASSY,
WASHINGTON, D.C.
November 1st, 1941.

Personal and secret.

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

Halifax

Honourable
Henry Morgenthau, Jr.,
United States Treasury,
Washington, D. C.

Telegram from London dated October 31st.

1. Naval. United States fleet oiler Salinas in conv. attacked by U-boat a.m. 30th 600 miles east of Newfoundland. Hit twice, she is proceeding to harbour at 7 knots.
2. Military. Russia. Moscow sector. Russian wireless admits serious situations in areas of Wolok-olamsk (between Rzhev and Moscow) and Tula (120 miles due south of Moscow).
Donets Basin. Axis forces are advancing towards River Don in area Northwest of town of Stalin.
Rostov sector, no change.
Crimea: German advance into Crimea is continuing.
3. Royal Air Force. United Kingdom night of 29th/30th Brest received 21 tons H.B., Schipol aerodrome 11 tons. Day of 30th during offensive operations over Northern France bombs dropped on railway enclosure and factory near Hardelet. Night of 30th/31st operations cancelled owing to bad weather.
4. Libya. 29th/30th five hours sustained attack on Tripoli (L), 23 tons H.B. on railway buildings, engine sheds and sidings.

BRITISH EMBASSY
WASHINGTON, D.C.

PERSONAL
AND SECRET

2nd November, 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,

(for Lord Halifax)
R. J. Campbell

Enclosure

Mr. Secretary,

British Embassy,

Washington, D.C.

Telegram from London dated 1st November, 1941.

NAVAL

1. United States destroyer Reuben James escorting convoy HAP 56 torpedoed and sunk by U boat 51⁰ 59' N 27⁰ 05' W at 0640/31.
2. Two enemy air attacks on Northbound coastal convoy caused beaching of Greek merchantman and one medium sized British tanker.
3. Outward bound Atlantic convoy attacked by U boats. One ship sunk.
4. Slight damage to Mygenses lighthouse (Faroes) in aircraft attack midday 30th.
5. On 10th H.M. submarine Thunderbolt sank a Caique east of Crete.

MILITARY

6. Russia Between Leningrad and Lake Ilmen Germans have made slight progress east of River Volkhov. Moscow sector, no change. German threat to Tula has increased. Rostov, no change. Crimea, German mechanized forces overcoming strong Russian resistance have advanced approximately half way from Perskof to Sebastopol. Situation is serious.

ROYAL AIR FORCE.

7. Day 31st. Hurricanes claim hits on Holsas transformer station, a small vessel off west coast of Denmark and 900 ton merchant vessel off Frisian Islands also have destroyed three barges, also Flak ship off Ostfleur crippled.

- 2 -

8. Night 31st/1st. Approximately 195 aircraft sent as follows - Hamburg 120, Bremen 50, Dunkirk 25. Beauforts attacked shipping off Norway 7 merchant vessels (3 of 3,000 each) tanker and Flek ship being hit. Hit also obtained on 4,000 ton merchant off Frisian Islands.
9. Night 29th/30th. Shipping attacked off Crete. 31st Licata (Sicily) 4 tons H.E.

PARAPHRASE OF TELEGRAM SENT

To: American Consulate General, Shanghai, China

Dated: November 2, 1941, 1 a.m.

No.: 917

This relates to the Consulate General's telegram of October 15, 9 a.m., no. 1472 and to telegram no. 418 sent by Chungking at 9 a.m. dated the seventeenth of October.

This Department has consulted with the Treasury Department. As far as can be foreseen by the Treasury Department the Stabilization Board's activities would not be affected adversely by a negative decision. After considering the above statement, your recommendation, and the concurrence therein of the Embassy, your attitude as outlined in your reference telegram is approved by the Department.

This telegram is sent to Shanghai and is repeated to Chungking.

HULL
(SW)

FF:FL:NCW

GRAY

41

Berlin

Dated November 2, 1941

Rec'd 2:56 p.m.

Secretary of State,

Washington.

1941, November 2, 10 a.m.

According to an interview given to the press by State Secretary Reinhardt of the Finance Ministry the total tax revenues of the Reich from April through September of this year were 15 point 8 billion marks. Thus tax revenues in the second quarter of this fiscal year totaled 8.6 billion marks as compared with 7.3 billion marks in the first quarter. He estimated that total tax revenues for the fiscal year will be at least 32 billion marks which is somewhat above his recent estimate of 31 billion marks. He estimated the total income of the Reich during this fiscal year including taxes, administrative fees war contributions of the communes matricular contributions and costs of occupation at 45 billion marks as compared with his recent estimate of more than 40 billion marks.

Assuming that the Reich continues to borrow at the same rate as during the first four months of this fiscal year (There is at present a sharp upward trend observable) total borrowings plus other income would reach 93 billion marks during the present fiscal year. This does not include indirect borrowings such as increases in Germany's clearing debts and it does not represent total public expenditures since the taxes paid to provincial and local governments estimated at 5 billion marks for 1938 are not included.

MJC

NORRIS

November 3, 1941
2:30 p.m.

Grace
Tully: Hello.

HMJr: I just want to report to you, and incidentally to the President - I'm in Washington.

T: Yes.

HMJr: Will you tell him?

T: Yes, indeed. And I want to report to you that it was "The Blithe Spirit."

HMJr: (Laughs) Right again.

T: Just in case you're interested, I saw it in the paper the next day.

HMJr: Yeah, you're always right.

T: (Laughs) All right, Mr. Secretary. We're coming down tonight and will be there in the morning, but I shall tell him you are in Washington today.

HMJr: Now. And would you tickle his memory on Thursday morning?

T: On Thursday morning.

HMJr: Yes.

T: Right, sir, I will. I'll let you know tomorrow.

HMJr: How's the weather up there?

T: Lovely today.

HMJr: Well, I voted and then I flew down.

T: Good.

HMJr: Yeah.

T: You should have stayed and voted often. (Laughs)

HMJr: I didn't have time.

- 2 -

T: I see. (Laughs) All right, fine, Mr. Secretary.
I'll check with you tomorrow on the appointment.

HMJr: Thank you.

T: Good. Good-bye.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 3, 1941

TO Secretary Morgenthau
FROM Mr. Barnard

The attached memorandum from Mr. Mack with the list annexed will answer, I think, your inquiry as to what materials we could not get fairly immediate delivery on. As you will note, the situation has now so changed that it requires the aid of OPM to get prompt deliveries or required quantities of a considerable list of items. This involves indefinite delays where defense purposes are not immediately to be served.





TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

November 1, 1941

MEMORANDUM TO MR. BARNARD:

Your memorandum of October 28th requested that a list be furnished for the Secretary's information of important raw material items on which deliveries could not be obtained within a week.

All critical and strategic materials are subject to allocation or priority upon a showing of use that warrants such determination, accordingly deliveries are made in such quantities and at such times as availability of the particular commodity permits, for example, the lend-lease steel requirements for Britain are requisitioned in the quantities needed and allocations have been made by OPM accordingly. In other cases, however, such as aluminum, copper or zinc, there is difficulty in obtaining the quantity desired and allocations or priority ratings are established for those quantities which can be furnished. It usually follows, however, that the British, through consultation with OPM, are informed as to those metals which are tight and proceed accordingly. Without allocation orders or priority ratings by OPM, there are numerous raw materials on which deliveries could not be obtained within seven days, and in some cases, not at all, for example, copper. There is attached to this memorandum a list of the strategic and critical raw materials.

There are certain raw materials outside of the metals group which we have been buying in substantial quantities, such as sulphur and phosphate rock, but they have been available in quantities in excess of the ability of requisitioners to transport and no allocation or priority is required.

If further information is required please advise.

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

NOV 3 1941

7-2-41

STRATEGIC MATERIALS

Antimony	Mercury	Rubber
Chromium	Mica	Silk
Coconut shell char	Nickel	Tin
Manganese ferrograde	Quartz crystal	Tungsten
Manila fiber	Quinine	

CRITICAL MATERIALS

Aluminum	Iodine	Platinum
Asbestos	Kapok	Tanning Materials
Cork	Opium	Toluol
Graphite	Optical glass	Vanadium
Hides	Phenol	Wool

THE BRITISH SUPPLY COUNCIL IN NORTH AMERICA

TELEPHONE: REPUBLIC 7880



Box 980
BENJAMIN FRANKLIN STATION
WASHINGTON, D. C.

November 3, 1941

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

Dear Mr. Secretary:

I acknowledge with thanks your letter of the 28th ultimo, enclosing charts showing the speed with which requisitions on the Treasury Procurement Division are converted into effective orders on supplies.

The improvement during recent weeks in the elapsed time between date of clearance by O.P.M. and Lend-Lease and the date order was placed, since you took steps to speed up the mechanics of the operation, is striking. It is as gratifying to us as it must be to you, and we have no doubt, from our various conversations, that you will not rest satisfied until still further improvement is effected.

We are greatly indebted to you for the personal interest you have taken in this matter.

As suggested, I am sending the charts to Sir Clive Baillieu for his perusal.

Yours very truly,

Morris W. Wilson
Morris W. Wilson,
Chairman.

T

47

THE BRITISH SUPPLY COUNCIL IN NORTH AMERICA

TELEPHONE: REPUBLIC 7880



Box 880
BENJAMIN FRANKLIN STATION
WASHINGTON, D. C.

November 3, 1941

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

Dear Mr. Secretary:

I acknowledge with thanks your letter of the 28th ultimo, enclosing charts showing the speed with which requisitions on the Treasury Procurement Division are converted into effective orders on supplies.

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As suggested, I am sending the charts to Sir Clive Baillieu for his perusal.

Yours very truly,


Morris W. Wilson,
Chairman.

T

THE WHITE HOUSE
WASHINGTON

November 3, 1941

My dear Mr. Secretary:

The President on November first signed an Executive Order entitled "Directing the Coast Guard to Operate as a Part of the Navy", as recommended by you.

Very sincerely yours,



E. H. McINTYRE
Secretary to the President

The Honorable
The Secretary of the Treasury,
Washington, D. C.



THE SECRETARY OF THE NAVY
WASHINGTON

November 3, 1941

My dear Mr. Secretary:

I have your letter of October 30 relative to the censorship matter and note your suggestion that the whole matter be taken up at the next meeting of the Cabinet for reconsideration. I am glad to lay this aside and will bring the matter up at the next Cabinet meeting.

Yours sincerely,

Frank Knox

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

Treasury Department

TELEGRAPH OFFICE

W42

WL110 PX 54 DL XC

1941 NOV 3 PM 5 10

WESTLOSANGELES CALIF 125P NOV 3 1941

HONORABLE HENRY MORGENTHAU JR

SECRETARY OF TREASURY

DEAR MR MORGENTHAU SINCERELY APPRECIATE YOUR ASKING SHIRLEY TO APPEAR
ON SPECIAL TREASURY HOUR REGRET EXCEEDINGLY CANNOT ACCEPT AT THIS
TIME FOR REASON EXPLAINED IN AIR MAIL LETTER FOLLOWING WOULD BE
VERY HAPPY HOWEVER TO COOPERATE LATER AS INDICATED IN
LETTER KNOW YOU WILL UNDERSTAND AND APPRECIATE OUR POSITION ALL
JOIN IN KINDEST REGARDS

GERTRUDE AND GEORGE TEMPLE

508p

Treasury Department

TELEGRAPH OFFICE

W42

WL110 PX 54 DL XC

1941 NOV 3 PM 5 10

WESTLOSANGELES CALIF 125P NOV 3 1941

HONORABLE HENRY MORGENTHAU JR

SECRETARY OF TREASURY

DEAR MR MORGENTHAU SINCERELY APPRECIATE YOUR ASKING SHIRLEY TO APPEAR
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JOIN IN KINDEST REGARDS

GERTRUDE AND GEORGE TEMPLE
508P

UNITED STATES SAVINGS BONDS

Sales since May 1, 1941, by Months
On Basis of Issue Price

(In thousands of dollars)

Item	May	June	July	August	September	October	Total
Series E - Post Offices	\$ 42,836	\$ 40,788	\$ 50,558	\$ 40,725	\$ 38,117	\$ 41,634	\$ 254,660
Series E - Banks	<u>57,745</u>	<u>61,729</u>	<u>94,717</u>	<u>76,878</u>	<u>67,123</u>	<u>81,250</u>	<u>439,441</u>
Series E - Total	100,581	102,517	145,274	117,603	105,241	122,884	694,101
Series F - Banks	37,817	28,876	27,359	20,318	18,099	22,963	155,432
Series G - Banks	<u>211,420</u>	<u>183,134</u>	<u>169,498</u>	<u>127,685</u>	<u>108,987</u>	<u>124,866</u>	<u>925,590</u>
Total	<u>\$349,818</u>	<u>\$314,527</u>	<u>\$342,132</u>	<u>\$265,606</u>	<u>\$232,327</u>	<u>\$270,713</u>	<u>\$1,775,124</u>

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

November 3, 1941.

Source: All figures are deposits with the Treasurer of the United States on account 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

Comparative Statement of Sales During
First Business Day of September, October, and November, 1941
(September 2, October 1, November 1)
On Basis of Issue Price

(Amounts in thousands of dollars)

Item	Sales			Amount of Increase or Decrease (-)		Percentage of Increase or Decrease (-)	
	November	October	September	November over October	October over September	November over October	October over September
	:	:	:	:	:	:	:
Series E - Post Offices	\$ 1,017	\$ 1,450	\$ 3,021	-\$ 433	-\$1,571	- 29.9%	- 52.0%
Series E - Banks	<u>1,750</u>	<u>3,029</u>	<u>3,385</u>	- <u>1,279</u>	- <u>356</u>	- <u>42.2</u>	- <u>10.5</u>
Series E - Total	2,767	4,479	6,406	- 1,712	- 1,927	- 38.2	- 30.1
Series F - Banks	567	1,286	1,182	- 719	104	- 55.9	8.8
Series G - Banks	<u>4,201</u>	<u>8,271</u>	<u>5,510</u>	- <u>4,070</u>	<u>2,761</u>	- <u>49.2</u>	<u>50.1</u>
Total	<u>\$ 7,535</u>	<u>\$14,036</u>	<u>\$13,098</u>	- <u>\$6,501</u>	<u>\$ 938</u>	- <u>46.3%</u>	<u>7.2%</u>

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

November 3, 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 DEPOSIT SAVINGS BONDS - SERIES B
 Estimated Number of Units and Percent of Dollar Volume
 by Denominations and by Months
 May - September, 1941

Month	Denomination					Total
	\$25	\$50	\$100	\$500	\$1,000	
	Number of Units (in thousands)					
May	336	162	259	54	65	875
June	431	192	293	55	60	1,030
July	529	240	386	80	90	1,325
August	549	236	352	63	64	1,265
September	559	231	328	55	55	1,227
Total	2,404	1,060	1,618	307	333	5,723

Month	Percent of Dollar Volume				
	\$25	\$50	\$100	\$500	\$1,000
May	6.3%	6.0%	19.3%	20.1%	46.3%
June	7.9	7.0	21.4	20.0	43.7
July	6.8	6.2	20.0	20.7	46.3
August	8.8	7.5	22.4	20.2	41.1
September	10.0	8.2	23.4	19.5	38.9
Total	7.9%	7.0%	21.2%	20.1%	43.6%

Office of the Secretary of the Treasury,
 Division of Research and Statistics. November 3, 1941.

Source: A distribution by denominations of units sold in May, June, and July was obtained from an audit of original stubs by the Division of Loans and Currency. A similar distribution of units sold in August and September was obtained from monthly reports by postmasters and the Federal Reserve Banks. All of the above-described figures have been presented in this table to result in estimated sales equal to deposits with the Treasurer of the United States.

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

UNITED STATES SAVINGS BONDS

Daily Sales - November 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
November 1941 1	\$ 1,017	\$ 1,750	\$ 567	\$ 4,201	\$ 6,518	\$ 2,767	\$ 567	\$ 4,201	\$ 7,535

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

November 3, 1941

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

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

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE November 3, 1941

TO Secretary Morgenthau
FROM Messrs. Foley and Pehle

At the opening of business on Monday November 3, 1941,
there were 2082 pending applications in the Foreign Funds
Control.


Su 7 L.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

CONFIDENTIAL

DATE November 3, 1941

TO Secretary Morgenthau
FROM Mr. Haas
Subject: The Business Situation,
Week ending November 1, 1941.

Summary

(1) The Federal Reserve Board's preliminary and confidential estimate of the seasonally-adjusted index of industrial production for October is 162, as compared with 161 (revised) for September. The Board expects the index to rise to about 164 in November and about 167 in December.

(2) Basic commodity prices last week showed a further slight extension of the recovery from the mid-month decline. The BLS all-commodity index in the previous week (ended October 25) dropped 0.5 point to 91.2, largely due to lower prices for farm products and foods. This decline carried the index down to the level prevailing in the week ended September 27.

(3) The price control bill, as now revised, provides no effective ceiling on farm prices because of the several bases permitted.

(4) After sagging gradually for 5 weeks, the New York Times index of business activity in the week ended October 25 rose 0.5 point to 126.7. During the same week, Barron's index of business activity was unchanged at 139.5.

(5) Steel tonnage scheduled for production last week reached a record high at 99.9 percent of capacity. However, this high rate probably was not attained, due to the effects of the short-lived coal strike. The shortage of steel scrap has caused the Bethlehem Steel Corporation to close down 7 open hearth furnaces with an annual capacity of 750,000 tons of steel.

(6) The gain in department store sales over year-earlier levels narrowed considerably in October. In the week ended October 25, sales (dollar totals) were only 8 percent above the corresponding week a year ago.

- - - - -

- 2 -

Further rise in industrial production index

The FRB seasonally-adjusted index of industrial production for October is expected to rise about 1 point to 162, according to a preliminary and confidential estimate of the Federal Reserve Board. This would be a new record high for the index, since the revised figure for September stands at 161 as compared with 160 in July and August. The slight further rise in the adjusted index is attributed to continued gains in industries producing defense materials, which were partly offset by declines in such industries as manufactured foods, liquor, paper and coal.

Actual industrial output, before allowing for seasonal factors, is expected to show a slight decline for October, with the unadjusted index dropping 1 point to 166. This is expected to be followed by further less-than-seasonal declines during the last 2 months of the year. As a result, the adjusted FRB index is now expected to rise to 164 in November and 167 in December. Thus, the Federal Reserve Board's confidential estimate of the course of the index of industrial production, both adjusted and unadjusted, for the latter part of the year now stands as follows:

	Seasonally adjusted	Unadjusted
September 1/	161	167
October 2/	162	166
November 2/	164	165
December 2/	167	163

Weekly business indexes steady

After declining gradually for 5 weeks, the New York Times index of business activity in the week ended October 25 rose 0.5 point to 126.7. (See Chart 1, top section.) During the same period, Barron's index of business activity, which has recently made a somewhat stronger showing than the Times index, was unchanged at 139.5.

The principal factor in the moderate rise in the Times index was a less than seasonal decline in miscellaneous freight carloadings from the peak figure reached in the

1/ Preliminary

2/ Confidential estimate

- 3 -

previous week. "All other" freight carloadings, on the other hand, declined somewhat more than seasonally. It now appears virtually certain that the total of 923,000 cars loaded in the week ended October 18 will stand as the high for the year. (Refer to Chart 1, lower section.) This is nearly 80,000 cars below the peak anticipated some months ago by the Interstate Commerce Commission. As a result, the danger of a freight car shortage now appears to have been postponed until well into 1942, although the decline in traffic from the fall peak is likely to be much less abrupt than usual.

Soft coal production above 1940 despite strikes

Freight carloadings probably showed a further decline last week, due in part to the strikes in the captive coal mines of the steel industry, which was terminated but not finally settled before the end of the week. Despite a strike affecting most of the bituminous coal industry last April and another short-lived strike in the captive mines of the steel industry in September, bituminous coal production in the first 43 weeks of 1941 is estimated to have run about 11 percent above year-earlier levels. (Refer to Chart 1, middle section.)

Industrial stocks of soft coal on September 1, the latest date for which complete figures are available, had been built up to the equivalent of 43 days consumption. Stocks at steel mills and by-product coke ovens on the same date were equivalent to 28 and 31 days consumption, respectively. Nevertheless, some steel mills, particularly those of the U. S. Steel Corporation, were affected almost immediately by the strike.

An increase in electric power production to near record levels in the week ended October 25 also contributed to the rise in the New York Times index. However, under the provisions of an order issued by OPM near the end of the week, a drastic cut in electric power consumption by large commercial and industrial consumers will go into effect by November 10 in all or parts of 6 southeastern States, unless heavy rains occur before that date.

Although the rise in automobile output has been less than seasonal, production continues to expand and last week showed a further gain of 1,000 units to 93,000 -- the highest point thus far attained in 1942 model production. (See Chart 1, lower section.) This figure, however, is still 21 percent below the corresponding week in 1940.

- 4 -

Strikes and scrap shortage still troubling steel industry

Although steel tonnage scheduled for production last week reached a new high at 99.9 percent of capacity, actual production doubtless fell somewhat short of schedule principally due to the strike at the captive coal mines. (Refer to Chart 1, middle section.) Plants of the United States Steel Corporation in the Pittsburgh and Youngstown areas were forced to curtail operations due to a lack of beehive coke, production of which was immediately affected by the coal strike. Some further loss in output occurred at the Irvin and Homestead Works of the Carnegie-Illinois Steel Corporation as a result of other labor troubles. The industry operating rate for the current week is scheduled at 98.2 percent of capacity.

The shortage of iron and steel scrap continues to be a major concern of the steel industry. During the week the president of the Bethlehem Steel Corporation stated that the scrap shortage had caused the company to close down 7 open hearth furnaces, with a combined annual capacity of 750,000 tons of steel. He further stated that no improvement in steel scrap collections was in sight.

Allocation system to replace priorities for steel

Near the end of the week it was reported that SPAB had requested the OPM to develop an allocation system for all steel products to gradually replace the priorities system now in effect. It was indicated that the priorities system has not provided an adequate check against excessive inventories. Army and Navy officials have reported that deliveries of steel for defense purposes could not be assured through the priorities system alone.

The Iron Age has been polling metal working plants to determine the effects of the priorities system, and has received replies from 1,500 companies. Of this number, 403 reported some curtailment in operations due to priorities and 497 reported some shortage of steel.

BLS all-commodity index lower

The BLS all-commodity index in the week ended October 25 dropped 0.5 point to 91.2, the level of a month ago. During the week the price indexes of farm products and wholesale foods declined respectively by 1.7 and 0.9 points. These declines

- 5 -

reflected a drop in the livestock market, and lower prices for meats, cereals, fruits, and vegetables. Prices in all other major commodity groups were practically stationary.

Basic commodities higher

The BLS wholesale price index of 28 basic commodities increased 0.7 point in the week ended October 31. This increase was due to the continued recovery in prices of foodstuffs from the mid-month declines. The price index of 12 foodstuffs increased 1.8 points, with most of the rise occurring in domestic products, while the index of industrial materials was unchanged. (See Chart 2, upper section.)

Cottonseed oil was the only one of the 28 basic commodities to show an appreciable decline. (Lower section of chart.) Margin requirements on cottonseed-oil futures have been lowered by the New York Produce Exchange, effective today, to 10 percent of value, from the previous 15 percent.

Price control bill provides no effective ceiling on farm prices

The price control bill, as reported out of the House Banking and Currency Committee on November 1, provides that ceilings shall not be imposed on prices of farm products at less than the highest price as determined on three bases: 110 percent of parity, the average price from 1919 through 1929, or the prevailing level on October 1.

A comparison of present farm prices for six leading farm products with the prices determined on these three bases is shown in Table 1, with the prices underlined on which the ceilings would be based. It will be noted that corn could rise 32.6 cents a bushel further, wheat 43.2 cents, cotton 4.34 cents a pound, and potatoes 46.5 cents a bushel. Wool, however, would be at the ceiling level, and hogs not far below. In view of the several permitted ceiling bases it is rather clearly evident that the bill provides no effective ceiling on prices of farm products, particularly since the parity basis will rise as costs of goods bought by farmers increase.

Crop loans at 100 percent of parity opposed

Another development relating to agricultural legislation during the week was an announcement by Secretary Wickard that he would oppose the bill providing for crop loans at

- 6 -

100 percent of parity on the five basic farm crops. The Secretary's opposition was based on apprehension that a change in the 85 percent loan level, by its effect in raising corn prices for livestock feeding, would interfere with efforts to secure record production of food-for-defense in 1942. He stated that the 85 percent loan program has tended to stabilize corn and other feed grain prices at levels which, on the basis of present livestock, poultry, and dairy prices, encourage greater production.

"Parity" prices continue to rise

Parity prices were increased as of mid-October to compensate for a three-point rise in the index of prices paid for goods used for farm living and for farm production. Prices received by farmers as of October 15 remained unchanged at the mid-September level. Table 2 shows which prices increased most during the month and which showed the greatest declines. Decreases occurred principally in grains and livestock. The largest individual increases were reported for tobacco and for rice. The table shows also the relative parity position of farm commodities as of October 15.

Status of cotton program

Marketing quotas for the 1942 cotton crop, subject to approval by growers, were announced last week by the Department of Agriculture. Marketing quotas for cotton are proclaimed in any year in which the supply reaches 107 percent of "normal", as defined by law. On August 1, 1941 the supply was 131 percent of "normal". The growers' referendum on the quotas was fixed for December 13, and there is no doubt that the required two-thirds vote of approval will be given, since rejection would eliminate application of the Government loan program to the 1942 cotton crop.

Loans on cotton of the 1941 crop reported by the Commodity Credit Corporation through October 25 amounted to 318,000 bales. At that time in 1940 loans had been made on approximately 1,000,000 bales of cotton. The figures do not represent the total quantity under loan, since loans made by interior lending agencies whose reports have not yet been cleared through the Corporation are not included.

Cotton prices on the whole are sufficiently above the schedule of Government loan rates to preclude a very large quantity's entering the loan program. A large proportion of that going under loan doubtless will consist of the lower

- 7 -

grades, owing to the unusually large percentage of inferior grades in the 1941 crop and the fact that discounts on these grades in the loan schedule are much less than current market discounts. For wheat, on the other hand, the Government loan rates are so close to market quotations that a substantial portion of 1941 wheat is going under loan. Through October 18 the Commodity Credit Corporation had cleared loans on 259,000,000 bushels.

Recession in consumer buying continues

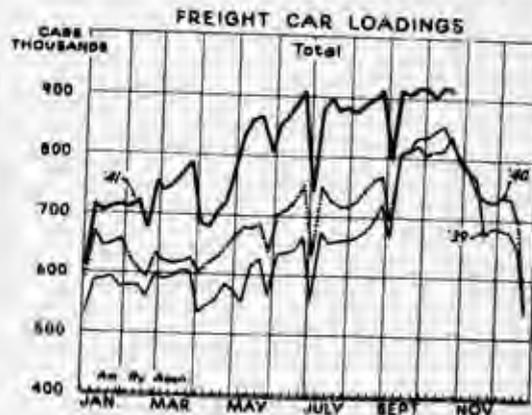
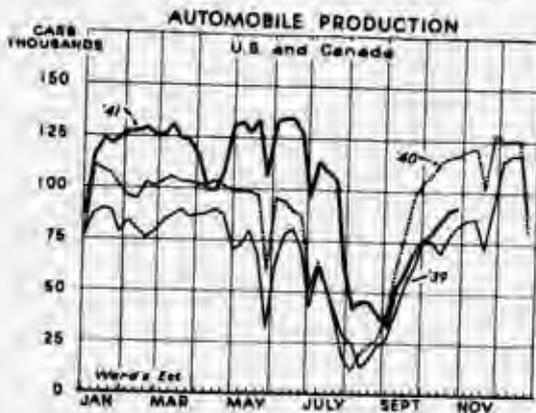
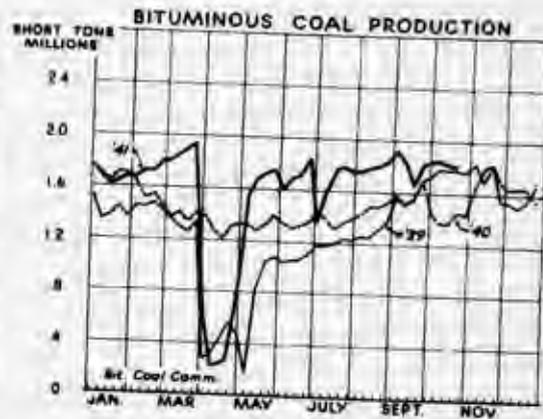
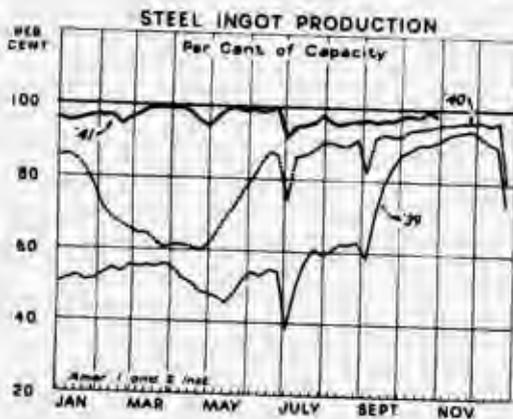
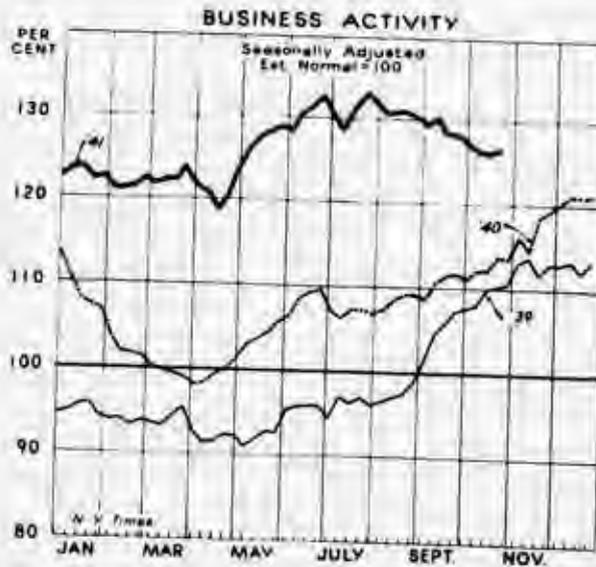
The decline in consumer buying since early October, as measured by department store sales, is confirmed by data for the week ended October 25. Sales by department stores in that week (dollar totals) held at the moderate level of the previous two weeks (see Chart 3) and were only 7.8 percent higher than in the corresponding week last year. Since retail prices have increased by approximately twice as great a percentage, the actual volume of consumer purchases in department stores is running below that of last year.

Evidence of reduced consumer buying is also seen in the current liquor price war in New York City, evidently brought on by a severe falling off in sales volume after the previous buying spurt in anticipation of the October 1 increase in excise taxes. Press reports indicate that some retailers, particularly in clothing lines, are starting clearance sales earlier than usual in order to reduce their stocks to more nearly normal levels.

New orders lower

Due largely to a 26 percent decline in new steel orders to the lowest levels of the year, our index of new orders dropped 10 percent in the week ended October 25. (See Chart 4.) Steel orders fell to 85 percent of capacity from 115 percent in the previous week. Textile orders declined moderately but were still well above month-earlier levels. On the other hand, orders for products other than steel and textiles rose slightly.

SELECTED BUSINESS INDICES

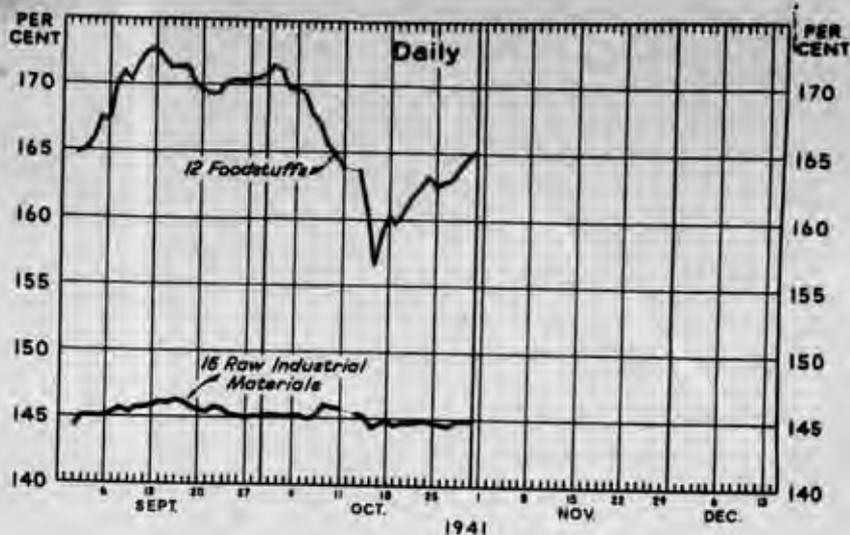
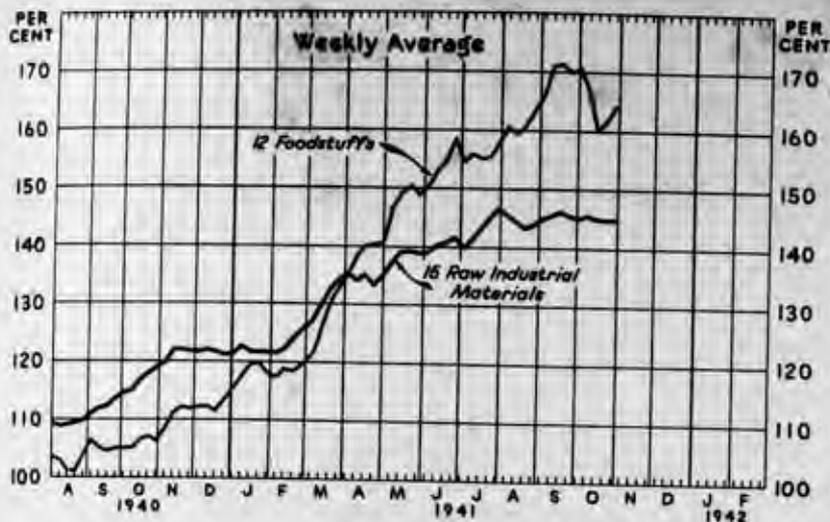


MOVEMENT OF BASIC COMMODITY PRICES

AUGUST 1939 = 100

64

Chart 2



Percentage Change for Individual Commodities, August 1940 Low to October 24 and to October 31, 1941

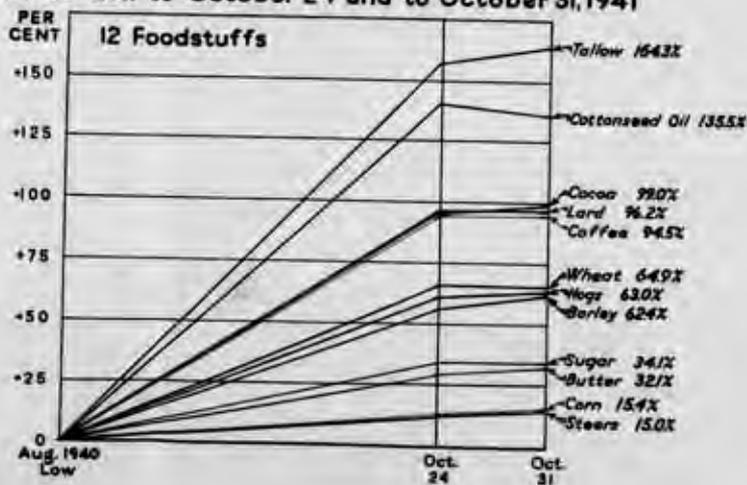
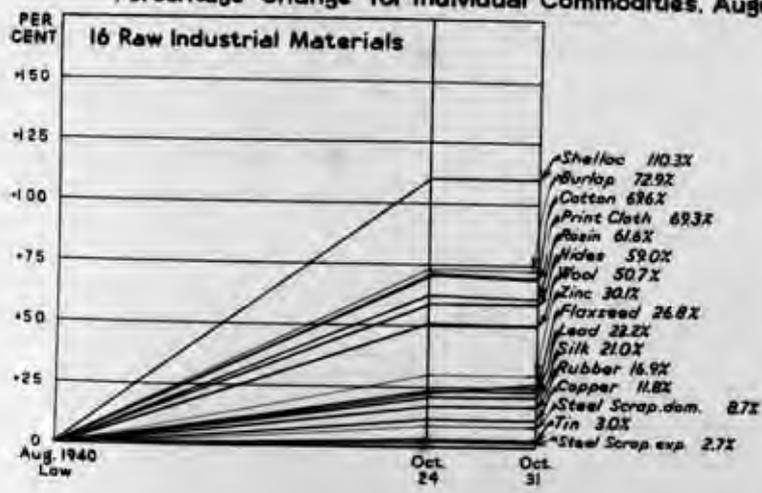


Table 1

Present prices on farm products and ceiling prices as determined by the three bases provided in the Price Control Bill

Commodity	Prices on October 15 (Cents)	Ceiling prices		
		Basis 1 (110 per- cent of parity) (Cents)	Basis 2 (Average 1919-29) (Cents)	Basis 3 (Prices on October 1 1/) (Cents)
Corn, per bu.	64.9	97.5	83.8	67.8
Wheat, per bu.	91.0	<u>134.2</u>	127.6	93.4
Cotton, per lb.	16.55	18.32	20.89	17.04
Potatoes, per bu.	67.2	106.4	<u>113.7</u>	65.8
Wool, per lb.	36.3	27.8	<u>34.7</u>	36.3
Hogs, per 100 lbs.	\$10.08	<u>\$10.96</u>	\$9.96	<u>\$10.59</u>

1/ Average of price on September 15 and October 15.

Source: United States Department of Agriculture.

Table 2

Farm product prices, October 15: percent change from September 15, and percentage of parity ^{1/}

Commodity	Percentage changes in prices received by farmers on October 15 from September 15 (Percent)	Commodity	Prices received by farmers, as percentage of parity, October 15 (Percent)
Tobacco	+23.8	Maryland tobacco	164
Rice (rough)	+ 8.5	Cottonseed	164
Turkeys	+ 7.4	Wool	143
Hay	+ 5.0	Flue-cured tobacco	131
Eggs	+ 5.0	Beef cattle	128
Milk, wholesale	+ 4.6	Veal calves	120
Potatoes	+ 4.4	Lambs	119
Apples	+ 2.4	Hops	112
Cottonseed	+ 2.1	Milk ^{2/}	109
Wool	0	Chickens	102
Butterfat	- 0.8	Hogs	101
Veal calves	- 1.1	Butterfat ^{3/}	101
Peanuts	- 1.8	Cotton	97
Lambs	- 1.8	Turkeys	94
Chickens	- 1.8	Rice	86
Beef cattle	- 1.9	Eggs ^{3/}	84
Buckwheat	- 2.1	Wheat	75
Oats	- 2.5	Corn	73
Wheat	- 5.0	Sweet potatoes	72
Barley	- 5.4	Oats	71
Cotton	- 5.6	Flaxseed	70
Sweet potatoes	- 6.4	Sugar beets	69
Corn	- 8.3	Potatoes	69
Hogs	- 9.2	Peanuts	67
Rye	-10.5	Apples	66
Flaxseed	-11.4	Buckwheat	64
		Barley	57
		Sugarcane	54
		Rye	52
		Hay	51

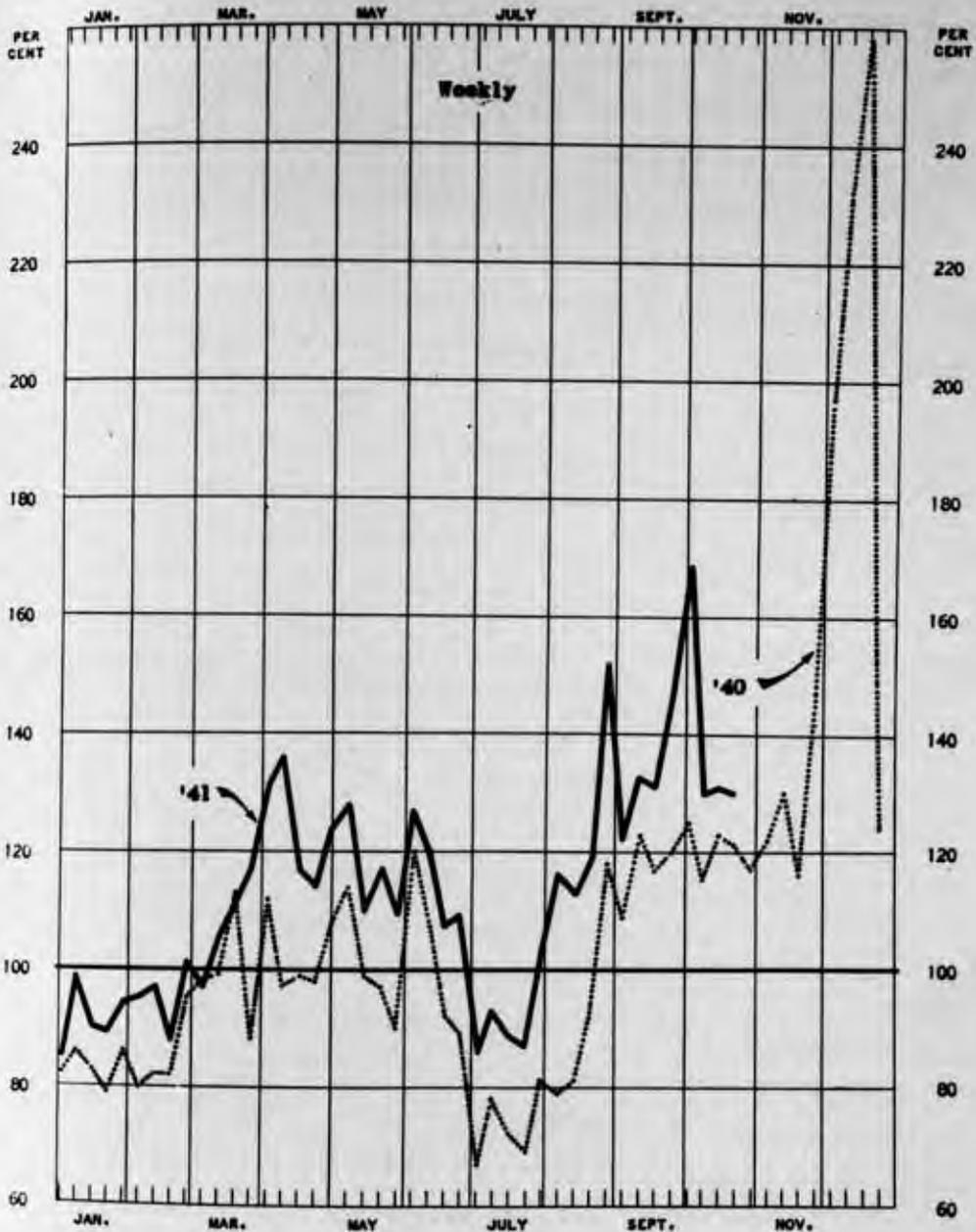
^{1/} Exclusive of Government payments.

^{2/} Based on weighted average wholesale price of milk, and milk equivalent price of butter and butterfat.

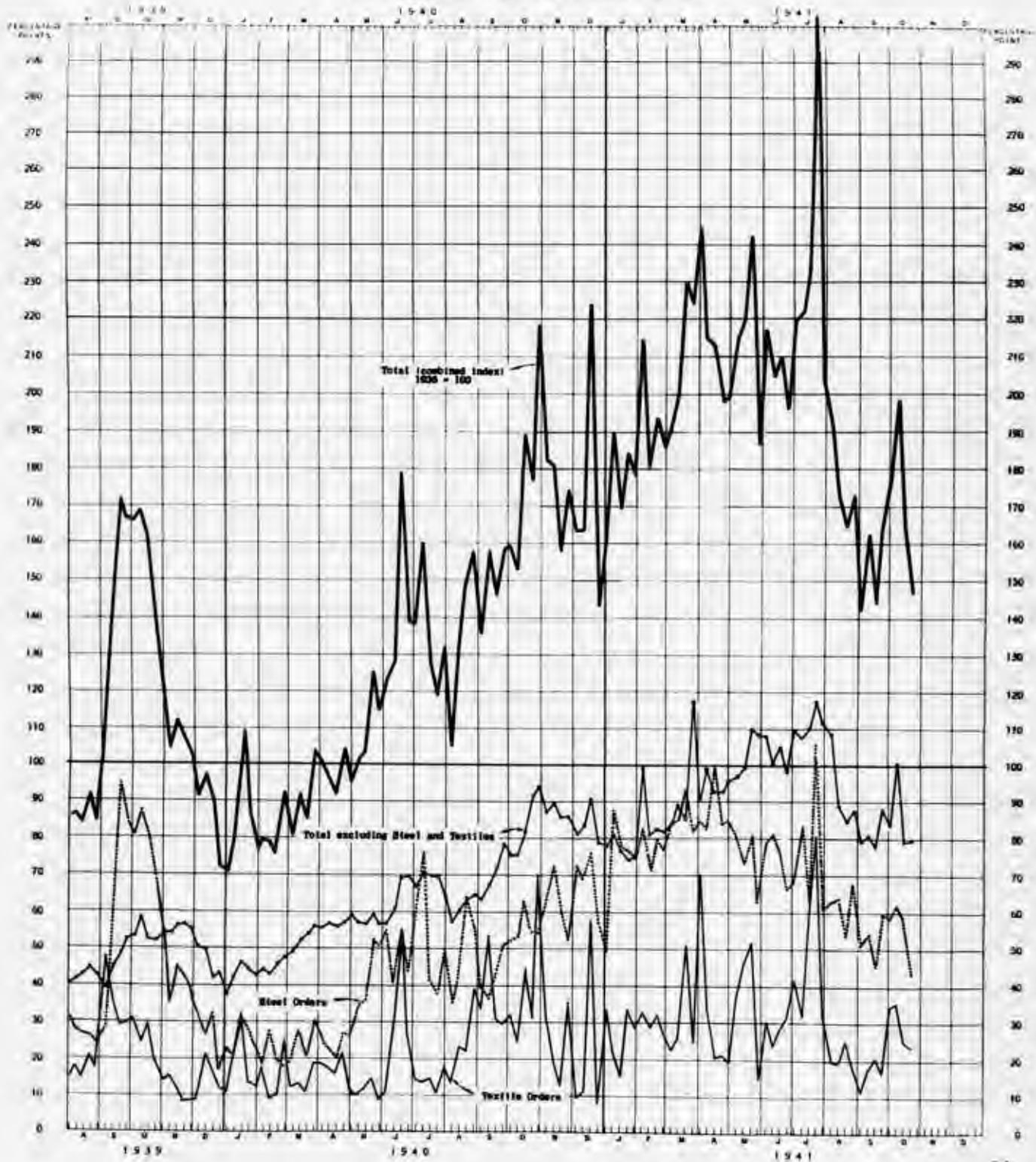
^{3/} Adjusted for seasonal variation.

Source: United States Department of Agriculture.

DEPARTMENT STORE SALES
1935 - '39 = 100, UNADJUSTED



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



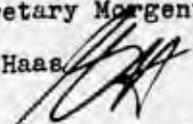
U.S. Department of the Treasury
 Bureau of Economic Warfare

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 3, 1941

TO Secretary Morgenthau

FROM Mr. Haas 

During the week ended October 22, 1941, Work Projects Administration employment increased from 1,040,000 to 1,044,000 persons.

Attachments.

WORK PROJECTS ADMINISTRATION
Number of Workers Employed - Weekly
United States

Week ending	Number of Workers (In thousands)
1941	
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
October 15	1,040
October 22	1,044

Source: Work Projects Administration

WORK PROJECTS ADMINISTRATION
Number of Workers Employed - Monthly
United States

	Number of Workers (In thousands)
1939	
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

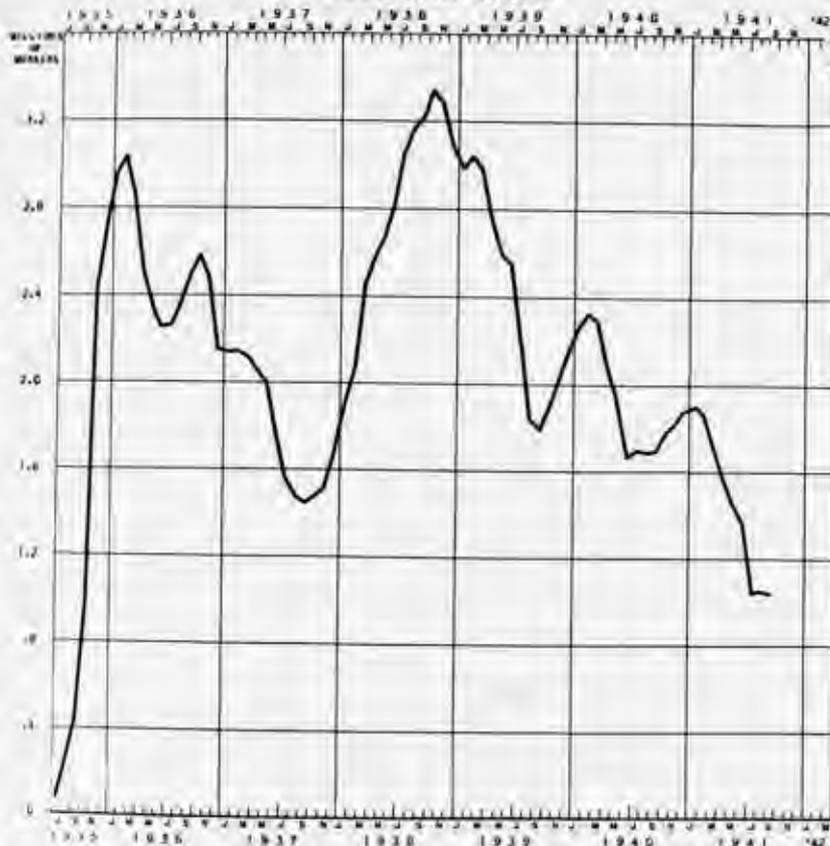
Source: Work Projects Administration

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

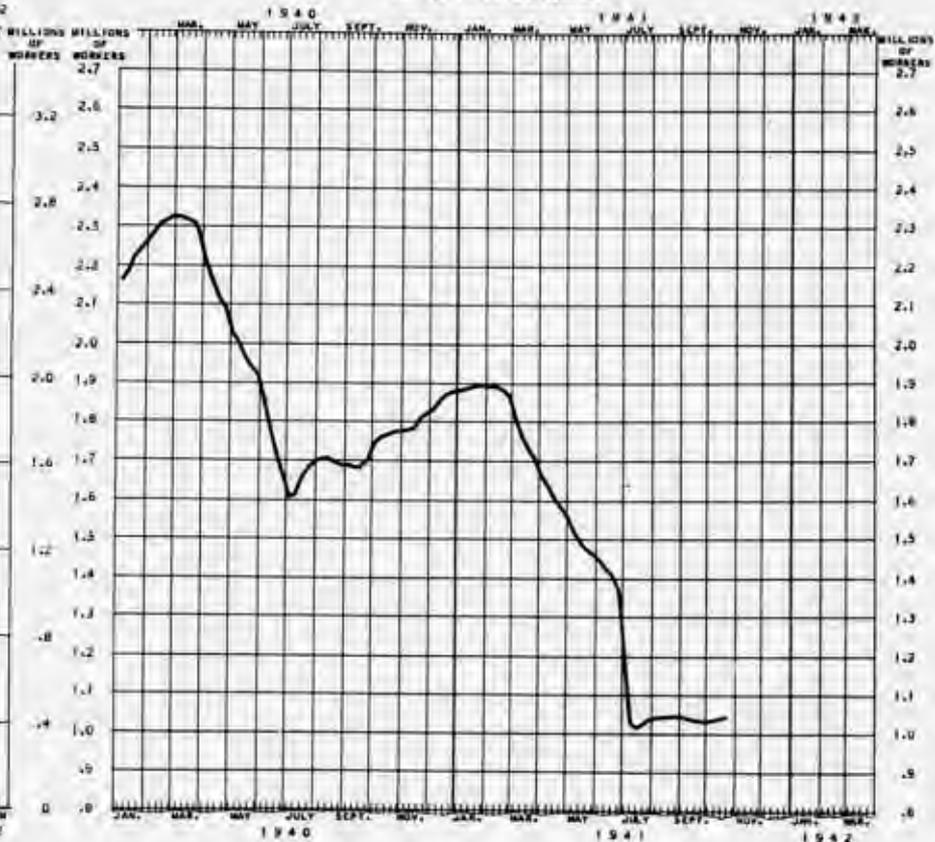
They include certified and noncertified workers.

WORK PROJECTS ADMINISTRATION
Number of Workers Employed
United States

Monthly W.P.A. Employment



Weekly W.P.A. Employment



SOURCE: WORK PROJECTS ADMINISTRATION

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

Week ended November 1, 1941

	: JAPAN :	RUSSIA :	SPAIN :	GREAT BRITAIN :
PETROLEUM PRODUCTS				
Fuel and Gas Oil (including Diesel Oil)	--	--	44,840 Bbls.	464,000 Bbls.
Crude -				
Blended or California High Octane Crude*	--	--	--	--
All Other Crude	--	--	--	--
Gasoline -				
Gasoline A**	--	--	1,620 Bbls.	501,400 Bbls.
Gasoline B*	--	--	--	767,600 Bbls.
All Other Gasoline	--	--	--	65,000 Bbls.
Lubricating Oil -				
Aviation Lubricating Oil***	--	--	--	29,050 Bbls.
All Other Lubricating Oil	--	--	--	--
Tetraethyl Lead***	--	--	--	--
"Boosters", such as Iso-Octane, Iso-Hexane, or Iso-Pentane	--	--	--	--
SCRAP IRON AND SCRAP STEEL				
Number 1 Heavy Melting Scrap	--	--	--	1,037 Tons
All Other Scrap	--	--	--	2,599 Tons

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

November 3, 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.

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

Treasury Department
Division of Monetary Research

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Date Nov. 5, 1941 19

To: Miss Chauncey

I do not know whether the Secretary wishes to continue to see these reports. He may prefer that you call his attention to them only once a month or so.

(Use your judgment; he had asked for them weekly when we started.)

H.D.W.

*Secy wants this
report continued in
weekly form.*

MR. WHITE
Branch 2058 - Room 214½

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 3, 1941.

TO Secretary Morgenthau
FROM Mr. White
Subject: Exports to Russia, China, Burma, Japan, France and other blocked countries, as reported to the Treasury Department during the week ending October 25, 1941.

1. Exports to Russia

Exports to Russia as reported to the Treasury during the week ending October 25, 1941 amounted to over \$5,600,000 and included substantial shipments of war materials, particularly military tanks and airplanes. (See Appendix G.)

2. Exports to China and Burma

Although exports to Free China reported during the week under review increased as compared with the previous week, they were still less than exports to Occupied China, the respective figures being \$269,000 and \$399,000. (See Appendices D and E.) However, during the week ending October 25, 1941, exports to Burma amounted to over \$403,000, of which trucks accounted for more than 70 per cent. A large percentage of the exports to Burma are for re-export to Free China. (See Appendix F.)

3. Exports to Japan

No exports to Japan were reported during the week under review, but the Japanese may be the ultimate beneficiaries of much of the goods exported to Occupied China.

4. Exports to France

Exports to France were negligible during the week ending October 25, 1941.

5. Exports to other blocked countries

Exports to other blocked countries are given in Appendix A.

Appendix A

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 25, 1941

(In thousands of dollars)

	July 28 to Oct. 11	Week ended October 18	Week ended October 25	Total Domestic Exports
U. S. S. R.	\$ 29,220	\$ 1,924	\$ 5,623	\$ 36,767
Occupied China	8,521	267	396	9,184
Free China	11,545	5	269	11,819
Japan 2/	1,864	5/	-	1,864
Burma 3/	3,407	35	403	3,845
France 4/	6	-	5/	6
Free France	.4	-	-	.4
Spain	1,572	6	81	1,669
Switzerland	3,483	20	5	4,508
Sweden	6,702	79	108	6,889
French Indochina	249	4	50	303

Treasury Department, Division of Monetary Research

Nov. 3, 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 25, 1941 -- it is presumed that a large percentage of material listed here, consigned to Burma, is destined for Free China.

4/ Includes both occupied and Free France through week ending October 4, 1941.

5/ Less than \$500.

Exports from the U. S. to China, Burma, Japan and U.S.S.R. as reported to the
 Treasury Department, July 28, 1941 -- October 25, 1941
 (Thousands of dollars) ^{1/}

	Total	Exports to China		Exports to Burma ^{3/}	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	5,864	552	5,312	1,157	-	6,845
Oct. 13 - Oct. 18	272	267	5	35	-	1,924
Oct. 20 - Oct. 25	668	399	269	403	-	5,623
Total	23,581	9,646	13,935	2,728	1,864	37,115

^{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 C

Principal Exports from U.S. to U.S.S.R., as
reported to the Treasury Department during the
week ending October 25, 1941

(Thousands of dollars)

TOTAL EXPORTS	\$5,623
Principal Items:	
Military tanks and parts	2,363
Landplanes, powered	780
Motor trucks, busses, and chassis	759
Molybdenite concentrate	292
Tires and tubes	229
Barbed wire	196
Anti-knock compounds	121
Aviation gasoline	113
Metallic containers (drums)	104

Appendix D

Principal Exports from U.S. to Free China, as
reported to the Treasury Department during the
week ending October 25, 1941

(Thousands of dollars)

TOTAL EXPORTS TO FREE CHINA	\$ 269
Principal Items:	
Printed matter (bank notes)	243
Copper wire	17
Other iron and steel manufactures	6
Aircraft parts and accessories	2
Books	1

Appendix E

Principal Exports from U.S. to Occupied China,
as reported to the Treasury Department during
the week ending October 25, 1941

(Thousands of dollars)

TOTAL EXPORTS TO OCCUPIED CHINA	\$ 399
Principal Items:	
Leaf tobacco	69
Medicinal preparations	30
Leather	28
Wrapping paper	25
Lumber	24
Raw cotton	17
Quebracho extract	15

Appendix F

Principal Exports from U.S. to Burma, as reported
to the Treasury Department during the week ending
October 25, 1941

(Thousands of dollars).

TOTAL EXPORTS	\$ 304
Principal Items:	
Trucks	289
Airport lighting equipment	43
Printing ink	33
Evaporated milk	11
Dynamite	11

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE November 3, 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. 27	30	2,624	13,000	16,771
28	300	14,595	Nil	Nil
29	Nil	Nil	Nil	Nil
30	Nil	Nil	5,000	3,195
31	700	11,115	5,000	3,221
Nov. 1	Nil	Nil	Nil	Nil
	<u>1,030</u>	<u>28,335</u>	<u>23,000</u>	<u>23,187</u>
Sales from				
Feb. 22, 1940 to				
Oct. 25, 1941	<u>9,822,101-1/2</u>	<u>280,913,802</u>	<u>45,378,016</u>	<u>37,270,072</u>
Total				
Feb. 22, 1940 to				
Nov. 1, 1941	<u>9,823,131-1/2</u>	<u>280,942,137</u>	<u>45,401,016</u>	<u>37,293,259</u>

SWB

For Miss Chauncey

TREASURY DEPARTMENT
INTER-OFFICE COMMUNICATION

DATE November 3, 1941

TO Secretary Morgenthau
FROM Mr. Bell

STRICTLY CONFIDENTIAL

Official sales of British-owned dollar securities under the vesting order effective February 17, 1940:

	<u>\$ proceeds of Shares Sold</u>	<u>\$ Proceeds of Bonds Sold</u>	<u>Total</u>	
Oct. 27	2,624	16,771	19,395	
28	14,595	N11	14,595	
29	N11	N11	N11	
30	N11	3,195	3,195	
31	11,116	3,221	14,337	
Nov. 1	N11	N11	N11	
	<u>28,335</u>	<u>23,187</u>	<u>51,522</u>	
Sales from Feb. 22, 1940 to Oct. 25, 1941	<u>280,913,802</u>	<u>37,270,072</u>	<u>318,183,874</u>	
Total Feb. 22, 1940 to Nov. 1, 1941	<u>280,942,137</u>	<u>37,293,259</u>	<u>318,235,396</u>	318,235,396
\$ proceeds of non-vested securities sold Oct. 20, 1941 to Oct. 25, 1941			500,000	
\$ proceeds of non-vested securities sold Sept. 1, 1939 to Oct. 18, 1941			<u>235,800,000</u>	
\$ proceeds of non-vested securities sold Sept. 1, 1939 to Oct. 25, 1941			<u>236,300,000</u>	<u>236,300,000</u>
			GRAND TOTAL	<u>554,535,396</u>
9 Units sold from Aug. 18, 1941 to Nov. 1, 1941 for				\$ 42
11 Shares Stock Dividend sold Aug. 18, 1941 to Nov. 1, 1941 for				\$ 123
55,772 Rights sold from July 24, 1941 to Nov. 1, 1941 for				\$102,853

AWB

**BRITISH AIR COMMISSION**

1785 MASSACHUSETTS AVENUE

WASHINGTON, D. C.

TELEPHONE HOBART 9000

BE QUOTE

ERENCE NO. _____

With the compliments of Sir Henry Self,
who encloses weekly Statement No. 24,
with reference to aircraft flight delivery
as at November 3, 1941

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

November 3, 1941

LOCATIONS OF OCEANIC FLIGHT DELIVERY AIRCRAFT -- WEEKLY REPORT NO. 24

1. B-17C

20 in U.K.

B-24's and LIBERATORS

- (a) Six diverted B-24's off Contract A-5058
6 in Service
- (b) Liberator I off Contract F-677
19 in U.K.
1 at Albuquerque, N. M.
20
- (c) Liberator II off Contract F-677
16 in U.K.
3 en route U.K.
1 at Gander
17 at Montreal
2 en route Montreal
3 at Detroit
1 at Wright Field
2 at Albuquerque, N. M.
5 en route back to Long Beach
10 at Long Beach
13 at San Diego
74

4. HUDSON III LONG RANGE

208 in U.K.
8 at Montreal
1 at LaGuardia Field, N. Y.
20 for U.S.A.A.C. Familiarization Program
1 at Long Beach
238 **

5. CATALINAS

78 in U.K.
9 in Singapore
18 in Australia
1 at Gander
1 en route Gander
9 at Dartmouth
2 in Bermuda
21 at Elizabeth City, N. C.
6 at Pensacola, Fla.
(Diverted to U.S. Navy)
145

3. HUDSON V LONG RANGE

177 in U.K.
57 at Debort (training)
1 at Montreal en route Debort
2 at Montreal
2 at Burbank (for repairs)
1 at Long Beach
4 for U.S.A.A.C. Familiarization Program
227 *

* Excluding three which crashed after leaving the United States.
** Excluding nine which crashed two in the United States, three in Canada, and four en route U.K.

Locations	B-17	B-24	Lib.I	Lib.II	Hudson V	Hudson III	Catalina	Total
En route U.K.	20	6	19	16	172	208	78	529
Gander				1				1
En route Gander							1	1
Australia							18	18
Singapore							9	9
Bermuda							2	2
Bermuda							2	2
Elizabeth City, N. C.							21	21
Pensacola, Fla. (Diverted to U.S. Navy)							6	6
Debort (training)					57			57
En route en route Debort					1			1
Detroit				10	2			12
En route Montreal				1				1
LaGuardia Field, N. Y.						1		1
Detroit				0				0
Wright Field				2				2
Albuquerque, N. M.			1	2				3
Burbank, Cal.					2			2
U.S.A.A.C. Familiarization					6	20		26
En route, returning to Long Beach				3				3
Long Beach				10	1	1		12
San Diego				13				13
	20	6	30	74	227*	238**	145	725

November 3, 1941

My dear Mr. Long:

Permit me to acknowledge receipt of your letter of October 31, 1941 (BU 611.99 & 31/61) enclosing for my information a copy of a memorandum dated October 20, 1941, covering a conversation between a representative of the British Embassy and an officer of the Division of European Affairs, together with copies of its attachments constituting the British reply to the State Department's memorandum which had been sent to the British Embassy regarding the United States economic relations with Iceland.

I appreciate receiving the information contained in your letter and wish to thank you for keeping me informed of developments in connection with Icelandic-British fiscal relations.

Sincerely,

(Signed) D. W. BENT

Under Secretary of the Treasury.

The Honorable

Brockenridge Long,

Assistant Secretary of State.

W.H.L. B. G.

FD:lxp-11/4/41-2

November 3, 1941

Dear Mr. Acheson:

Permit me to acknowledge receipt of your letter of November 1, 1941 (NW 611.99 A 31/63) quoting an excerpt from a memorandum dated October 21, 1941, of a conversation between a representative of the British Embassy and an officer of the Department of State with respect to Icelandic-British fiscal relations, and giving your observations in the matter.

I wish to thank you for keeping me informed of developments with respect to Icelandic-British fiscal relations.

Sincerely,

(Signed) D. W. BELL

Under Secretary of the Treasury.

The Honorable

Dean Acheson,

Assistant Secretary of State.

(Init.) F. D.

FD:lap-11/4/41

November 3, 1941

Mr. Fols

Mr. Dietrich

Will you please send the following cable to the American Consul at Hong Kong:
"For Fax from the Secretary of the Treasury."

On October 9, 1941 at the request of the Chinese Embassy General License No. 73 was issued freeing the accounts of certain Chinese partnerships doing business in the continental United States. On October 23, 1941 General License No. 32 was amended so that free dollars could not accrue to the Axis. Slight modifications were also made in General License No. 33. The problem of remittances to China is not affected by these amendments. We are asking Sayre to cable texts of general licenses and accompanying press releases to you."

FD:1sp-11/3/41

TREASURY DEPARTMENT
United States Coast Guard
Washington

3 November, 1941
 (3:12 a.m. C.S.T.)

From: Spang, Shanghai, China.
To : Undersecretary Hall.

I recommend the employment of Miriam Forbes, American stenographer and clerk now available in Shanghai, by Nicholson. She helped Taylor when he was here, and her services are required in connection with stabilization work. Authorization by cable to engage her effective November first at eighteen hundred dollars per annum to charge of U. S. stabilization fund is requested.

The Consulate General in Shanghai is permitting Consul Smith to specialize in stabilization and freezing matters, and to act as liaison officer between the Consulate General and the Treasury Attache in this field.

(Signed) CUSHMAN.

(Received 5:56 p.m.
 6 November, 1941)

Copy: v011-7-01

November 7, 1941

Mr. Herman Thompson

Mr. Dietrich

Will you kindly take the necessary steps to arrange the appointment of Miriam Forbes as stenographer and clerk for Mr. Nicholson, at a salary of \$1800 per annum payable from the Stabilization Fund, effective November 1, 1941.

Approved:

NOV 8 1941

(Signed) D. W. BELL

Secretary of the Treasury

Acting

FD: dms 11/7/41

NOV 8 1941

BY CABLE THROUGH THE BUREAU OF CUSTOMS

FOR MR. NICHOLSON

SPACENT
SHANGHAI, CHINA

WITH REFERENCE TO COCHRAN'S CABLE NOVEMBER 3 APPOINTMENT OF MIRIAM
FORMS APPROVED EFFECTIVE NOVEMBER 1 SALARY EIGHTEEN HUNDRED

(SIGNED) CHARLES S. BELL

Acting ADMINISTRATIVE ASSISTANT
TO THE SECRETARY

FD: &: 11/7/41

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE, November 3, 1941

TO Secretary Morgenthau

FROM Mr. Dietrich

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£63,000
Purchased from commercial concerns	£31,000

Open market sterling held steady at 4.03-1/2, and there were no reported transactions.

The Canadian dollar, which displayed a weak tendency toward the end of last week, improved to close at 11% discount today. The final quotation last Saturday was 11-1/4%.

The Venezuelan bolivar moved off another 30 points to a final quotation of .2550.

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

Argentine peso (free)	.2380
Brazilian milreis (free)	.0505
Colombian peso	.5775
Mexican peso	.2070
Uruguayan peso (free)	.4625
Cuban peso	1/8% discount

The Federal Reserve Bank of New York purchased 100,000 Swedish kronor in New York by order of and for account of the Central Bank of the Uruguayan Republic. The kronor were bought at .2385-1/2.

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

No new gold engagements were reported.

In London, spot and forward silver were again fixed at 23-1/2d, equivalent to 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¢.

- 2 -

We made no silver purchases today.

The Federal Reserve Bank's report of October 29, listing deposits of banks in Asia with the New York agencies of Japanese banks, showed that such deposits totaled \$60,189,000, an increase of \$1,721,000 since October 22. Also reported were selected items from the statement of the Yokohama Specie Bank's New York Agency, which revealed that an increase of \$1,649,000 in Japanese and Manchurian bank deposits was accompanied by a decline of \$1,547,000 in U. S. Treasury bills, commercial paper, etc. held by the Agency for account of such banks.

CONFIDENTIAL



BRITISH EMBASSY,
WASHINGTON, D.C.

PERSONAL
AND SECRET

November 3rd, 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,

Honourable

Henry Morgenthau, Jr., (For H.M. Ambassador)

United States Treasury,

Washington, D. C.

TELEGRAM FROM LONDON DATED NOVEMBER 2nd, 1941.SUMMARY.Military, Russia.

Finland. Finns have made progress northwest of Lake Onega. Leningrad and Moscow sectors: No change. Germans are now immediately threatening Tula. Kursk sector: Germans have advanced energetically. Donets basin: German pressure is continuing. Rostov: No change. Crimea: German advance is continuing.

2. Royal Air Force. Reference hits claimed on shipping night of October 31 - November 1 total now ten merchant ships including Reichenfels 7800 tons which ship hit by complete salvo of bombs, plus one 7,000 ton tanker and one Flak ship already mentioned. Five other merchant ships of various tonnage attacked, results unobserved; several ships machinegunned.

3. Night of October 31 - November 1, Hamburg received 63 tons of high explosive, Bremen 27 tons, Dunkirk 27 tons and Boulogne 10 tons.

4. Daylight November 1: Beaufort aircraft claims torpedoing tanker Altmark class 16,000 tons in LaPallice. Fighters attacked targets in northern France including factories, goods trains, two guardian ships and wireless station. Blenheims bombed Lannion aerodrome.

5. Night of November 1/2; approximately 175, mainly to Kiel 130, Brest 17.

6. German Air Force. Forty enemy aircraft crossed the coast of the United Kingdom, scattered bombarding Cheshire, North Wales, considerable damage to part of the premises of Shell - Mex, Ellesmere port.

RESTRICTED

G-2/2657-220; No. 535 M.I.D., W.D. 11:00 A.M., November 3, 1941

SITUATION REPORTI. Eastern Theater.

Ground: There is no change in the situation at Leningrad and Moscow. Freezing temperatures on the Moscow front indicate a renewal of military operations.

The German advance is continuing in the Donets Basin. The Germans have captured the capital of the Crimea, Simferopol (90 miles south of Perekop), and appear to be continuing a rapid advance on Sevastopol and Kerch.

II. Western Theater.

Air: Bad weather forced a lull in the air offensive against Germany last night, after a big R.A.F. week-end, which included the bombing of the Kiel naval base. American-built Hudson bombers, however, scouted coastal waters for Axis shipping and scored hits on two vessels off the Dutch and Norwegian coasts, and bombed a fish oil factory in Norway.

The Luftwaffe was said by Germany to have carried out a successful raid on Great Yarmouth last night.

III. Middle Eastern Theater.

Air: German bombers broke up concentrations of British motor vehicles at Sollum, while Italian planes yesterday bombed Malta. The British again raided Benghazi, according to an Italian report, while London claimed heavy damage in a Saturday morning attack on Naples and Palermo.

RESTRICTED

November 4, 1941
11:15 a.m.

GROUP MEETING

Present: Mr. Kuhn
Mr. Buffington
Mr. Viner
Mr. Blough
Mr. Barnard
Mr. White
Mr. Thompson
Mr. Schwarz
Mr. Morris
Mr. Gaston
Mr. Haas
Mr. Foley
Mrs. Klotz

H.M.Jr: Herbert, I got some sort of word that Coast Guard wants to do something formally. What is that?

Gaston: Oh, Waesche would just like to come over and pay his respects in view of his separation from the Treasury.

H.M.Jr: Is there any hurry about that?

Gaston: There is no hurry about it.

H.M.Jr: Well, give me a little time and let's see how we get along.

Gaston: Yes, sir. I haven't anything. So far as Waesche is concerned and as far as we are concerned, we are to let things go along as nearly as possible as they were before, in so far as our communication with the Coast Guard on things that we have to communicate with them on, the

- 2 -

matter of shipping regulations. I wrote a letter to the Secretary of the Navy asking their cooperation in the enforcement of the anchorage rules, since they have no authority now to enforce them except on request of the Secretary of the Treasury.

I wrote a letter signed as Acting Secretary, asking them to give that cooperation. There is a bill pending which will give them that authority but it has not yet passed.

- H.M.Jr: Well, I will talk to you about this later. Anything else, Herbert?
- Gaston: I think that is all.
- H.M.Jr: Edward?
- Foley: Here are some pictures of the Customs Guard out at Honolulu, Young, if you wanted to look at them.
- H.M.Jr: Sure.
- Foley: There he is. The crime is re-enacted here. This is the way he was standing and this is the Army officer who pushed him when he tried to get through. This is the Army officer and he is examining the Army officer's box there and these two men were people who were witnesses.
- H.M.Jr: I see.
- Foley: Then at the request of the Army officer, he searched him and the Army officer hit him on the jaw.
- H.M.Jr: Yes.
- Foley: This shows him going back. His hat here is falling between his feet as a result of the

- 3 -

blow. Then he drew his gun and shot him. The motion for change of venue and also the other motion for a continuance both have been denied.

- Gaston: There was a motion for change of venire too that was also denied?
- Foley: That is right. The case has been set down for trial the day after the witness that we located up in Vancouver will arrive in Honolulu, which will be the 13th or 14th. They are calling in this morning at half past eleven to give us some further particulars.
- I have a memorandum here from John Pehle on his investigation of commodity futures under the general license and if you would like to talk to us about it we can come in. In the meantime I might give you this to read.
- H.M.Jr: No, you hang on to it. Anything else?
- Foley: That is all.
- Morris: Nothing.
- H.M.Jr: Ferdie, I will do the boy. I can't give you any time. It will be some time tomorrow. I just don't know.
- Kuhn: It won't take long. Harold Graves is at a budget meeting and asked me to explain to you why he wasn't here.
- H.M.Jr: When will he be back?
- Kuhn: I imagine it will take until lunch time anyway.
- H.M.Jr: Well, then I don't want to see Callahan at a quarter of twelve on Bendix.

- 4 -

Kuhn: I have nothing.

H.M.Jr: I have seldom been so angry about anything in my life as I am about Bendix. I will put you on notice.

Kuhn: About what?

H.M.Jr: Well, I will tell you at 2:30. It is a novel experience for me. When you come in, I want a list of the directors and the officers of Bendix at 2:30. Haas will give you that.

Jake?

Viner: Nothing.

Barnard: Nothing.

H.M.Jr: Will you be ready at three?

- 5 -

Barnard: Yes, sir.

H.M.Jr: How long do you think that will take? Is an hour and a half enough time?

Barnard: How much?

H.M.Jr: An hour and a half.

Barnard: Yes.

H.M.Jr: George?

Haas: I have got something you can see, but Dan and I would like to talk to you.

H.M.Jr: Do you want to stay behind a minute?

Haas: Yes.

H.M.Jr: All right.

Harry?

White: The Russian Charge d'Affaires called up and wanted to see me yesterday morning. He had some further questions to ask, and I also had something to say that I think would interest you, and you may want to do something about it.

H.M.Jr: Well, I am seeing you later today.

Chick?

Schwarz: Marshall Field would like a letter in connection with his new paper. They are canvassing the President and the Cabinet.

Gaston: He asked Frank Wilson for a letter, and I told him by no means.

Schwarz: It is the usual thing. Probably they will

- 6 -

get some others and then come back, but we will sit tight. That is all.

- H.M.Jr: He didn't make me a good offer, did he?
- Schwarz: I suggested that.
- H.M.Jr: Do you suppose - what is the name of this man that is assisting Wallace now?
- White: Milo Perkins.
- H.M.Jr: Does he get paid for that Saturday Evening Post testimony, do you suppose?
- Schwarz: I should think so. They pay for all that.
- Buffington: We have distributed approximately twenty-six and a half million "Know Your Tax" folders.
- H.M.Jr: Good.
- Buffington: And we haven't yet gotten into the larger corporations like the steel company, but we have the plans laid for General Electric and the steel company and other corporations.
- H.M.Jr: Did the banks send it out in their statement?
- Foley: Yes, I got it in mine.
- H.M.Jr: Did we get one?
- Klotz: I haven't opened my bank statement yet.
- H.M.Jr: How about mine?
- Klotz: Or yours.
- H.M.Jr: You haven't?

- 7 -

Klotz: No.

Thompson: It was in mine.

Foley: It was in mine.

Schwarz: I got one.

Gaston: I never see my bank statement, so I don't know.

Buffington: New York and Chicago did a particularly good job of distribution. They distributed to every bank in their locality, in the district.

H.M.Jr: Anything else?

Buffington: No, that is all.

H.M.Jr: Well, you will need some more won't you?

Buffington: Yes, I am having five million more printed right away.

H.M.Jr: Ferdie, could I get a little up-to-date report on the copies of my Boston speech, how many have gone out and to whom and all that?

Kuhn: Surely. Mail is still coming in in response to it.

H.M.Jr: Get me a little report.

Kuhn: How many, and to whom?

H.M.Jr: That is right.

Buffington: That is all.

Thompson: Mr. McReynolds is seeing if he can get the

- 8 -

Attorney General to clear that order for the FBI to do the defense investigative work.

- H.M.Jr: Mr. Hoover doesn't want to do it.
- Thompson: Mac was rather shocked to find he had taken that position.
- H.M.Jr: His position is, he would like us to do it, and whenever we run into a subversive matter, just turn it over to him, and he will do it, but he says he doesn't want to do the other investigating. He is very definite about it.
- Thompson: It puts Mac on the spot, because the meeting in his office was just the other way. The Attorney General's office said they wanted to take it over, so he wrote a memorandum to the President telling him that.
- Foley: We will ask the Attorney General next time.
- H.M.Jr: Well, that is why I had a conference with Mr. Hoover, because I thought I would make progress faster.
- Thompson: Well, on the subversive side, Mr. Hoover's men are starting in, and I have assigned a room to them to do their interviewing.
- H.M.Jr: That went through?
- Thompson: That is all right, yes.
- H.M.Jr: Now, how about the two thousand cases that were held up by the judge who is now a district judge? What is his name?
- Gaston: McGuire? So far as we know, none of them - I don't think they were held up by Mat McGuire

- 9 -

at all. I think they were held up by Hoover's office.

H.M.Jr: No, Hoover says he has got a record of six requests on it that he made, to get a clearance.

Gaston: He cleared a hundred and thirty-two.

H.M.Jr: I can only say what he said, that Mat McGuire held it up, and that he has at least six times asked the Attorney General.

Gaston: I assume they are still holding up to see what the decision is going to be on this continuing of the investigations.

Thompson: We have got nothing further on that.

H.M.Jr: All right.

approved
11-4-41.

Bendix Aviation Corporation
South Bend, Indiana

Offices at:

30 Rockefeller Plaza, New York, N.Y.
Bendix, New Jersey

President: Vincent Bendix
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Affiliates

~~Bendix-Westinghouse~~ Automotive Air Brake Co.
Jaeger Watch Company

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 4, 1941

TO Secretary Morgenthau

FROM Mr. Kuhn

Copies of your Boston speech have now gone to the following:

To holders of Defense Savings Bonds	2,200,000
To heads of women's clubs	25,000
To college professors and other members of learned societies	16,483

In addition the following copies have been distributed on direct request by organizations or individuals:

By Miss Elliott's Division of OPACS	1,182,664
By Mrs. Forbush's office and others in the Treasury	67,619

The total number of copies distributed so far is. . . 3,491,766

Our mailing room has specific requests in writing for all the copies distributed by OPACS.

Attached is a memorandum from Mrs. Kuhn giving details of the distribution to women's clubs.

Att.



REVENUE SAVINGS STAFF

TREASURY DEPARTMENT

WASHINGTON

November 4, 1941

Memorandum to: THE SECRETARY

From: Mrs. Kuhn

On September 24th we sent out twenty-five thousand copies of the pamphlet "The Fight Against Inflation" with the attached covering letter to presidents of individual clubs affiliated with the General Federation of Women's Clubs.

Requests for additional pamphlets have come in from these club presidents in forty-six states. The total number of additional copies which we have sent out in answer to these requests is 22,918 as of today.

I attach also a digest of some of the most interesting replies we received from these individual club presidents. They are still coming in.

The whole experiment shows, it seems to me, that women are becoming rapidly aware of the threat of inflation because they see symptoms of it around them in their daily lives. Also, that they are eager to do whatever is necessary to avert this evil.

Delia Kuhn



TREASURY DEPARTMENT

WASHINGTON

DEFENSE SAVINGS STAFF

September 24,
1941

Dear Club Woman:

The pamphlet which I am sending you with this letter contains a message of such vital importance to members of the General Federation of Women's Clubs that I have asked and received permission from your President, Mrs. John L. Whitehurst, to send it to you with the request that you distribute it as widely as possible.

In a recent letter addressed to you, Mrs. Whitehurst called upon you to cooperate wholeheartedly in the Treasury's Defense Savings Bond and Stamp program. This program is one effective weapon in "The Fight Against Inflation" -- the fight to maintain our American standard of living.

I hope that you will read this pamphlet carefully, think what it means to you and your family, and, if possible, place a copy of it in the hands of each of your fellow club members. You may secure extra copies from the Defense Savings Staff, National Women's Division, Treasury Department, Washington, D. C.

Sincerely yours,

Delia W. Kuhn

(Mrs.) Delia W. Kuhn,
National Women's Division
Defense Savings Staff

Enclosure

From Mrs. L. D. Goodwin, New Hampshire Federation of Women's Clubs,
Bradford, New Hampshire:

"In answer to your letter of September 24th, may I tell you what we are trying to do in our particular District. Letters have been sent out to the twenty-four Presidents asking their club to buy at least one Defense Bond, telling them also to stress the individual buying of both stamps and bonds as well.

"As Chairman of this Concord District I hope to report at the end of the club year, 100% of the clubs under my chairmanship have helped to 'maintain our American standard of living.'"

From Mrs. C. W. Spradley, Woman's Civic Club, Birmingham, Alabama:

"We, the members of the Woman's Civic Club, want to pledge our whole hearted support to the Treasury's Defense Savings Bond and Stamps program. We are anxious to fight to maintain our American standard of living."

From Mrs. John F. Johnston, Grand Junction, Colorado:

"In reply to your letter to clubwomen, September 24th, may I ask if there is any specific thing that we as clubwomen can do to show our desire to support the program that Mr. Morgenthau outlines? It is certainly a matter that concerns every one of us and one that we will all wish to assist in."

From Mrs. Stanley B. Day, Peripatetic Club, Brookhaven, Mississippi:

"This is to let you know that (even before I got the letter) we are planning to put into U. S. Defense bonds an idle \$1000 fund that was formerly a scholarship fund."

From Mrs. Norman Hendry, The Miami Woman's Club, Miami, Florida:

"Replying to your letter of September 24th regarding the Treasury's Defense Savings Bond and Stamp program, we are pleased to report, that at our first Board meeting with our new President, Mrs. Fred Hosea, she presented each member with a stamp book and a stamp. Since that time we have purchased stamps regularly for our books. Mrs. Hosea has been working faithfully on these projects regarding our defense."

Page 2.

From Mrs. R. H. Stanley, 20th Century Club, Hugo, Oklahoma:

"Please send 24 copies 'A Speech and a Pledge' by the Secretary to distribute to my club. Please write me any time I can be of assistance. Personally I have been doing quite a bit: Was Chm. of Aluminum Drive; a Chairman of U.S.O.; Chairman of Red Cross Roll Call; and Director of Publicity of Red Cross. Supervisor Cutlery Unit of Red Cross; Chairman of Bundles for Britain. Please write me if you need me."

From Mrs. Henry Redmond, Texas Federation of Women's Clubs, Corpus Christi, Texas:

"Your letter and pamphlet came to me here this a.m. I shall do as suggested to the best of my ability.

"Personally, I have bought a five hundred dollar Bond of our home P. O. this year and four hundred dollar amount of Bonds last year.

"Am fully aware of the emergency and shall hope to be able to buy more this year, but do not know just what I shall be able to do."

From Mrs. J. T. Young, Athens Junior Women's Club, Athens, Georgia:

"In reply to your letter of September 24th, I wish to report that the Athens Junior Woman's Club, in cooperation with the Athens Woman's Club, sold \$19.50 worth of defense stamps. This figure is what the Junior Club actually sold."

From Mrs. Jean L. Howell, Jacksonville Junior Women's Club, Jacksonville, Florida:

"If you let us have two thousand, I assure you each one will go into a home where there is real interest and concern about the present condition and where the address will be read."

From Mrs. M. H. Salisbury, Victor, Colorado:

"Thank you for sending the pamphlet on inflation. I should like 35 copies if possible to put in the hands of the active members of my club.

"Up here in this wee mining town food prices are a real problem. Just last month my own grocery bill increased one-third.

"We stand ready to help in any way that we can. At our last meeting, however, we voted to buy a \$25.00 Defense

Page 3.

Bond only to learn a club cannot do this. We have little money and this is all we can do. Is there no way around it except to by Defense stamps which carry no interest?

"Two of our members were at the State Defense program in Denver yesterday. I hope they will report other ways of helping."

From Mrs. Whomas F. Lookes, Biddeford, Maine,

"Within an hour I paid 8¢ for a pint of milk, read the pamphlet on price control, heard over the radio that a Mr. Bankhead opposes Mr. Morgenthau as 'the enemy of the farmer' and read in COMMONWEAL 'But things are better; my neighbor is getting a higher price for his milk, his hogs are worth twice what they used to bring'. So what?"

"So what, indeed! What is the use of the farmer getting three times the value of a bottle of milk, if he pays four times what he should pay for a pair of cotton stockings for his wife or himself? And so on - the vicious circle.

"Also, while my milk is (at the above rate) 4 cents a quart more than I paid for it a year or so ago, my butter has gone up only 5¢ on 40¢. It is home made butter and is made from the milk in this same locality. To be sure, there was a shortage of hay this summer - due to the lack of normal rainfall. But 4¢ on 12¢ and 5¢ on 40¢! There is a nail loose somewhere.

"Prices are higher. Everyone seems either to be benefiting by it and thus in favor of it, or it looks too big a battle to take on. Then, too, if Mr. Bankhead opposes Mr. Morgenthau, and if Commonweal takes the side of the go-uppers, where would a few little women get by taking on the price control battle? Seems to me it would be like a little mouse squeaking among a lot of big lions. Nevertheless, isn't there a story about a little mouse that did liberate a great big lion entangled in a net or something? Send on your pamphlets!

Page 4.

From Mrs. Edna S. McDaniel, Nevada, Missouri,

"I received your pamphlet on 'The Fight Against Inflation' in September. I have read it carefully and realize its importance. So am asking you to forward me 35 copies for distribution to members of my club next Monday. We are the oldest club in Nevada, organized 1897. I placed the matter of buying Defense Savings stamps or bonds before the club at our last meeting. I have worked as Chairman of International Relations for several years and find it most interesting, especially at the present time when all laws for peace seem to have been forgotten.

"May God speed the work of good women in this cause for human rights and liberties. If I can help command me."

From Mrs. George E. Hineman, Dighton, Kansas:

"Yes! I will place a copy of the booklet and any other literature at any time in the hands of every woman in both clubs. This comprises about 38-40.

"I will support or defend the administration at any time in any way within my power.

"I personally needed that booklet. I will buy a stamp out of every cream check."

From Mrs. W. G. Smith, Boulevard Park Women's Club, Atlanta, Georgia:

"The pamphlet you sent me contains a message that is of such vital importance, that I would like one for each of our club members - would appreciate it so much if I might have fifty for distribution at our regular club meeting, Oct. 14th. For your information, our club voted at our last meeting to buy Defense Savings Bonds with the funds that we have been banking for the building of a Club House - believing that helping build defense, is of more importance than building a Club House at this time. The above was at my suggestion, as I have been Chairman of this fund for sometime, and have added to same every few months."

November 4, 1941
2:40 p.m.

H. S.
Stettinius: Hello, Henry.

HMJr: Ed?

S: Yes, sir.

HMJr: Can you hear me?

S: I can hear you well.

HMJr: The Charge' of the Russian Embassy called us twice now to say that they're out of money.

S: Yeah.

HMJr: And going up on the train with me, Harry said that they were giving them supplies out of Lend-Lease. Well, if they are, the Russians don't know anything about it.

S: Well, Henry, this - we haven't naturally moved officially on Russia, because the President hasn't told us to. Now, officially, up until this moment, Russia is supposed to be paying for its stuff out of what you've done and Jesse has done in advances.

HMJr: Well, Harry told me flatly that he was letting them have stuff.

Well, anyway, Ed.....

S: Yeah.

HMJr:the Russians are really worried. Now, I'm officially telling you they're out of money. I think we ought to do something about it.

S: All right.

HMJr: Have you talked to Harry today?

S: I haven't talked to Harry this morning. He's still at Hyde Park.

HMJr: Oh.

- 2 -

S: He won't be back - he's coming back with the President tonight.

HMJr: Well, I'll try to get him on the wire myself. But you're not giving them anything, officially or unofficially.

S: Unofficially, yes.

HMJr: But they don't know it.

S: Unofficially there's stuff moving to Archangel, but I can't tell anybody that because the President hasn't told me yet it's all right.

HMJr: Can't you tell the Russians that?

S: No.

HMJr: All right.

S: I don't know why, but apparently I can't. Henry, the only way we can clarify it is for the President to say to me that we can deal officially with Russia on the Lend-Lease basis, you see?

HMJr: Would you like me to call up Harry and bring it to a head?

S: Harry would like to do it and I think that's all right; but my instructions are that - to do nothing now until I get the signal from the President.

HMJr: Well, I'll.....

S: Because of what happened on the Hill last week, you see?

HMJr: Yeah, I'll try to get Harry on the phone.

S: And, but stuff - there is actual stuff in the works, Henry.

HMJr: But nobody knows it.

S: Nobody but the Russians.

- 3 -

HMJr: Well, do the Russians know it?

S: Over there?

HMJr: Yes.

S: Oh, I think they know it over there. I don't think they know it here.

HMJr: Oh.

S: In other words, I don't think Amtorg knows anything about it.

HMJr: But they do know it at Moscow?

S: Yes, I'm quite sure of that.

HMJr: Well, then I'll keep out of it.

S: Yes, I'm quite sure of that.

HMJr: All right.

S: Harriman and Burns have been in touch with Moscow, you see, direct.

HMJr: All right.

S: And so has the President.

HMJr: All right. Then I'll keep out of it.

S: I think, as a matter of fact, the President and Stalin exchanged cables over the week-end.

HMJr: I see.

S: On this very thing, Henry.

HMJr: Okay, I'll keep out of it.

S: All right, old boy.

HMJr: Thank you.

November 4, 1941
3 p.m.

RE SOCIAL SECURITY (COMPULSORY SAVINGS)

Present: Mr. Viner
Mr. Shoup
Mr. Barnard
Mr. Friedman
Mr. Buffington
Mr. Groves
Mr. Currie
Mr. Haas
Mr. Blough
Mr. Foley
Mr. Kades
Mr. White
Mr. Coe
Mr. Shere
Mr. Sullivan
Mr. Morris
Mr. Kuhn

Barnard: The first question was the minimum amount required to get, and the statement in which we tried to show it. There is the most recent statement. I think the way to put it is that it is worded as simply as possible. It has just come out of the press. Would you like it read?

H.M.Jr: Yes, because I don't think Foley has seen this. Have you?

Foley: No.

- 2 -

H.V.Jr: Neither have I. So let's have somebody read it.

Barnard: Who is most familiar with it?

H.V.Jr: You read it (laughter).

Barnard: "Inflationary forces are now at work driving prices upward. These will be intensified by changes during the coming months in government expenditures and other factors. These changes are described below.

"In October 1941, total expenditures for defense were running at the rate of \$21 billion a year. In addition the Federal Government non-defense expenditures were at a rate of \$6½ billion a year. Thus in October 1941, expenditures for defense and the regular activities of the Federal Government were at the rate of \$27½ billion a year.

"In the same month taxes were being collected by the Federal Government at a rate of \$9½ billion a year. The excess of expenditures over tax collections was therefore at a rate of \$18 billion a year; \$16½ billion representing the excess of expenditures by the Federal Government, the other \$1½ billion representing purchases by foreign countries.

"In calendar 1942, total expenditures for defense are expected to be about \$31 billion or \$10 billion higher than the October 1941 rate. Federal non-defense expenditures are expected to be about the same, \$6½ billion. Total defense and non-defense expenditures are expected to be \$37½ billion, or \$10 billion greater than the October 1941 rate.

"Tax collections by the Government, under existing legislation, are expected to be \$16.0

- 3 -

billion in calendar 1942, or \$6½ billion higher than the October 1941 rate. The excess of expenditures over tax collections will therefore be \$21½ billion in calendar 1942, or about \$3½ billion more than the corresponding excess at the October 1941 rate. That is, because defense expenditures will increase more rapidly than tax collections, individuals and corporations will have available \$3½ billion more income than they had at the October 1941 rate -- \$3½ billion that they can try to use to buy consumer goods, equip their businesses, subscribe to defense bonds, purchase investments or hold idle.

"At the same time that individuals and business concerns will be getting more spendable income from the defense effort and the Federal Government's regular activities, they will find a smaller amount of goods and services available to purchase.

"In October 1941, national income was running at a rate of \$95 billion a year. As was noted above, defense was taking \$21 billion of the national income, leaving \$74 billion for civilian use -- that is, for consumption, for private capital goods, and for the activities of State and local governments. In calendar 1942, national income, measured at October 1941 prices, is expected to be at least \$98 billion, or at least \$3 billion higher than the October 1941 rate. Defense is expected to take \$31 billion of the national income in calendar 1942, leaving \$67 billion. The amount available for civilian use will therefore be \$7 billion less than in October 1941.

"Under these conditions, the amount of excess purchasing power would be about \$10½ billion, computed as follows: \$3½ billion is the net amount that Government will be adding

- 4 -

to the spendable incomes of individuals and corporations over and above the amount it was adding at the October 1941 rate; \$7 billion is the net reduction in goods and services available for civilian use.

"The accompanying table summarizes these figures. In addition it shows the minimum amount of taxes estimated to be needed in calendar 1942 to keep prices at the October 1941 level, assuming the extent of priorities and other direct controls that now seem likely. This minimum amount is \$4½ billion. This estimate cannot be computed directly from the other figures in the table because of the necessity of taking into account many other factors that affect tax needs. Some of these factors that we have taken into account are:

"The severity of priorities, allocation, and other direct controls; possible changes in the degree to which consumers will spend rather than save their incomes; possible changes in the desire of private business to construct new plants and equipment, rebuild old plants and equipment, or build up inventories; the indirect effect of taxes paid by some on the spending and saving of others; the speed at which government spending is outstripping government tax revenue; the speed at which our added defense needs are outstripping our added power to produce; and so on.

"This estimate that \$4½ billion is the minimum amount of taxes needed assumes that these taxes will in general be in the form of a flat rate tax on incomes above certain minimum exemptions, the tax to be withheld currently at source. If other tax measures were to be used, the amount of taxes needed would not be the same.

- 5 -

"It should be emphasized that these estimates are for the calendar year 1942. Since defense spending is expected to rise throughout 1942, a smaller amount of additional taxes will be needed early in the year, a larger amount later in the year. For this reason, it might be desirable to impose now only the minimum amount of taxes with the expectation of imposing additional taxes later on when the need for them is apparent, and the course and nature of the defense program in the latter part of 1942 is clearer.

"Finally, other measures than taxation can help to control inflation. Some of these are already in force or are clearly foreshadowed. These have been allowed for in the estimates of tax needs given above. But there are still other measures that would further reduce tax needs. Some examples are: The reduction of Federal non-defense expenditures; more stringent control of consumer credit; and an appeal to State and local governments to reduce their expenditures but not to reduce taxes.

"Neither these measures nor taxation nor both together can prevent price rises resulting from special factors affecting particular commodities -- for example, the part of the recent increases in the prices of cotton and wheat caused by the government's loan program, and increases in the prices of some imported commodities."

There follows a table.

H.M., Jr:

I think, taking the thing as a whole, that we have moved very far along the road.

Barnard:

I have just seen this new copy, and I think it is a very great movement.

- 6 -

- H.M.Jr: You have just seen it?
- Barnard: Yes, it just came up.
- H.M.Jr: I think it would be most helpful to me if I could go around and ask some of the the later people - well, let's start in with Shoup, because after all, this is really - you started the basis for this and this is a little bit different, I think, than your memo and I want to know how you feel about this, as compared to your original memorandum.
- Shoup: I feel that this is correct. It is stated as it is with a minimum figure, and starting from the present price levels, rather than last June. It fits in very well with our computations. Our computations were based on last June prices, you see, and this is based on current higher prices.
- H.M.Jr: Are you satisfied, Carl?
- Shoup: Yes, I am satisfied.
- H.M.Jr: That is something. Now, Dr. Viner, how about you?
- Viner: Well, I am satisfied with it, except for a few details. I am not sure that - there is one point here that I am not sure whether it was omitted deliberately or as an oversight. It is one smaller point I have raised in discussion here. This assumes the situation is O.K. now, it is just the forces that are going to come into being that are going to create trouble. On page 3, the middle paragraph.
- "Under these conditions the amount of excess

- 7 -

purchasing power would be about ten and a half billions."

Well, I think to be correct, that ought to read, "The amount of excess purchasing power above that amount now existing would be ten and a half billions."

Shere: The intention, Mr. Viner, was that the opening paragraph would - it is probably not adequate - was to take care of the point you raised in conference this morning.

Viner: But then how about that statement on page 3?

Shere: Well, I think it should be repeated, probably, at various points in the memorandum, but the intention was that the opening paragraph would show that we do not assume that the present conditions are equilibrium conditions.

Viner: On the same page, three, that is, "seventy-four billion for civilian use." That ought to include Federal non-defense expenditures, under civilian, shouldn't it?

Friedman: There is a practical point discussed in the footnote of the table that allows for that.

H.M.Jr: What time are you leaving, Jake?

Viner: Five forty-five.

But I am in general quite satisfied with it. I don't know just how you are going to make use of this.

H.M.Jr: Well, I will tell you exactly how I am going to make use of it. Mr. Barnard, and Mr. Sullivan, and Mr. Blough, and I are meeting with Senator George and Mr. Doughton, and I

- 8 -

want to give him this memorandum. I have got a couple of things I want to say, why I can't give it to them in the shape it is in. What I want to say is this, gentlemen, that the reason why I am going to ask you to let me get a tax bill through this year yet, which will become effective the first of January, and it is based on this. And I think --

Viner: I would like to see --

H.M. Jr: I don't know whether you can in any way popularize this for these two gentlemen or not, but it is pretty heavy going. Just at the end there, you cast doubts on the whole thing. In this last peroration here. "A smaller amount of additional taxes will be needed early in the year, a larger amount later in the year." I wouldn't say that.

Sullivan: No.

H.M. Jr: "For this reason it might be desirable to impose not only the minimum amount of taxes in expectation, imposing an additional amount later on when the need for them is apparent." Well, my God, we are saying five pages why they are apparent, and then we begin to have doubts at the end there. If you don't mind, it just throws doubts on everything that went before. I mean, it is being over-honest and it isn't necessary.

Viner: I think the first statement in the memorandum ought to tell you that there is going to be need for more taxes.

H.M. Jr: Yes. But I mean, this thing here, "and then finally other measures of control." Well, I just question page five, whether - I want to say, "Look, gentlemen, I need more taxes,

- 8 -

want to give him this memorandum. I have got a couple of things I want to say, why I can't give it to them in the shape it is in. What I want to say is this, gentlemen, that the reason why I am going to ask you to let me get a tax bill through this year yet, which will become effective the first of January, and it is based on this. And I think --

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H.V. Jr: Yes. But I mean, this thing here, "and then finally other measures of control." Well, I just question page five, whether - I want to say, "Look, gentlemen, I need more taxes,

- 9 -

beginning with the first of January. I need all I can get, up to four and a half billion. I cannot carry out my responsibilities as Secretary of the Treasury unless I do everything, both publicly and privately, to urge you to let me have these beginning with January first. Now, if you are interested in how I arrive at that four and a half billion figure, here on five pages it tells you how I arrive at it."

You don't agree with me, Lauch?

Currie: It won't tell you how you arrived at it.

H.M.Jr: At least it will give them enough so they can't figure how we arrived at it (laughter). At least when they get through they won't know either. They will say, "Is this your two-thirds rule?" you see. And I will say, "Oh, no, this is another rule."

Currier: Something new yet.

H.M.Jr: But I think that it ought to come right out on the front page and say, "Now, I want four and a half billion taxes, at that rate, beginning with the first of January, and now gentlemen, this is why I need it," and so forth and so on, and then the rest of the stuff would follow. Would that --

Viner: Yes.

H.M.Jr: Because if I can get them to read one page I am lucky.

Viner: I would ask them to give you --

H.M.Jr: Doughton will say, "Now, can I have this, Henry?"

- 10 -

- Sullivan: George won't. George will read it all.
- White: Maybe the table is all you need, if it could be expanded a little. If you are restricted to one page, the table would be the best.
- H.M.Jr: I take it that Roy understands it, don't you?
- Blough: I understand it as well as Senator George is likely to understand it after he looks at it for the first time and it looks all right (laughter).
- Sullivan: What is the joker in this increase in national income of only three billion dollars?
- White: Well, that is the - that is one of the - I think that is the basic difficulty of this presentation. What you are doing is taking a calendar year and comparing it with a monthly rate, and every time you come across every one of those figures, they will say, "Is that all we are spending more than we were this year?" And you will have to explain, "No, that is the October rate." That will apply to every single figure. I am wondering whether a simpler way of getting the same results is to compare the calendar year '42 with '41. You will come out the same way, but it is just going to avoid a lot of questioning and it will be simpler.
- H.M.Jr: If you will remember what we are up against tomorrow, if we had a table and maybe one page or two, because the figure that we are interested in is the four and a half billion figure. Now, you (Blough) asked me this morning would I take that sight unseen on these gentlemen's say-so, and I told you I would, you know. You may not have been able to pass that along.

- 11 -

- Blough: I didn't pass it along, no.
- H.M.Jr: Don't you think, Barnard, you could have John and the rest of you - that you could all have time to fix this up so it is much simpler?
- Viner: Do you want to ask them for another footnote on the first page? There are two number twos.
- Blough: The first number two goes out.
- Viner: I am not clear now as to the four and a half billion, as to whether it is made clear to you that that includes the Social Security program. One point seven of that is Social Security, so you are asking for one point seven Social Security, and the rest a new withholding tax.
- H.M.Jr: No, I did not. It isn't done the way I went over it with you (Blough) this morning.
- Blough: This isn't the same memorandum, Mr. Secretary. That is another one.
- H.M.Jr: No, but if they are going to get into that, it is --
- Blough: That is right.
- Sullivan: Have you decided, Mr. Secretary, that it is advisable to give them both a copy of this memorandum to take with them?
- H.M.Jr: You might just as well, John, because if they don't get it they are going to give it from memory and give it badly, so they might just as well have the memorandum.
- Sullivan: Well, I am wondering if we can't explain these various forces that are at work in a way that will indicate to them that we have got

- 12 -

to have the four and a half without doing it in such specific detail as this memorandum does it. I wonder if we can't --

H.M.Jr: That is the whole point. I think this. The four and a half is the magic figure, isn't it?

Elough: It is the minimum.

Barnard: The minimum magic figure.

White: It is magic though (laughter). What is about what it is.

Sullivan: That is just what I am getting at, sir. I mean, we were all so sure of six and a half billion a week ago and now we are all so sure of four and a half --

Shoup: The dates have been changed.

H.M.Jr: That is why Harry went to Cuba.

Sullivan: Well, I don't intend to comment on that as an improvement along that same general line - (laughter) - welcome home, Harry (laughter). I am kind of afraid of letting a memorandum like this go out.

White: I am inclined to agree with John that if this thing is published as is, there will be any number of people who will tear it apart and the people who may be able to defend these figures won't be present, and it will raise - (laughter).

Sullivan: And Harry will go back to Cuba.

White: I mean it is going to start a terrific controversy, and if it can be avoided and still come out with a justification for taxes, I think it were better so.

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H.M.Jr: Well, let me pin this - how have you been working, Barnard, who is responsible for this?

Barnard: Mr. Friedman and Mr. Shere are the people who actually produced it. We discussed it all morning in there, and they did it over again, and have just got it done. None of us have seen it since. When we got all through talking this morning, we happened to focus on this, Mr. Secretary, that in the last analysis this is a matter of judgment, and it has got to be a matter of judgment, carefully arrived at, to be sure, and arrived at after a lot of consultation and discussion. But the fact is that our belief is that the least that has got to be had is four and a half billion.

Now, everybody here, with the exception of Mr. Currie, who was out at the time I tried to get a definite expression, agreed that that was the case, if my memory isn't at fault here, with several saying they were quite sure that it would be higher than that. Well, there is no use of talking too much about what is higher, because we are not proposing anything that will run higher.

H.M.Jr: Well, I take it there is general acceptance of a minimum of four and a half billion.

Barnard: Except I am not sure about Mr. Currie, who wasn't there at the time.

H.M.Jr: I will give you a chance in a minute, George. I was coming to Lauch anyway.

Currie: I am going to take a very unfair position on this, Mr. Secretary, because I am not prepared to say four and a half billion is the maximum or the minimum, and I can't supply you with a

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figure, but I think this is a most ingenious type of analysis, but it is a beautiful super-structure erected upon what I consider to be very shaky foundations. I was just thinking at lunch time of the number of assumptions. Just by making relatively small changes I came out with the figure of no additional taxes necessary. It is that kind of analysis. So I would not put it on this basis at all. I would say you are having a victory program coming along with greatly increased expenditures. I think we are bound to have need for more taxes eventually, and I would go ahead with the new tax program on that basis, but I should hesitate very much to be pinned down to any figure of four and a half billion or any figure, particularly at the moment.

H.M.Jr:

You haven't had time enough?

Currie:

I am not sure it is a situation that lends itself to coming out with an exact figure like that. I don't feel that the danger in the next six months is severe. I don't think we are in a critical phase at all, as far as the general economy is concerned on the inflation matter. I would push ahead, however, knowing the slowness of tax legislation and difficulty of getting it passed for the Social Security program and for possibly a two billion dollar additional program.

H.M.Jr:

Well, your position on inflation, you have been that way for several months, haven't you? I mean, you haven't been as worried as some of the rest of us have been.

Currie:

I think that is true for the short run.

Viner:

You just said two billion and one point seven,

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three point seven as compared to four point five. We don't fight about eight hundred million dollars any more.

Currie: But I am not putting that on the grounds of any particular analysis. I am not fooling myself that that is the right figure. It may be more or less, I don't know, but eventually we will need that I am sure, so let's push ahead on it.

H.M.Jr: Are you through, Lauch?

Currie: Yes.

H.M.Jr: George, do you want to say something?

Haas: I just wanted to say this, Mr. Secretary, that I agree with Lauch that it is a very ingenious type of analysis, but you can approach the subject from another way, and get about the same answer. I wanted to call your attention to this. The four and a half is not the type of figure that you can defend with any degree of assurance. You can argue with people, as long as they want to argue. You can take another set of assumptions and you could put up just as good an argument with the new set of assumptions, and can get an entirely different answer. You have a situation that the error in the four and a half is almost as big as the figure itself, so it provides a basis for accepting a figure of four and a half. I think taxes ought to be increased substantially, but there is a lot of arithmetic in there, but it is not - the error is tremendous in it. You make a judgment and then you go ahead and multiply it and add something to it, and so on. I just wanted to call your attention to that. It is not like some other figures you have had. Because of the nature

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of the situation, it has to be very rough. If you put it out, I think as Harry mentioned, you will have difficulty in defending it against all comers.

I don't know how I would go about it.

H.V.Jr: Well, just let me ask this. You have got your defense expenditures here for the calendar year - you have got those estimates. I mean, there can't be much of the non-defense and the rest. After all, let me put it this way. On the calendar year - do these Senators think in terms of the calendar year or fiscal year?

Sullivan: Fiscal, sir.

Blough: Since you are in a hurry to get started, you try to move it back into the - into something beginning with January 1, instead of July 1.

H.M.Jr: Well, anyway, this shows that our total defense and non-defense for the calendar year will be almost thirty-eight billion, which is ten billion more, you see. And our total taxes under existing legislation will be sixteen billion.

I have never seen that figure before.

Sullivan: That is for fiscal '43.

H.M.Jr: No, it is for calendar '42.

Haas: That is collections --

Shoup: Calendar '42.

Haas: The other runs up about seventeen.

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- H.M. Jr: We will have a deficit of twenty-one billion, is that right?
- Blough: Yes.
- H.M. Jr: Well, there is your story, I think. A deficit of twenty-one, which would mean that I would have to borrow practically twenty-two billion under the present program. Is that right?
- Friedman: That includes the foreign purchases.
- H.M. Jr: Why --
- White: That is right, that will have to be reduced.
- H.M. Jr: Why do you throw foreign purchases in there? Foreign purchases of what?
- Friedman: Armaments.
- Viner: You see, this is a national economy table and not a Treasury table.
- White: That could not be easily changed.
- Viner: There are non-Treasury items in here. There are non-Treasury items in here which could be taken out.
- Currie: There would also have to be deductions for defense plant expenditures.
- H.M. Jr: You had better throw these out. I don't know how much they amount to, Roy.
- White: Three billion.
- H.M. Jr: What I am talking about is how much I will have to borrow. I don't have to borrow on what the foreign people have to pay.
- Currie: I would much prefer, Mr. Secretary, that you put it on the grounds of this deficit and the victory program coming along.
- H.M. Jr: That is what I am going toward, and then that our deficit - I don't know - for the calendar year --

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White: Won't you have to borrow RFC next year, Mr. Secretary?

H.M.Jr: Yes, but look. These people walk in here tomorrow. All I want to try to do with them is this, and that doesn't mean we won't continue this work, but all I want to do, and I am directing myself to Roy because Roy is going to have to write this for me - can you do it, physically?

Blough: I trust.

H.M.Jr: He didn't get to bed until two this morning, trying to find a key to the hotel. I just think this, following what Lauch Currie said; we have got to use the kind of figures that they are used to and I would like to show them - and also the kind of figures that I am used to.

Now, gentlemen, I thought that last June we were going to have an eighteen billion dollar total expenditure and then it went to twenty-two. I wouldn't necessarily use the Budget figures, although I used this before the Byrd Committee the other day. Now it looks as though for the calendar year that our expenditures are going to be so much and our tax collections so much, which leaves me a figure which I have got to borrow.

Now, if you can give me additional taxes, to the amount that you can give me additional taxes plus the amount which Mr. Doughton can save through economy, it means that I have borrowed so much less. Now, that doesn't - that gives me something to talk about.

Sullivan: I think you are on far safer grounds.

H.M.Jr: That gives me - excuse me a minute.

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- Sullivan: Yes, sir.
- H.M.Jr: I want to get Roy. And then go on, Roy, with the stuff, you see; Roy and I were together for two hours this morning - if you go on and do the rest from then on, you see, and let these people see it, if you can, if any of them want to.
- Blough: May I make one comment there?
- H.M.Jr: Yes.
- Blough: Whenever you get ready.
- H.M.Jr: Yes?
- Blough: And that is, if you approach it from that point of view solely, you certainly will get nothing beginning January, 1942.
- H.M.Jr: Why?
- Blough: Because they will say, "Well, you need that and you just give us our heads and we will provide it, but you don't have to have it now." The reason you have to have it now is because the inflationary pressures are now and between now and June 30, 1942, you have two or three billion dollars of need for additional revenue under the figures these people have been working with, so that unless you bring this inflationary picture in some way, they will say, "Well, now, let us go home and get a little vacation and we will come back here and get started on this and some time along about June we will get you a bill."
- White: Well, why couldn't you still do that with his preliminary? You start in by saying, there is this enormous deficit. From that point on you

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drop the fiscal arguing and you say, "This enormous deficit and the increased expenditure is going to mean rapidly rising prices unless we do something about it from the very start."

Blough: Right away.

White: And all the arguments you can use, just as you have used, would follow.

Blough: I think so, Mr. Secretary.

Haas: Show them a cost of living chart.

H.M. Jr: Well, the way Roy likes to work is, he lets everybody talk at him, and then he goes down alone and writes out a memorandum for me. He has done this thing for me before and he always comes out with a good one, so I think the thing to do is, so that everybody can have a fling at it, is to go in your (Barnard's) office and then before it is too late, let him go downstairs and write his memo.

Blough: I would like to have you have a fling first, Mr. Secretary.

H.M. Jr: You have got my fling.

Viner: There is another reason why you ought to bring in the inflation argument, and that is that unless you do that you have got no special argument for any special kind of taxation. Any way of meeting it would do, then.

H.M. Jr: I mean the fact that I agree so readily doesn't mean that you have got to keep arguing about it. You have made your point.

White: There is another point that was raised this morning that I think should be raised now because it may

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have a bearing on what you ask, and that is that the inflationary effect of this expenditure is going to be far greater in the latter part of the year than in the earlier part of the year. In fact, one of the difficulties is that you may make a case that in the earlier part of the year it may not amount to much at all and that fact, coupled with the additional fact that you are going to have too large an increase at once - it was suggested this morning that you, instead of having a fifteen percent withholding tax right through, begin with something less, possibly a ten percent, and then move to a fifteen percent if and when it is necessary, or move to a fifteen percent at some later date, either three or four months from then. It would be more acceptable. It would be easier in its impact and it certainly would fit the situation more nearly.

Blough:

There is a reason why you might wish to do that. I am informed by persons who have talked with Mr. Stam, who has something to say about this, that he is going to be opposed on the grounds that they are going to have to pay two taxes at once, the 1941 taxes and this new tax, and it all comes piling on them as an increase. It may be that to start lower and go up toward the end of the year would help Congressional sentiment which is along that line. Do you agree?

Sullivan:

No, I don't, Roy, because if you start that way you end up by getting nothing the first part of the year.

H.M. Jr:

No, I think you have got - if we can get this fifteen percent effective the first of January, I think it would be a great victory for the Treasury and for the consumer.

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- Blough: Well, let me argue against my previous statement for a minute and in favor of just what you said. This one tax, it seems to me, is all you can get now for reasons which I explained this morning. The Social Security is bound to be slow and therefore all you would get if you got this fifteen percent would be the two point eight which almost certainly would be needed.
- H.M.Jr: That is right.
- White: Have you decided on the exemptions? There was some doubt about that. Has that been decided?
- H.M.Jr: We thought we would leave it for the time being. I mean, this is a trial run tomorrow. Now, they may say to me, "Now, Henry, just forget it. There is no chance." And on the other hand, "Well, we are interested but we can only do so much." So I mean, I want to make it just as simple - so we will leave the exemptions where they are for the time being.
- White: Does that apply also to the return portion of that?
- H.M.Jr: There was nothing in it this morning about returns.
- White: Straight tax, fifteen percent?
- H.M.Jr: Yes, that is the way it was this morning.
- Blough: With present exemptions.
- White: I think it is easier to sell it to them.
- H.M.Jr: Well, they won't give me time enough for that. All I am going to get tomorrow from these people is this, that they will consider a tax bill now or they won't.

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Sullivan: The simpler it is the more likely they are to say yes.

H.M.Jr: And I have got to have an argument, why I think it is such an imperative need to get another tax bill through during November and December. That is the argument I want. Why is it necessary to have it now rather than waiting until the first of January and maybe get it next April, May or June. That is the whole thing, and they will simply say, "Henry, I am sorry," just like that, "I will not stay here." Or, "I will," and George will say, "I will," or "I won't." Or they will say, "Well, give us a couple of days and we will talk it over with the boys and come back and let you know." That is about all you can hope for.

Sullivan: Yes, it is, sir.

H.M.Jr: And that is why, Harry, I --

White: You are not committing yourself to any specific program at this time, then.

H.M.Jr: I have eliminated all specific things. I mean, there are some questions there which I would like to argue for two days, just one point in one paragraph. I am not committing myself to a lot of these things. I have told Roy to leave it that through a withholding tax we could raise two billion eight. Through Social Security we could raise so much. Now, we have got to increase excess profits. I don't say how. We have got to increase inheritance taxes and I don't say how. If we do all those, they might give us so much money. Does that answer you, Harry?

White: Yes, that does.

Blough: I have that in - not one page, but five, along

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the lines you mentioned this morning, if you would like to see it now.

H.M.Jr: All ready?

Blough: Yes.

H.M.Jr: Well, supposing you read it.

Blough: I also have copies, if I might pass them around to somebody.

H.M.Jr: Now don't think, Shoup, I have lost interest in your calculations, because I haven't, but we have got to do a little missionary work around here.

Shoup: They haven't spent the requisite thirty hours in education as yet.

White: I have a definite suggestion to make, Mr. Secretary, about that.

H.M.Jr: Wait a minute. You see, Lauch Currie and I associated so much with the Chinese that we think of what is going to be a hundred years from now. That is the closest we can get to a short run, isn't that right? (Laughter)
What do you want to say now, Harry?

White: I was going to say they have done a tremendous amount of work on that but I think everyone who has participated in it feels that it is very worth going on and I would like to see it formalized; if Carl can't spend the time down here, I think they ought to go ahead with the group in Washington who were working on it for a couple of days and let them stay with it if it takes one, two or three weeks, because the Treasury ought to have the best study on that and there ought to be agreement in Washington. It ought to go on irrespective of the tax program.

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H.M.Jr: Why can't Carl Shoup see it through?

Shoup: Well, Mr. Secretary, I am very interested in the thing, of course, but it takes a lot of time. We can talk about it later, perhaps. There certainly is no reason why somebody couldn't carry it through here to keep it a continuing study off and on.

H.M.Jr: Have you got classes?

Shoup: That is the difficulty.

H.M.Jr: That is the trouble with youth, isn't it? They have got to be educated. (Laughter) Who would you suggest, so that this particular study can go along? How would you suggest carrying this along? Do you want to think about it?

Shoup: Yes, let me think about that.

H.M.Jr: You don't have to go back tonight, do you?

Shoup: I am afraid I do, sir. I have a heavy schedule for tomorrow. Let me think about that because I think it is an extremely important idea and some way or other could be worked out.

H.M.Jr: I agree.

Blough: Could you come back Thursday, Carl?

Shoup: Well, possibly. I will try to.

Blough: The first five pages of this are exactly what I read the other day and they will have to be thoroughly revised now, but the purpose of the first five pages is to give the reason as to why something had to be done and had to be done now. The last five pages, beginning on page six, at the top of the page, presented the program and have been substantially revised along the lines that you suggested this morning, and may I read those, please?

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H.M. Jr:

Yes.

Blough:

"For this reason I propose to present to the Congress" - and you may not wish to say it that way - "a major revenue raising program. The program roughly consists of three parts: (1) Taxes to be imposed as soon as possible and to be collected beginning January 1, 1942; (2) other major tax increases and changes to increase revenue and to balance the impact of the anti-inflation program on small incomes; and (3) changes to close important loopholes in the tax system and to remove hardships which have developed under the tax laws.

"1. Anti-inflation taxes which should be imposed immediately.

"The first recommendations relate to taxes which should be imposed at once so that collection may begin January 1, 1942. They are taxes which will withdraw purchasing power from consumers before it is spent.

"The first recommendation for anti-inflationary taxation is the imposition of a new supplementary tax on net income to be withheld at the source on salaries, wages, dividends, bond interest, and similar items and collected quarterly throughout the year on other incomes. These taxes would thus be collected insofar as possible like the payroll taxes. They would, however, have personal exemptions and credits for dependents. It is tentatively recommended that the rate of this tax be 15 percent and that the existing personal exemptions of \$750 for single persons and \$1,500 for married couples, with \$400 credit for each dependent be allowed. The supplementary withholding tax would be deducted from net income in computing the income tax. Because of this deduction and because of the personal exemptions the

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increase in effective rate of tax would never be the full 15 percent and indeed would never be more than about 11 percent. A married couple with no children and \$2,000 of income would have their combined withholding and income tax increased from \$42 to \$110, or \$68 more, which is 3.4 percent of the \$2,000 income.

"It is estimated that at present income levels, this tax will yield annually about \$2.8 billion.

"It is recommended second that the payroll taxes for old-age and survivors' insurance be increased. These taxes are at the present time imposed at a rate of 1 percent on employers and 1 percent on employees and are scheduled to rise on January 1, 1943, to 2 percent on employers and 2 percent on employees. The recommendation is that this increase be made one year sooner than was scheduled. It will be recalled that no increase was made on January 1, 1940, when it was originally scheduled.

"The increase in tax would yield during 1942 increased revenue of approximately \$0.9 billion.

"I would like to stress the very great importance of considering and passing these two tax increases at once in order that the money may be taken out of the hands of consumers before it can be spent by them, thus reducing the inflationary pressure of the increased defense expenditures.

"Further, it is recommended that as soon as practicable, the Social Security Board's program relating to the extension of coverage for old-age and survivors' insurance and unemployment insurance system should be enacted. The change with respect to unemployment

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insurance involves an additional 1 percent tax on the employees.

"The combined effect of these changes would be to increase the revenue by approximately \$1.0 billion."

"The above anti-inflationary taxes recommended for imposition as soon as possible would yield a total increased revenue of \$4.7 billion."

H.M.Jr: What was that figure they gave me this afternoon?

Blough: Four point five. They may have seen this. No I take that back. (Laughter) Mr. Shoup told me at luncheon how they couldn't possibly tell when they were even two-thirds through how they were coming out, so I take that all back about having aimed for it.

White: This is a pretty specific tax program without the return provision.

H.M.Jr: What do you mean, "the return provision"?

White: Well, I didn't know that it was definitely decided that you weren't going to give half back in the form of savings, of that tax. If it has been decided, all right, but I thought you said just now that you weren't going to recommend anything specific. This is pretty specific, without the return provision.

Viner: I don't see that it is any less specific with the return provision than without.

H.M.Jr: Well, anyway--

White: Yes.

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Barnard:

I think it is better this way. You can throw the other in afterward if you want to, when you make up your mind about it.

H.M.Jr:

Well, anyway, what Roy has written down is for the benefit of my listening, and I am willing to go this far at this time anyway.

Blough:

"2. Other changes to increase revenue and to balance the impact of the anti-inflation tax program.

"The additional social security payroll taxes and the new supplementary individual income tax would fall very largely on the low income classes. Substantial increases in other taxes, to restore an equitable distribution of the total tax load and to raise the revenue needed to finance the defense effort.

"It is recommended that the surtax rates of the individual income tax be increased; that the excess profits tax be made more effective; that the corporation income tax be increased; that the estate and gift tax rates be increased and the exemptions lowered; and that the defense excise taxes be extended to important items requiring diversion for defense purposes.

"These tax increases should be designed to raise a total additional revenue of from \$1 to \$2 billion."

Sullivan:

That is all right. I would prefer from two to three.

Blough:

"3. Changes to prevent avoidance and promote equity.

"Finally, in an all-out tax program, it is extremely important that all known avenues of

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tax avoidance be closed."

H.M.Jr: Excuse me. Make it from one to three billion. That is a compromise.

Sullivan: Yes. You see you are talking about balancing. These taxes are coming from the poor. That is not an effective balance.

H.M.Jr: Make it from one to three. That takes care of it.

Blough: "Finally, in an all-out tax program, it is extremely important that all known avenues of tax avoidance be closed. It is likewise important that hardships and inequities to certain taxpayers under present law be eliminated. The higher taxes of the defense period make these hardships and inequities increasingly burdensome and irritating. The elimination of both tax avoidance and tax hardships is desirable not only for fiscal reasons but for the promotion of equity and the maintenance of morale.

"It is my understanding that the House Ways and Means Committee and the Senate Finance Committee are planning to undertake revisions along these lines in the very near future, in the so-called 'administrative bill.'"

I don't know whether that last sentence is desirable or not.

Sullivan: It is partly true, and enough of it is true to leave it in there. They do plan in that bill to take up joint returns and community property and so on.

Blough: That is not one page, Mr. Secretary. The whole thing would run about eight or nine of these kind of pages.

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- H.M.Jr: What do you think about it?
- Barnard: I think it is very good, and I think you need that much.
- H.M.Jr: When you leave here, would you be sure and talk with Shoup or anybody else to make sure that this study - I may not have a chance to see Shoup again tonight before he leaves, but be sure that provisions are made to continue the study along those lines.
- Barnard: Yes.
- H.M.Jr: I mean, I don't want to drop it. Will you take that on?
- Barnard: I will.
- H.M.Jr: And see that that - I mean to be sure that Shoup or somebody.....
- Currie: I was going to make the same point, Mr. Secretary, that Harry made a few minutes ago, that this is awfully specific. What you are doing here, if this gets out, this is the tax program, and I didn't know from what you said earlier whether you were prepared to go that far at this stage.
- H.M.Jr: Well, you have seen the other one. They had it right down. They had every "T" crossed and every "I" dotted. I watered this down a great deal. I thought you people were going to complain that I was too vague.
- White: Mr. Secretary, do you think there is some virtue in this, that if you can put the issue with them, how much greater deficit there is, and that you must have more taxes, and that you must have part of the taxes which must begin on January 1, and by not raising the

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question of the specific taxes, you direct their attention and their arguments to the specific question as to whether or not they are going to have more taxes or not.

The moment you present them with a specific program, they may get away from the main issue, and that will save you time for later to submit a specific program, after you see their reaction to the question, as to whether they are willing to go along.

- Sullivan: Well, Harry, the minute you say taxes to start being paid January 1, they say, "Oh, excises?"
- White: You say "withholding taxes." You can describe it without any details.
- Sullivan: Oh, you don't talk to Senator George and Bob Doughton that way, Harry. They have been through this thing for years, and they say, "Well, now, what kind of a withholding tax?"
- H.M.Jr: Well, let me just ask you this: Is there anything in there that bothers you, John?
- Sullivan: No, sir.
- H.M.Jr: Let me put it another way. I think I know what is in Harry's mind. Supposing after a week or two I wanted to shift. This doesn't commit me, does it?
- Sullivan: No, it doesn't.
- Viner: I think the wording could be softened a little so that at the present moment I would suggest these lines, but make it the lines as a suggestion.

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- Blough: Suppose we put it this way. Would this be all right? That you recommend this withholding tax and then you say if the rate was fifteen percent and if the exemptions were the present exemptions, the revenue would be about two billion.
- Sullivan: That all comes back to what I say about an oral presentation of this thing. I think you will get very much further, Mr. Secretary, presenting this to them orally than you will by giving them a memorandum. I think the memorandum is Pandora's box, and once it gets up there, bingo!
- H.M.Jr: If you don't mind my father's story, "When you have won your case, quit arguing." He said that was the first thing his law teacher told him, "When you have won your case, quit arguing." I agree with you.
- Sullivan: I am mute.
- H.M.Jr: I agree with you.
- Gee, I hate to do this to Roy.
- Roy, do you suppose you could have something here at eight-thirty tomorrow morning so that we could go over it?
- Blough: I could have something here at seven o'clock tonight if you wish.
- H.M.Jr: I don't want it at seven o'clock tonight.
- Blough: Well, I can easily have it here at eight-thirty tomorrow morning, because I don't contemplate a very big job.
- H.M.Jr: What I was thinking of, if you were here at eight-thirty with Mr. Barnard and Sullivan

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waiting here at the doorstep for us, we could go over it, and then I thought I would let you present it orally.

- Blough: If you think it will have the forcefulness, of course, but it can hardly be as strong from me as it will from you.
- H.M.Jr: If I can learn it in half an hour, I will present it.
- Sullivan: I think, Mr. Secretary, you can have eight or ten key figures on a piece of paper in your desk if you need to refer to them, and you can talk this off the cuff, and I don't think it can come from any of the rest of us anywhere nearly as effectively as it can from you, and I know Roy understands that.
- Blough: Of course.
- H.M.Jr: I will be here at eight-thirty in the morning.
- Sullivan: What time are they coming, sir?
- H.M.Jr: Nine.
- Blough: Would it be possible, Mr. Secretary - I don't know how they work in these things - but if you had key sentences and key figures on a page.
- H.M.Jr: At home tonight?
- Blough: Tonight or in the morning.
- H.M.Jr: If you could get it to me - when does the Treasury hour go on?
- Kuhn: Eight o'clock.
- H.M.Jr: If I can have it by nine o'clock, I will be free.

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- Blough: Well, I will give you two things at nine o'clock, Mr. Secretary.
- H.M.Jr: All right.
- Blough: One is this memorandum which I still think ought to be completed along the lines we have talked about and the other is an attempt to sort of outline it on a page which you might use either in thinking about it or actually in speaking.
- H.M.Jr: I still would like to meet at eight-thirty.
- Blough: That is all right.
- H.M.Jr: And then after these Senators leave, you can go home and go to bed tomorrow.
- Blough: Oh, don't worry about that, Mr. Secretary. If you don't keep me up tonight I will be in fine shape in the morning.
- H.M.Jr: What do you think, Jake?
- Viner: I think that is the way at it, myself.
- H.M.Jr: Lauch?
- Currie: Yes.
- H.M.Jr: Are you satisfied with that, Harry?
- White: Yes, I think definitely that is the way to do it.
- H.M.Jr: Well, now, the main thing, Barnard, I don't want to lose this very fine wonderful effort that everybody has been putting in, you see. I want to continue this thing, even though they tell us we can't have a tax bill. I want to continue this thing. It is extraordinary what you people have done over the

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weekend and the long hours and I want to thank you all. I appreciate this terrific time that has gone into this thing, and I don't want it wasted, and I won't let it go to waste, you see, but I will do the best job I can, and I am just asking Roy to do it rather than somebody else because he knows better on the tax thing how I like to have it. I have been in this jam before, and he can feed it to me better than anybody else.

Morris: Mr. Secretary, can I say one thing? I don't know whether Harold Graves has spoken to you about his worry. If rumors get out, and then nothing happens--

H.M. Jr: Excuse me, it was fed to me through Blough. It was given to him by Kuhn.

All right. I got that. I didn't mean to cut you off, but if something gets out - but I am afraid it is too late, and I am partly to blame. The reason that I was doing it was that I wanted to prepare the public for this thing, but Blough told me that if nothing happened for three or four months - I didn't mean to cut you off Dave.

Kuhn: We would begin to lose at once--

H.M. Jr: Somebody told Blough, and Blough told me that we would lose that thing.

Morris: All right.

H.M. Jr: Blough got that to me. I am afraid I am partly responsible because the New York Times ran that stupid story as though it was a fact, and then they asked me about it, the Tribune and the Wall Street Journal, and in order to explain it to them, I went into great detail. But I didn't write the Times

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story, McCormack did that.

Kuhn: I don't think those stories are what he had in mind, Mr. Secretary. It was that we should do all we could to keep this from being talked about around the country if there is to be no action for several months.

H.M.Jr: Well, this is the thing. I told the President that I was going to find out from these two gentlemen whether there was any hope of getting the thing, and then if there was, I was going to ask for a chance to see him and that must be agreeable to him, because I got a memorandum from him sort of bearing that out today, so I think we can stop now.

Revision of
November 4, 1941

MEMORANDUM FOR THE USE OF THE SECRETARY IN
OUTLINING THE PROPOSED REVENUE PROGRAM

When I appeared before the Senate Finance Committee on August 2, 1941, I pointed out that, in the light of rapidly changing conditions, the all-out defense program would necessitate all-out taxation, that much more revenue would be required not only to strengthen the government's fiscal position but especially to maintain economic stability and prevent "inflationary price rises which threaten to increase the cost of the defense program, subvert family budgets, and seriously disturb our war-time life."

Since that time the price rises have been accentuated and the cost of living has gone up substantially. The cost of living in the United States has risen over 5 1/2 percent in the last five months. From August to September alone it rose by almost 2 percent. An intensive study of the problem of meeting this inflationary threat has been in progress for several months and certain tentative conclusions are now at hand. They have such an important bearing on the immediate fiscal program that I wish to summarize them for you.

- 2 -

On the basis of these studies it appears that by June, 1942, the defense spending of the Federal Government will be at a rate of about \$15½ billion per year above the rate of defense spending in June, 1941. It appears that revenues will be coming in during June, 1942, at the rate of about \$6 billion above the rate of June, 1941, such increase being due in part to the effects of the rate increases of the Revenue Acts of 1940 and 1941 and in part to the larger flow of income.

Another \$3 billion, at most, of the increased defense expenditure may be counteracted by a reduction in consumer spending on consumption goods and services and by a reduction of business spending on private capital goods. Such reductions will be caused by defense savings bond purchases, by priorities, by the unavailability of goods and by a number of other restrictive factors.

Finally, \$1 billion is likely to be absorbed by an increase in corporate reserves, and will not reach the hands of consumers.

The total offset to the increased government spending is, therefore, about \$10 billion, leaving \$5½ billion of purchasing power that will be pushing prices upward.

- 3 -

At the same time that this increased purchasing power will be available for expenditure, the flow of goods for civilian use will be at a reduced rate. Defense needs will, as stated above, require about \$15½ billion more by next June than last June. Yet by June, 1942, the total real output of goods and services will probably be no more than \$10½ billion per year higher than in June, 1941. Hence, civilian output must be cut down by about \$5 billion in the same period. As noted above, \$3 billion of this decline may come about as a result of defense savings bonds purchases, priorities, shortages and other factors, but the rest of the decline must be achieved through increased taxation or other expenditure controls if prices are not to rise.

To absorb the excess purchasing power of \$5½ billion and to also reduce private spending at the rate of an additional \$2 billion, a total of \$7½ billion, will require about \$6½ billion in increased taxes withdrawn currently from the incomes of consumers. The apparent discrepancy of \$1 billion here reflects the indirect effects of the additional taxes. If the decline in private spending due to priorities and unavailability

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of goods is less than the \$3 billion mentioned above, an even larger amount of taxes will be needed. Indeed, the total amount of taxes needed to prevent a substantial rise in prices in June, 1942, may be as high as \$3 billion annually.

For technical reasons the figures given above were computed as of the month of June, 1942. The need for increased tax revenue would not be quite as great in January, 1942, but will be very much greater than the revenue to be derived from laws now in effect. Furthermore, beyond June, 1942, the needed rate of increased taxes may be even greater than for June, 1942.

It should be very clear that the burden of the taxes necessary to hold down price rises will be no greater than the burden of the price rises themselves. If the cost of living goes up 5 percent, it imposes in effect a 5 percent gross income tax without exemption on the lowest income groups in the country. Inflation imposes burdens as real as taxes but in the cast of inflation the money does not go to the government.

It should not be necessary to mention the very serious evils of inflation and the great importance of preventing it. We are all familiar with the way in which

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it burdens the great bulk of the population, including the lowest income groups, financially embarrasses State and local governments, increases the cost of defense materials, gives opportunities for profiteering and otherwise harming and demoralizing the people. What I would like to stress is that we have reached the point where vigorous action is needed now - without delay - if we are not to have an accelerated, destructive inflationary price rise.

The problem of preventing inflation needs to be attacked simultaneously on all fronts. I have repeatedly said that non-defense expenditures should be reduced and that it is important for individuals to increase their purchases of defense bonds. From time to time I have mentioned other methods that should be adopted to help stave off destructive price rises. But all these plans together will fail if the deficit now estimated at \$12.6 billion for the fiscal year 1942 continues to grow and the Federal Government continues to pour out purchasing power to consumers without at the same time taking back a very substantial part of the increase in the form of taxes. The money is being paid out now. If the taxes are to help prevent price increases they must be imposed at once and collected currently with the income payments.

- 6 -

For this reason I propose to present to the Congress a major revenue raising program. The program roughly consists of three parts: (1) Taxes to be imposed as soon as possible and to be collected beginning January 1, 1942; (2) other major tax increases and changes to increase revenue and to balance the impact of the anti-inflation program on small incomes; and (3) changes to close important loopholes in the tax system and to remove hardships which have developed under the tax laws.

1. Anti-inflation taxes which should be imposed immediately.

The first recommendations relate to taxes which should be imposed at once so that collection may begin January 1, 1942. They are taxes which will withdraw purchasing power from consumers before it is spent.

The first recommendation for anti-inflationary taxation is the imposition of a new supplementary tax on net income to be withheld at the source on salaries, wages, dividends, bond interest, and similar items and collected quarterly throughout the year on other incomes. These taxes would thus be collected insofar as possible like the payroll taxes. They would, however, have

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personal exceptions and credits for dependents. It is tentatively recommended that the rate of this tax be 15 percent and that the existing personal exemptions of \$750 for single persons and \$1,500 for married couples, with \$400 credit for each dependent be allowed. The supplementary withholding tax would be deducted from net income in computing the income tax. Because of this deduction and because of the personal exemptions the increase in effective rate of tax would never be the full 15 percent and indeed would never be more than about 11 percent. A married couple with no children and \$2,000 of income would have their combined withholding and income tax increased for \$42 to \$110, or \$68 more, which is 3.4 percent of the \$2,000 income.

It is estimated that at present income levels, this tax will yield annually about\$..8 billion

it is recommended second that the payroll taxes for old-age and survivors' insurance be increased. These taxes are at the present time imposed at a rate of 1 percent on employers and 1 percent on employees and are scheduled to rise on January 1, 1943 to 2 percent on employers and 2 percent on employees. The recommendation is that this increase be made one year

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sooner than was scheduled. It will be recalled that no increase was made on January 1, 1940 when it was originally scheduled.

The increase in tax would yield during 1942 increased revenue of approximately..... \$0.9 billion

I would like to stress the very great importance of considering and passing these two tax increases at once in order that the money may be taken out of the hands of consumers before it can be spent by them, thus reducing the inflationary pressure of the increased defense expenditures.

Further, it is recommended that as soon as practicable, the Social Security Board's program relating to the extension of coverage for old-age and survivors' insurance and unemployment insurance and the revision of the unemployment insurance system should be enacted. The change with respect to unemployment insurance involves an additional 1 percent tax on the employees.

The combined effect of these changes would be to increase the revenue by approximately \$1.0 billion

The above anti-inflationary taxes recommended for imposition as soon as possible would yield a total increased revenue of..... \$4.7 billion

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2. Other changes to increase revenue and to balance the impact of the anti-inflation tax program.

The additional social security payroll taxes and the new supplementary individual income tax would fall very largely on the low income classes. Substantial increases in other taxes are necessary to balance the burden of these taxes, to restore an equitable distribution of the total tax load and to raise the revenue needed to finance the defense effort.

It is recommended that the surtax rates of the individual income tax be increased; that the excess profits tax be made more effective; that the corporation income tax be increased; that the estate and gift tax rates be increased and the exemptions lowered; and that the defense excise taxes be extended to important items requiring diversion for defense purposes.

These tax increases should be designed to raise a total additional revenue of from..... \$1 to \$2 billion

3. Changes to prevent avoidance and promote equity.

Finally, in an all-out tax program, it is extremely important that all known avenues of tax avoidance be closed. It is likewise important that hardships and

- 10 -

inequities to certain taxpayers under present law be eliminated. The higher taxes of the defense period make these hardships and inequities increasingly burdensome and irritating. The elimination of both tax avoidance and tax hardships is desirable not only for fiscal reasons but for the promotion of equity and the maintenance of morale.

It is my understanding that the House Ways and Means Committee and the Senate Finance Committee are planning to undertake revisions along these lines in the very near future, in the so-called "administrative bill."

MINIMUM AMOUNT OF TAXES NEEDED
FOR CALENDAR YEAR 1942

Inflationary forces are now at work driving prices upward. These will be intensified by changes during the coming months in government expenditures and other factors. These changes are described below.

In October 1941, total expenditures for defense were running at the rate of \$21 billion a year. ^{1/} In addition the Federal Government non-defense expenditures were at a rate of \$6½ billion a year. Thus in October 1941, expenditures for defense and the regular activities of the Federal Government were at the rate of \$27½ billion a year.

In the same month taxes were being collected by the Federal Government at a rate of \$9½ billion a year. ^{2/} The excess of expenditures over tax collections was therefore at a rate of \$18 billion a year; \$16½ billion representing the excess of expenditures by the Federal Government, the other \$1½ billion representing purchases by foreign countries.

^{1/} About \$18 billion of this total represents direct expenditures by the Federal Government; \$1½ billion, expenditures by National Defense Corporations; and \$1½ billion, purchases by foreign countries.

^{2/} Total liabilities as distinguished from cash collections were at the rate of \$15½ billion a year. These figures do not include the States' share of Social Security collections for unemployment insurance.

- 2 -

In calendar 1942, total expenditures for defense are expected to be about \$31 billion, or \$10 billion higher than the October 1941 rate. Federal non-defense expenditures are expected to be about the same, \$6½ billion. Total defense and non-defense expenditures are expected to be \$37½ billion, or \$10 billion greater than the October 1941 rate.

Tax collections by the Government, under existing legislation, are expected to be \$16.0 billion in calendar 1942, or \$6½ billion higher than the October 1941 rate. 1/ The excess of expenditures over tax collections will therefore be \$21½ billion in calendar 1942, or about \$3½ billion more than the corresponding excess at the October 1941 rate.

That is, because defense expenditures will increase more rapidly than tax collections, individuals and corporations will have available \$3½ billion more income than they had at the October 1941 rate -- \$3½ billion that they can try to use to buy consumers goods, equip their businesses, subscribe to defense bonds, purchase investments, or hold idle.

At the same time that individuals and business concerns will be getting more spendable income from the defense effort and the Federal Government's regular activities, they will

find a smaller amount of goods and services available to purchase.
1/ Tax liabilities, as distinguished from cash collections, are estimated at slightly over \$17½ billion or \$2 billion higher than the October 1941 rate.

- 3 -

In October 1941, national income was running at a rate of \$95 billion a year. As was noted above, defense was taking \$21 billion of the national income, leaving \$74 billion for civilian use -- that is, for consumption, for private capital goods, and for the activities of State and local governments. In calendar 1942, national income, measured at October 1941 prices, is expected to be at least \$98 billion, or at least \$3 billion higher than the October 1941 rate. Defense is expected to take \$31 billion of the national income in calendar 1942, leaving \$67 billion. The amount available for civilian use will therefore be \$7 billion less than in October 1941.

Under these conditions, the amount of excess purchasing power would be about \$10½ billion, computed as follows: \$3½ billion is the net amount that Government will be adding to the spendable incomes of individuals and corporations over and above the amount it was adding at the October 1941 rate; \$7 billion is the net reduction in goods and services available for civilian use.

The accompanying table summarizes these figures. In addition it shows the minimum amount of taxes estimated to be needed in calendar 1942 to keep prices at the October 1941 level, assuming the extent of priorities and other

- 4 -

direct controls that now seem likely. This minimum amount is \$4½ billion. This estimate cannot be computed directly from the other figures in the table because of the necessity of taking into account many other factors that affect tax needs. Some of these factors that we have taken into account are:

The severity of priorities, allocation, and other direct controls; possible changes in the degree to which consumers will spend rather than save their incomes; possible changes in the desire of private business to construct new plants and equipment, rebuild old plants and equipment, or build up inventories; the indirect effect of taxes paid by some on the spending and saving of others; the speed at which government spending is outstripping government tax revenue; the speed at which our added defense needs are outstripping our added power to produce; and so on.

This estimate that \$4½ billion is the minimum amount of taxes needed assumes that these taxes will in general be in the form of a flat rate tax on incomes above certain minimum exemptions, the tax to be withheld currently at source. If other tax measures were to be used, the amount of taxes needed would not be the same.

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It should be emphasized that these estimates are for the calendar year 1942. Since defense spending is expected to rise throughout 1942, a smaller amount of additional taxes will be needed early in the year, a larger amount later in the year. For this reason, it might be desirable to impose now only the minimum amount of taxes with the expectation of imposing additional taxes later on when the need for them is apparent, and the course and nature of the defense program in the latter part of 1942 is clearer.

Finally, other measures than taxation can help to control inflation. Some of these are already in force or are clearly foreshadowed. These have been allowed for in the estimates of tax needs given above. But there are still other measures that would further reduce tax needs. Some examples are: The reduction of Federal non-defense expenditures; more stringent control of consumer credit; and an appeal to State and local governments to reduce their expenditures but not to reduce taxes.

Neither these measures nor taxation nor both together can prevent price rises resulting from special factors affecting particular commodities -- for example, the part of the recent increases in the prices of cotton and wheat caused by the government's loan program, and increases in the prices of some imported commodities.

MINIMUM AMOUNT OF TAXES
NEEDED IN CALENDAR YEAR 1942

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	Annual rate in	October 1941	Calendar 1942	Increase from October 1941 to calendar 1942
	(in billions of dollars)			
1. Defense expenditures <u>1/</u>	\$21.2	\$31.2		\$10.0
2. Federal non-defense expenditures	6.5	6.5		-
3. Total defense and non-defense expenditures (item 1+item 2) <u>1/</u>	27.7	37.7		10.0
4. Total tax receipts under existing legislation	9.6	16.0		6.4
5. Excess of expenditures over receipts (item 3 - item 4) <u>1/</u>	18.1	21.7		3.6
6. National income, at October 1941 prices	95.	98.		3.0
7. National income available for civilian use (item 6 - item 1) <u>2/</u>	73.8	66.8		(decrease) 7.0
8. Total amount of excess purchasing power (item 5+item 7)				10.6
9. Minimum amount of additional taxes out of current income needed in calendar 1942 to keep prices at the October 1941 level.				4.5

1/ Includes expenditures by National Defense Corporations and purchases by foreign countries financed outside of the budget.

2/ Business taxes approximately equal non-defense spending in October 1941. For this reason, it is proper to arrive at national income available for civilian use, including use by State and local governments, by deducting the defense expenditures from national income. Otherwise, an adjustment would have been necessary.

November 4, 1941.

My dear General Watson:

The Secretary has asked me to return to you the enclosed memorandum written by Mr. Lauchlin Currie. The President had sent this to the Secretary and asked him to read and return it. Mr. Morgenthau has noted it with much interest.

Sincerely yours,

(Signed) H. S. Klotz

H. S. Klotz,
Private Secretary.

Brigadier General Edwin H. Watson,
Secretary to the President,
The White House.

Enclosure.

GHF/abs

By Messenger Manned 10:35

File N.M.C.

172

Mr. Bell's comments written in the left hand margin and which appear in the photostat were erased from the ribbon copy of Dr. Currie's memo when it was returned to the White House.

Mr. Boardman

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THE WHITE HOUSE
WASHINGTON

October 9, 1941.

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

TO READ AND RETURN

F. D. R.

THE WHITE HOUSE
WASHINGTON

October 7, 1941.

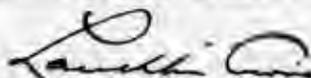
MEMORANDUM FOR THE PRESIDENT:Re: Proposed Revisions of Social Security Program.

1. At Secretary Morgenthau's invitation I have sat in on a number of meetings on this subject at the Treasury and find myself in accord with his position.

2. I am somewhat concerned over the proposal to initiate Federal grants for general relief. If this is not at the expense of WPA we are in the position of increasing non-defense expenditures when the financial condition of states is improving and the need diminishing; if compensated by a cut in WPA you will be criticized for giving up the long fight for work relief rather than the "dole". A possible way out is to confine federal grants to the permanently disabled in addition to the blind. There would be some logic in this as the program contemplates giving "old age insurance" to the future covered permanently disabled, and the grant would look after a good portion of the current unemployables.

3. I think your suggestion that Federal grants for old age assistance, dependent children and the blind be taken out of the budget and charged to the Old Age Reserve Fund is perfectly feasible and sound. This would permit a budgetary cut of \$357 million in the current fiscal year and of \$600 - \$900 million if the new proposed grants were adopted. With regard to the expressed fears of labor objection, I have sounded out Murray's economic adviser and he assures me that such fears are groundless.

4. The Social Security Board estimates that a 4% unemployment insurance tax and a 4% old age tax, with the contemplated extension of coverage, would yield \$4.4 billion in 1943. I should think the yield would be over \$5 billion.



Lauchlin Currie

TO:

Mr. Mack ⁸ 175

Do you think an acknowledgment is required? If so, please draft it.

CAB
letter forwarded
to D. Do not believe
ack. is necessary.
my

NOV 10 1941

OFFICE OF THE
LEND LEASE ADMINISTRATOR

Washington, D. C.

515 22d Street NW.

November 4, 1941

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

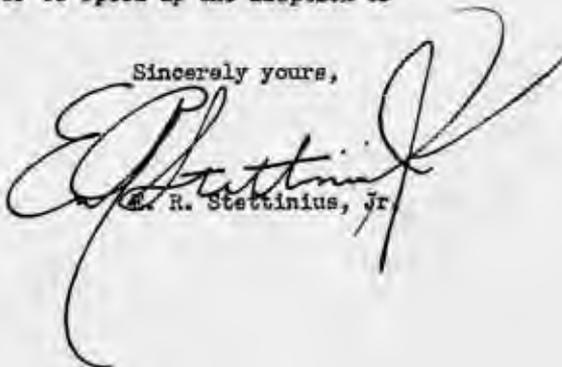
Dear Henry,

Thank you for your memorandum of October 27th and for the charts accompanying it, all of which are most comprehensive and enlightening. They will be of great help to us.

We have been working with Mr. Mack of your Procurement Division on a letter he is to send me suggesting OPM allocate materials on a 3 months' basis or longer and when this is received, I will immediately refer it to SPAB and OPM for consideration.

With regard to the revolving fund procedure, Mr. McCabe discussed this in its preliminary phases with Mr. Mack last week, and we should be able to submit a more definite plan to Mr. Mack within the next few days. Needless to say, we are doing everything within our power to speed up the adoption of this new procedure.

Sincerely yours,



E. R. Steettinius, Jr.

TREASURY DEPARTMENT

172

INTER OFFICE COMMUNICATION

DATE Nov. 4, 1941

TO THE SECRETARY
FROM ALAN BARTH

Mr. MacLeish has asked me to transfer to the Office of Facts and Figures. May I talk with you about this at your convenience?



Rising Food Costs MY Alarm First Lady DAY

By ELEANOR ROOSEVELT

MONDAY — There were a number of guests for luncheon yesterday. After it, Mrs. Helm, Miss Thompson and I started for New York City. Before we went over to the broadcasting station, several young men came to see me.

Mrs. Morgenthau joined us at dinner at the New York house. She and I flew down to Washington, while Mrs. Helm and Miss Thompson drove back to Hyde Park.

A staff meeting this morning, a press conference and other appointments are keeping me busy until I leave again at 3 o'clock by plane for New York City. I shall drive straight to Hyde Park, so as to be there for dinner tonight. In the meantime, fortunately, Princess Juliana has friends in Millbrook, N. Y., so today they have spent most of the time over there.

FOOD COSTS UP 14 PER CENT

I had some quite appalling news on the rise in the cost of living last week. The average housewife must now spend 14 per cent more money for the food she will need for the family dinner than she did a year ago.

In some cities, the increase in food costs is even greater, running to over 19 per cent. If you were preparing a meal of ham and eggs, potatoes, white bread, butter, coffee and milk, the following prices show you what you would pay this year in comparison with last year:

	1940	1941	In. P.C.
Ham (lb.)	25.4c	34.4c	35
Eggs (doz.)	37.2c	46.9c	36
White bread (lb.)	8.1c	9.5c	5
Butter #lb.)	34.3c	43.5c	27
Potatoes (15 lbs.)	38.8c	32.5c	14
Coffee (lb.)	20.8c	25.7c	24
Milk (qt.)	12.3c	13.9c	13

PRICES FOR STAPLES JUMP

In other staple products, the prices have gone up very considerably also. For instance, here is a table which may interest you.

	Sept. 1940	Sept. 1941	In. P.C.
Sugar (10 lbs.)	51.8c	60.0c	16
Flour (10 lbs.)	40.1c	47.5c	18
Lard (lb.)	9.2c	14.6c	57
E. milk (14 1/2 oz. c.)	7.9c	8.4c	20
Cheese (lb.)	25.7c	32.7c	27
Onions (lb.)	3.6c	4.2c	17
Salmon, red (16 oz. c.)	25.9c	33.7c	30
Corn (No. 2 can)	16.5c	11.8c	13

The greater part of these increases occurred since last February, and in October of this year prices were rising. Some of these prices should undoubtedly have increased, particularly if the increase reflects in the farmer's pocket.

NOV 4 1941

My dear Mr. Secretary:

I am enclosing herewith two recordings made of the Navy Department's participation in the "Treasury Hour" on Tuesday, October 21st. The two records include your talk and also some of the Navy music played on the program.

These records may be played on any phonograph machine and are for your personal use.

Sincerely,

(Signed) H. Morgenthau, Jr.

The Honorable
The Secretary of the Navy
Washington, D. C.

By Messenger *Brown 3-35*
File to Mr. Thompson

n.m.c.

WAR DEPARTMENT
WASHINGTON

November 4, 1941

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

Dear Henry:

I am glad to have the analysis of Defense Bond broadcasts which have included references to the Army. As you may have heard, we are carrying on an active campaign to encourage the sale of Defense Bonds throughout the War Department, with gratifying results. Every officer and employee has been approached, and practically all of them are buying either bonds or stamps.

Sincerely yours,

Henry L. Stimson

Secretary of War.

NOV 4 1941

Dear Henry:

It is planned that from time to time State organizations of the Defense Savings Staff of this Department will hold special celebrations in various cities throughout the country for the purpose of promoting the sale of Defense Bonds and Stamps. These celebrations will take the form of parades and displays in streets and parks and will, we hope, include demonstrations of military and naval equipment.

The Bureau of Public Relations of the War Department has informally arranged for equipment of this type to be made available for the purposes indicated, but it has been suggested that the project should have your official approval.

I would much appreciate it if you would issue the necessary instructions to your people.

Sincerely,

[Signed] Sears

Hon. Henry L. Stinson,
Secretary of War,
Washington, D. C.

HNG/mff

File to Mr. Thompson

By Messinger Brown 3/4

n m c

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 4, 1941

TO Secretary Morgenthau
FROM Mr. Kuhn

The Philadelphia Bulletin newsboys have just sold their first million Defense Savings Stamps. The newsboy who sold the millionth stamp will be in Washington tomorrow, and the Bulletin people are very anxious to have him photographed with you.

Would you be able to manage it tomorrow?

F.K.

UNITED STATES SAVINGS BONDS

Deposits in Treasurer's Account from Sales
and Charges therein from Redemptions
By Series and by Months

May - October, 1941

(In thousands)

Month	Series E	Series F	Series G	Total
Deposits				
May	\$100,581	\$ 37,817	\$211,420	\$ 349,818
June	102,517	28,876	183,134	314,527
July	145,274	27,359	169,498	342,132
August	117,603	20,318	127,685	265,606
September	105,241	18,099	108,987	232,327
October	<u>122,884</u>	<u>22,963</u>	<u>124,866</u>	<u>270,713</u>
Total	<u>\$694,101</u>	<u>\$155,432</u>	<u>\$925,590</u>	<u>\$1,775,124</u>
Redemptions				
May	-	-	-	-
June	\$ 22	\$ 49	\$ 542	\$ 614
July	499	53	106	658
August	986	-	96	1,082
September	1,678	20	68	1,766
October	<u>2,283</u>	-	<u>95</u>	<u>2,378</u>
Total	<u>\$5,468</u>	<u>\$ 122</u>	<u>\$ 907</u>	<u>\$6,498</u>

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

November 4, 1941.

Source: Daily reports of the Treasurer of the United States.

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

UNITED STATES SAVINGS BONDS

Comparative Statement of Sales During
 First Two Business Days of September, October, and November, 1941
 (September 1-3, October 1-2, November 1-3)
 On Basis of Issue Price

(Amounts in thousands of dollars)

Item	Sales			Amount of Increase or Decrease (-)		Percentage of Increase or Decrease (-)	
	November	October	September	November over October	October over September	November over October	October over September
Series E - Post Offices	\$ 4,394	\$ 3,320	\$ 3,993	\$1,074	-\$ 673	32.3%	- 16.9%
Series E - Banks	<u>5,171</u>	<u>5,815</u>	<u>5,318</u>	- 644	<u>497</u>	- 11.1	<u>9.3</u>
Series E - Total	9,565	9,134	9,311	431	- 177	4.7	- 1.9
Series F - Banks	2,009	2,153	1,767	- 144	386	- 6.7	21.8
Series G - Banks	<u>13,292</u>	<u>12,596</u>	<u>11,300</u>	<u>696</u>	<u>1,296</u>	<u>5.5</u>	<u>11.5</u>
Total	<u>\$24,866</u>	<u>\$23,883</u>	<u>\$22,378</u>	<u>\$ 983</u>	<u>\$1,505</u>	<u>4.1%</u>	<u>6.7%</u>

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

November 4, 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 - November 1941
On Basis of Issue Price

(In thousands of dollars)

Date	Post Office Bond Sales	Bank Bond Sales				All Bond Sales			
	Series E	Series E	Series F	Series G	Total	Series E	Series F	Series G	Total
November 1941									
1	\$ 1,017	\$ 1,750	\$ 567	\$ 4,201	\$ 6,518	\$ 2,767	\$ 567	\$ 4,201	\$ 7,535
3	3,377	3,421	1,442	9,092	13,954	6,798	1,442	9,092	17,332
Total	\$ 4,394	\$ 5,171	\$ 2,009	\$ 13,292	\$ 20,472	\$ 9,565	\$ 2,009	\$ 13,292	\$ 24,866

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

November 4, 1941.

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

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

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION



DATE November 4, 1941

TO Secretary Morgenthau
FROM Mr. White
Subject: Great Britain - Production

Great Britain is faced with a scarcity of skilled labor for industry. In attempting to meet this problem, the Ministry of Supply is organizing National Industrial Mobile squads of skilled engineers. Their purpose is to get production in new war factories under way in the shortest possible time, by the loan of highly skilled key men for periods of about one month.

Each squad consists of about fifty men, expert craftsmen, who have volunteered to leave their homes and be rushed from one point to another anywhere in the country. Transported to the selected center, they pave the way for the introduction of semi-skilled and female labor, and when their job of training and stepping up production is done, the process is repeated at another new factory.

(Consular Report No. 757, London, Oct. 15, 1941.)

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By Safe Hand

British Embassy,
Washington, D.C.
November 4, 1941.

W.T. 1045/109/41

Dear Mr. Dietrich,

With reference to my letter of October 27th, reference W.T. 1045/10/41, we have heard that it is reported in Lima that the "Terukawa Maru" unloaded 4 million dollars bullion at Callao.

Yours sincerely,

/s/ R. V. Palin

Mr. Franck Dietrich,
U.S. Treasury Department,
Stabilization Office, Room 279,
Washington, D.C.

Copy:vw:11-5-41

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YDEPARTMENT OF STATE
WASHINGTON

In reply refer to
FF 84C.51 Frozen Credits/4133

November 4, 1941

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits herewith copies of the paraphrase of telegram no. 70 dated October 29, 1941 from the American Consulate at Tsingtao, China, concerning American cotton which has been obtained by Japanese cotton mills at Tsingtao. This telegram has further reference to telegram no. 63 which was transmitted to the Secretary of the Treasury with this Department's letter of September 10.

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

Enclosure:

Paraphrase of no. 70,
Tsingtao, October 29,
1941.

PARAPHRASE OF TELEGRAM RECEIVED

From: American Consulate, Tsingtao, Shantung

Date: October 29, 1941, 11 a.m.

Telegram No. 70

This refers to Consulate's no. 63 sent to the Department at 5 p.m. on the eighth of September.

Confidential and reliable information has come to me concerning 3,000 bales of American cotton which were obtained by the Japanese cotton mills at Tsingtao through Chinese intermediaries at Shanghai. The price of this cotton was figured at the rate of 341 Chinese dollars per picul and a further amount (quantity unknown) was obtained at Chinese dollars 514 per picul on the twenty-first of September. It is stated that this cotton was exported from the United States by the firm of Anderson Clayton and Company under a license issued by the Treasury. It is reported that a Japanese mill's representative left for Peiping from Tsingtao in order to obtain from the head office of the Federal Reserve Bank a further allotment of foreign exchange for the purpose of financing additional purchases. It is stated that the supply of foreign exchange of the Federal Reserve Bank was obtained from Japanese capital which prior to the freezing of Japanese assets in the United States had been transferred to banks in South America.

If this type of information has no interest to the Treasury Department or if further details are desired, appropriate instructions are requested.

This telegram was sent to the Department and was repeated to

Shanghai, Peiping and Chungking.

FF:FL:MCW:SS

COPY:bj:11-7-41

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DEPARTMENT OF STATE
WASHINGTON

November 4, 1941

In reply refer to
FF 840.51 Frozen Credits/4148

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses, for the information of the Treasury Department, copies of telegram no. 390 from the American Legation at Copenhagen dated November 3, 1941.

Enclosure:

Copies of telegram no. 390
from Legation, Copenhagen,
November 3, 1941.

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GRAY

Copenhagen

Dated November 3, 1941

Rec'd 9:23 a.m.

Secretary of State,

Washington.

390, November 3, 10 a.m.

Following received this morning from Ministry
of Foreign Affairs.

"With reference to recent conversations with
the American Charge d' Affaires the Ministry for
Foreign Affairs have the honor to draw the atten-
tion of the American Legation to the following
facts.

By an act relating to foreign accounts in
Federal Reserve Banks and insured banks approved by
the President of the United States of America on
April 7, 1941, the dismissal of property held by
an American bank in the name of a foreign state
or a foreign central bank can be effected upon the
order of a representative of such foreign state who
is recognized by the Secretary of State as being
the accredited representative of such state.

-2-

It is reported from Washington that pursuant to the above act the Secretary of State in April this year has certified that Mr. Kauffmann who was at that time dismissed from the service as Danish Minister in Washington is authorized to act with respect to the property of the Danish state deposited with the Riggs National Bank of Washington D. C.

Further, it is reported that on September 23 the Secretary of State has issued a certificate to the effect that Mr. Kauffmann is authorized to control and dispose of the deposits of the Danish Central Bank "Danmarks National Bank" with the Federal Reserve Bank of New York.

The Danish Government deeply regret that the American Secretary of State has deemed it proper to apply the above mentioned act to the property of the Danish state and the Danish Central Bank ("Danmarks National Bank") in the United States. With regard to "Danmarks National Bank" attention is drawn in particular to the fact that the deposits of said bank are not the property of the Danish state the bank being an independent institution and no representative of the Danish Government would

-3-

consequently even with normal diplomatic relations between the Danish and the American Governments be authorized to dispose of these deposits. Referring to the above the Danish Government hereby reiterate in writing their already verbally made protest against the steps taken by the American Secretary of State concerning the property of the Danish state and the "Danmarks National Bank" in United States of America and they reserve their right to hold the American Government responsible for any loss caused to Danish property by the action of the Secretary of State."

REAMS

RR

Copy:bj:11-7-41

DEPARTMENT OF STATE
Washington

In reply refer to
FF 862.51/5018

November 4, 1941

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits herewith a copy of telegram no. 3968 dated November 2, 1941 from the American Embassy at Berlin concerning tax revenues in Germany from April through September.

Enclosure:

Copy of telegram no. 3968,
from Embassy, Berlin,
November 2, 1941.

sh:copy
11-8-41

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BRITISH EMBASSY,
WASHINGTON, D. C.

November 4, 1941.

~~PERSONAL
AND SECRET~~
Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,
(For the Ambassador)

R. J. Campbell

The Honourable
Henry Morgenthau, Jr.,
United States Treasury,
Washington, D.C.

TELEGRAM FROM LONDON DATED NOVEMBER 3, 1941.Summary.Naval.

1. Ariquani has arrived at Gibraltar.
2. 450 miles south of Durban our cruisers intercepted French convoy of 5 ships believed total of 39,000 tons which left Tamatave October 24th for France.
3. Dutch tanker 6,000 tons in convoy damaged by bombs off Spurn Point is proceeding to harbour. Small British ship damaged by near miss bomb night of November 2nd/3rd in Yarmouth Roads has been beached.
4. U.S. Urge torpedoed and sank merchant vessel of 3,000 tons wearing Italian flag at anchor in shallow water north of Kuriat. This ship believed to have been previously damaged by Elenheim.

Military.

5. Russia. Leningrad sector. Germans have made some progress east of the River Volkhov towards Leningrad Vologda Railway. Kalinin sector. The Germans have not succeeded in consolidating their position. Donets Basin. Germans have reached the River Don east of Kharkov. Rostov. Germans are still 10 miles west of the town. Crimea. Germans claim to have taken Simferopol. German claim is probably correct and threat to Sebastopol is serious.

Royal Air Force.

6. Night November 1st/2nd. Kiel 77 tons high explosives 7,000 incendiaries. Havre 17 tons high explosives many hits claimed on docks. Series of attacks made on merchant vessels direct hits being made on one large ship and on two others each 6,000 tons.

7. Eight November 8/9rd. Operations cancelled.
Day of November 8nd fighters attacked shipping hit
5,000 ton merchant vessel off Ameland. Rolling stock,
wireless station and goods trains also attacked.
8. Middle East. Night October 31st/November 1st.
Following targets attacked: Hangars and barracks at
Derna aerodrome officers quarters at Bardia stores
dump and repair shops El Gazala, torpedo factory at
Naples where hit claimed with 4,000 pound bomb, main
power station at Palermo. Wellington claimed 6 hits
on 6,000 ton merchant vessel west of Derna and on
November 8nd Blenheim claimed hit on 3,000 ton merchant
vessel E.N.E. of

BRITISH EMBASSY,

WASHINGTON, D.C.

NOVEMBER 4, 1941.

CURRENT SURVEY OF THE INTERNATIONAL SITUATION

SECRET

No. 4

October 28 - November 4, 1941

Although the trends in the international situation are not yet sufficiently clear for prediction of the next stage in the world crisis, the Germans have won important successes during the last week and have pushed out new salients on both the military and diplomatic fronts. In southern Russia they have burst the Perekop barrier and swept into the Crimea, while further east they are pushing steadily into the Donets basin and threatening the key city of Rostov. German victories in the east have exceeded all previous records, and more than 750,000 square miles of Soviet territory have been occupied in 1941, according to the Berlin radio.

German Penetration of North Africa

On the diplomatic and propaganda fronts the Nazis are making the usual preparations to exploit their military successes. In North Africa they are about to establish the first of their new consulates at Casablanca, and our representative there predicts that this step will rally the diverse pro-axis elements in the area and will notably widen Nazi influence. It is also reported that German pressure on Vichy is increasing, and that further consulates in North Africa will be demanded shortly.

-2-

The Nazis and the Moslem World

In preparation for the anticipated German action in the Near and Middle East, the Berlin radio continues its offensive in Arabic on the Moslem front. The Moslems in Russia have endured terrible persecutions in Soviet Russia, including the murder of four million of their people, it is claimed. Hence all Moslems should cooperate with the Germans, who will destroy not only Bolshevism but also the other two great enemies of Islam, the British and the Jews.

From Iran comes a disquieting survey from Minister Dreyfus who declares that the historic antipathy of the Iranians for both Russians and British has been sharpened by recent events. He warns that the populace, already eighty per cent pro-German, would welcome the invading Nazis.

The Finns Prove Adherent

Despite our vigorous protests and warnings, the Finns remain the allies of the Germans and are bringing them important aid in the north. It is becoming increasingly clear that the Finns are determined to take and to hold a strategic line extending well into Russian territory. President Risti has given our minister assurances that the Finns will not attack our supplies for Russia en route from Archangel, but it is obvious that he can make no such promises for the Germans.

-2-

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-3-

Meanwhile the President continues to describe the Bolshevik menace to Mr. Schoenfeld in picturesque and vehement language, and goes so far as to predict that the world will one day recognize the merits of the Germans in destroying Bolshevism.

The Nazi Offensive Against the United States

Finally, the Germans are giving their propaganda offensive against this country a new turn. The press denounces President Roosevelt's Navy Day address in unmeasured language, and the radio reveals more anger than in any broadcasts monitored to date by the FCC, the latter notes. The attacks on the President, some of them of a most scurrilous character, appear as well in the officially controlled newspapers of the subject countries, notably Roumania, but it is interesting to note that the tone of the attack is considerably more moderate in the press of both Italy and Spain. The fury of the radio commentators was particularly aroused by the identification of Germany with the anti-religious program, which the Nazis ascribe to the Soviets. The official Dienst aus Deutschland threatens that the speech may call for more than mere press polemics, and Mr. Morris believes that an official attack by Press Chief Dietrich may presage a new orientation of German policy toward this country.

-4-

Japanese Alternatives

Some quarters have interpreted this stiffening German attitude and recent submarine sinkings as a grand manoeuvre to force the hand of the Japanese. The latter are keeping their counsel and hastening their preparations.

In Indochina troops and equipment continue to arrive at both Haiphong and Saigon. The total number of troops in the country is variously estimated at between 30,000 and 60,000. Opinion is divided as to whether the Japanese intend an attack on Thailand or Yunnan. The "military observers," reports Mr. Reed from Hanoi, incline to the invasion of Thailand, but the Chinese appear convinced that they are to be the victims. In an appeal which is about to reach our government, the Generalissimo is said to declare that an attack on Yunnan is coming within a month, and that the invasion will cut the Burma Road and have a shattering effect on Chinese morale. He urges that air aid be despatched from Manila and Singapore in "volunteer status."

The Tokyo radio is carrying on a campaign which the FCC monitors suggest is similar to that which preceded the original thrust into Indochina. Demands are made for the "protection" of oppressed Japanese "nationals" in Southeast Asia. If the United States does not alter its policies, the

-5-

Japanese will be forced to move again along the co-prosperity road, so is said. Talk of insurgence of Kunming against Chungking suggests a move in the direction of Yunnan. There is plenty of fuss and feathers, but the radio and press give no clear indications as to which way the Japanese will turn.

Meanwhile our own preparations in the Pacific continue, with encouraging cooperation this past week from both the governments of Britain and New Zealand, facilitating our new program of establishing a chain of western Pacific air bases.

American Policy in the Near and Middle East

With the sending of two military missions to the Near and Middle East, American policy appears to be entering a more active phase.

As a further step in strengthening the allied position in the Near East, the British are eager to have us recognize the new regime in Syria. From his post in Beirut, Mr. Engert urges that such a step would tend to stabilize the Arab world, would strengthen the hands of the pro-democratic Syrian and Lebanese moderates, and would facilitate arrangements for the establishment of a powerful battlefront--provided always that we are convinced that the British intend an all-out defense of Syria.

RESTRICTED

G-2/2657-220; No. 536 M.I.D., W.D. 11:00 A.M., November 4, 1941

SITUATION REPORTI. Eastern Theater.

Ground: There are no reports indicating any change in the situation at Leningrad and Moscow.

The German advance is continuing eastward from the general line Kurek - Stalino.

On the Crimea, the German High Command claims their forces have reached Feodosiya on the Black Sea, taken Bakhisarai south of the Alma river and advancing on Sevastopol.

Air: Moscow was said to have been bombed by daylight yesterday. In the south, Nazi aircraft were credited with the sinking of another Russian merchant ship and the damaging of five transports, which were standing by to evacuate the Russians.

Yesterday British military quarters reported hearing that Sevastopol, which has been under terrific bombing by German planes, as well as artillery fire, had been knocked out of the war.

II. Western Theater.

Air: British planes operated principally against St. Nazaire during the night but were prevented by bad weather from attacking Germany proper. Daylight sweeps were reported started over occupied France early yesterday.

German activity over Britain was quite weak yesterday.

III. Middle Eastern Theater.

Air: The Italian High Command says that R.A.F. planes raided Sicily during last night.

RESTRICTED

The Secretary of the Treasury, by this public notice, invites tenders for \$150,000,000, or thereabouts, of 91-day Treasury bills, to be issued on a discount basis under competitive bidding. The bills of this series will be dated November 12, 1941, and will mature February 11, 1942, when the face amount will be payable without interest. They will be issued in bearer form only, and in denominations of \$1,000, \$5,000, \$10,000, \$100,000, \$500,000, and \$1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, two o'clock p. m., Eastern Standard time, Friday, November 7, 1941. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of \$1,000, and the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

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

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Secretary of the Treasury of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Payment of accepted tenders at the prices offered must be made or completed at the Federal Reserve Bank in cash or other immediately available funds on November 12, 1941.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, shall not have any exemption, as such, and loss from the sale or other disposition of Treasury bills shall not have any special treatment, as such, under Federal tax Acts now or hereafter enacted. The bills shall be subject to estate, inheritance, gift, or other excise taxes, whether Federal or State, but shall be exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States shall be considered to be interest. Under Sections 42 and

-2-

117 (a) (1) of the Internal Revenue Code, as amended by Section 115 of the Revenue Act of 1941, the amount of discount at which bills issued hereunder are sold shall not be considered to accrue until such bills shall be sold, redeemed or otherwise disposed of, and such bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder need include in his income tax return only the difference between the price paid for such bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made, as ordinary gain or loss.

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

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November 5, 1941

MEMORANDUM FOR THE SECRETARY

Subject: Report of tax conference with Senator George and Congressman Doughton, November 5, 1941, 9 to 10:20 a.m.

At 8:30 a.m. Secretary Morgenthau met with Assistant Secretary Sullivan, Mr. Barnard, and Mr. Blough to talk over the memorandum and figures which had been prepared. Senator George and Chairman Doughton arrived promptly at 9 o'clock. After exchanging greetings, the Secretary pointed out that Federal expenditures in calendar year 1941 were expected to be \$20 billion and \$37 billion in 1942. Tax yields for 1941 were expected to be \$9.5 billion as against \$16 billion in 1942, while the deficit was expected to be \$10.5 billion in 1941 and \$21 billion in 1942.

The Secretary said the Treasury had been working on the subject for some time, and that the national income in 1942 was expected to be around \$100 billion of which perhaps \$70 billion would be in the form of goods and services available for civilians. To buy these \$70 billion worth of goods the public would have between \$75 and \$80 billion of income which they would be trying to spend.

The Secretary said he was very much afraid of the inflationary effect of this extra money and wanted to mop up the extra money in the form of taxes to be started on January 1, 1942. He said the Treasury wanted about \$5 billion of taxes. He then gave Senator George and Mr. Doughton copies of a chart, "Cost of living and selected items", and pointed out how the cost of living and of food, clothing and other items had gone up in the last few months. He said that, frankly, he was afraid of the situation.

Senator George then asked the Secretary if he had given any thought as to how the money might be raised. The Secretary said that he had, that he would be glad

- 2 -

to explain what he had in mind, and that it was then in the hands of Congress to do as they saw fit. Before he started describing the taxes Mr. Doughton said that if the taxes were to begin January 1, 1942 they would have to be excises, since the income tax is not collected until after the close of the year. The Secretary said yes, that was true, and that was why they had in mind using a withholding tax. The Secretary then read the paragraph from the November 5 memorandum dealing with the withholding tax. Senator George seemed surprised that the 15 percent tax would only bring in \$2.8 billion but it was pointed out that the exemptions and the fact that the tax would be deducted in computing net income for income tax purposes cut down the yield substantially. (Apparently Mr. Doughton misunderstood the method of deducting the withholding tax from net income and understood that it was to be a credit against the income tax. He called Mr. Sullivan after the meeting and Mr. Sullivan clarified the matter for him.)

Secretary Morgenthau then read the section relating to social security taxation and arrived at the total of \$4.7 billion for the program.

The various items were then discussed. Senator George and Mr. Doughton both thought that the introduction of social security into the picture would result in a long debate and extended hearings. Mr. Doughton thought it would be impossible to keep out old-age pension debate in the House and Senator George said he had promised the Townsend people a hearing in December. However, he thought that old-age insurance rates could be increased this year instead of next without opening the whole problem. He felt that the withholding tax itself would take a good deal of time since there are some members who want no exemptions while others would call a tax with no exemptions a tax on the poor.

Mr. Doughton seemed disturbed about the effects which the anticipation of next fall's campaign might have on a tax bill at this time. He thought the political effect of bringing a lot of new taxpayers in would be adverse to many of the congressmen. It was pointed out that unless the exemptions were lowered,

- 3 -

no new taxpayers would be brought in. Senator George said that some members of the Finance Committee were against the withholding tax but he thought that most of them would go along. He expressed a desire to talk with a half dozen of the members on both sides. Mr. Doughton said he would talk with his members also. Senator George said that the average taxpayer does not realize how high the taxes are under the present law.

Mr. Doughton asked Secretary Morgenthau if this proposal constituted the last tax bill on 1942 income. The Secretary said no, that he did not want to mislead him, that this was only the beginning. He then turned to the question of the effect of increases in the cost of living as taxation on the poor, and emphasized that if prices go up they will be subject to a burden just as truly as if taxes go up. He pointed out that his figures in the past on spending had been low and that if something was not done, prices were likely to go through the ceiling.

Senator George brought up the subject of curtailing the production of civilian goods. He said he thought there was a prevailing feeling that civilian production was being cut too severely. Mr. Barnard pointed out that by next year there would probably be a labor shortage as well as a shortage of materials. Mr. Doughton said that people do not like to curtail production. Secretary Morgenthau pointed out that only about 20 percent of the national effort is going to national defense while Hitler is devoting 50 to 70 percent of his national effort in that direction. If we are to beat Hitler we must do better than he does. The Secretary expressed the hope that the President and Congress will in the near future put us into this thing 100 percent instead of 20 percent. When that happens we will be short of labor. At the present rate of defense production we can never hope to beat Hitler.

Senator George agreed but said that he thought there was a good deal of feeling among people and merchants against cutting down.

- 4 -

Mr. Doughton brought up the question of the economy committee. He raised the question whether it would not be hard to impose additional taxes until there had been a cut in non-defense expenditures. He asked if it would be desirable to drop the work of that committee. Senator George said no, it would not. Mr. Doughton asked which should come first. Senator George said he thought that taxation should come first, that the committee could go on working on the economy program, but if the tax program was to be put through it must be done as soon as possible - by the first of the year or just as soon thereafter as possible. He said one difficulty was that if the subject of taxes is opened up at all there will be all kinds of proposals presented. Senator George said that he was inclined to favor the withholding tax.

Mr. Doughton said he wanted to go along but that the Ways and Means Committee is tired after the strain of the tax bill. Senator George agreed that the Congress was in a temper to take a vacation and it might be difficult to get the House and Senate to worry much about legislation now.

Secretary Morgenthau said that his mail showed more interest in the cost of living than in anything else, that this should be an important matter when congressmen are coming up for reelection. Mr. Doughton said that he had received no letters from his district about the cost of living. The Secretary said he would like to send Miss Elliott to see Mr. Doughton and send some women into his district to talk to his housewives. Mr. Doughton said that he could send them in if he wanted to but not to send any with beards.

Mr. Doughton said he thought the interest would be in getting more money and not in blocking inflation. He said that Dr. Crowther had opposed using the payroll taxes for expenses of government and that the representatives would undoubtedly fight an increase in payroll taxation.

Senator George said it would probably be possible to increase the old-age insurance rates 1 percent without much trouble but it would give rise to counter proposals. However, he and Mr. Doughton agreed that the

- 5 -

hearings could be limited to the withholding tax and the increase in social security rates.

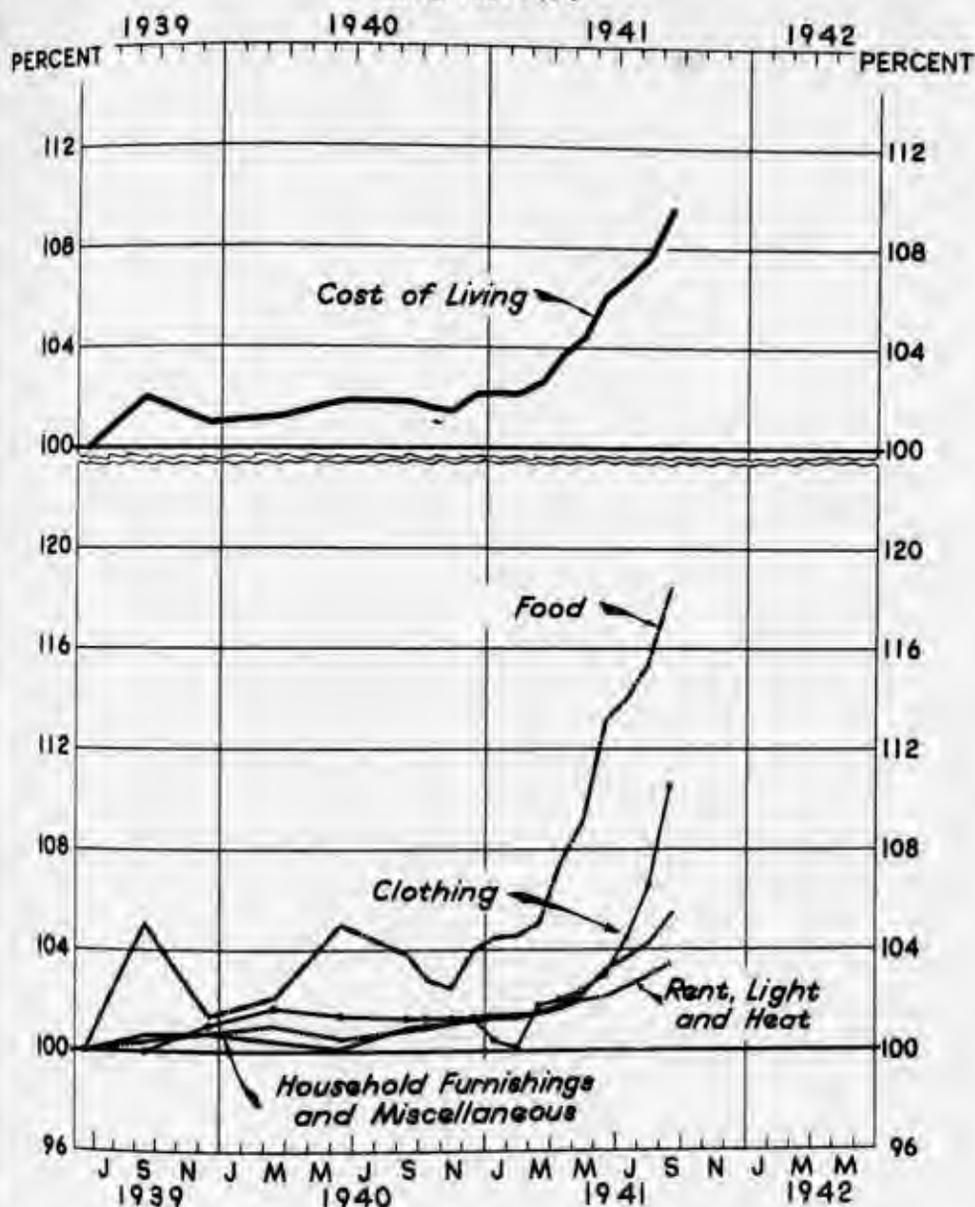
The question was then brought up as to how this matter might be talked over with the other Committee members. Mr. Doughton suggested that the Secretary might talk to them and Senator George said he might call his Committee and have the Secretary or Mr. Sullivan talk to them. Mr. Doughton thought that the members would appreciate having the matter handled in this manner. The Secretary assured them he would be glad to come down and talk at any time. Mr. Doughton and Senator George agreed to go back and talk to their members and see if a meeting to hear the Secretary would be desirable.

The Secretary then read an editorial from a Sioux Falls, South Dakota paper, about inflation. There then was some general discussion about getting Congress to stay during December and the meeting broke up with the understanding that Mr. Doughton and Senator George would telephone the Secretary later today what the reaction was and whether he was to come down to talk with the Committee members.

Roy K. ...

COST OF LIVING AND SELECTED ITEMS

June 1939 = 100



Source: B.L.S.

Office of the Secretary of the Treasury
Bureau of Economic and Statistics

C-413

MINIMUM AMOUNT OF TAXES NEEDED
FOR CALENDAR YEAR 1942

Inflationary forces are now at work driving prices upward. These will be intensified by changes during the coming months in government expenditures and other factors. These changes are described below.

In October 1941, total expenditures for defense were running at the rate of \$21 billion a year. 1/ In addition the Federal Government non-defense expenditures were at a rate of \$6½ billion a year. ~~2/~~ Thus in October 1941, expenditures for defense and the regular activities of the Federal Government were at the rate of \$27½ billion a year.

In the same month taxes were being collected by the Federal Government at a rate of \$9½ billion a year. 2/ The excess of expenditures over tax collections was therefore at a rate of \$18 billion a year; \$16½ billion representing the excess of expenditures by the Federal Government, the other \$1½ billion representing purchases by foreign countries.

1/ About \$18 billion of this total represents direct expenditures by the Federal Government; \$1½ billion, expenditures by National Defense Corporations; and \$1½ billion, purchases by foreign countries.

2/ Total liabilities as distinguished from cash collections were at the rate of \$15½ billion a year. These figures do not include the States' share of Social Security collections for unemployment insurance.

- 2 -

In calendar 1942, total expenditures for defense are expected to be about \$31 billion, or \$10 billion higher than the October 1941 rate. Federal non-defense expenditures are expected to be about the same, \$6½ billion. Total defense and non-defense expenditures are expected to be \$37½ billion, or \$10 billion greater than the October 1941 rate.

Tax collections by the Government, under existing legislation, are expected to be \$16.0 billion in calendar 1942, or \$6½ billion higher than the October 1941 rate. 1/ The excess of expenditures over tax collections will therefore be \$21½ billion in calendar 1942, or about \$3½ billion more than the corresponding excess at the October 1941 rate. That is, because defense expenditures will increase more rapidly than tax collections, individuals and corporations will have available \$3½ billion more income than they had at the October 1941 rate -- \$3½ billion that they can try to use to buy consumers goods, equip their businesses, subscribe to defense bonds, purchase investments or hold idle.

At the same time that individuals and business concerns will be getting more spendable income from the defense effort and the Federal Government's regular activities, they will find a smaller amount of goods and services available to

purchase.

1/ Tax liabilities, as distinguished from cash collections, are estimated at slightly over \$17½ billion or \$2 billion higher than the October 1941 rate.

- 3 -

In October 1941, national income was running at a rate of \$95 billion a year. As was noted above, defense was taking \$21 billion of the national income, leaving \$74 billion for civilian use -- that is, for consumption, for private capital goods, and for the activities of State and local governments. In calendar 1942, national income, measured at October 1941 prices, is expected to be at least \$98 billion, or at least \$3 billion higher than the October 1941 rate. Defense is expected to take \$31 billion of the national income in calendar 1942, leaving \$67 billion. The amount available for civilian use will therefore be \$7 billion less than in October 1941.

Under these conditions, the amount of excess purchasing power would be about \$10½ billion, computed as follows: \$3½ billion is the net amount that Government will be adding to the spendable incomes of individuals and corporations over and above the amount it was adding at the October 1941 rate; \$7 billion is the net reduction in goods and services available for civilian use.

The accompanying table summarizes these figures. In addition it shows the minimum amount of taxes estimated to be needed in calendar 1942 to keep prices at the October 1941 level, assuming the extent of priorities and other

- 4 -

direct controls that now seem likely. This minimum amount is \$4½ billion. This estimate cannot be computed directly from the other figures in the table because of the necessity of taking into account many other factors that affect tax needs. Some of these factors that we have taken into account are:

The severity of ^{prices} ~~prices~~, allocation, and other direct controls; possible changes in the degree to which consumers will spend rather than save their incomes; possible changes in the desire of private business to construct new plants and equipment, rebuild old plants and equipment, or build up inventories; the indirect effect of taxes paid by some on the spending and saving of others; the speed at which government spending is outstripping government tax revenue; the speed at which our added defense needs are outstripping our added power to produce; and so on.

This estimate that \$4½ billion is the minimum amount of taxes needed assumes that these taxes will in general be in the form of a flat rate tax on incomes above certain minimum exemptions, the tax to be withheld currently at source. If other tax measures were to be used, the amount of taxes needed would not be the same.

- 5 -

It should be emphasized that these estimates are for the calendar year 1942. Since defense spending is expected to rise throughout 1942, a smaller amount of additional taxes will be needed early in the year, a larger amount later in the year. For this reason, it might be desirable to impose now only the minimum amount of taxes with the expectation of imposing additional taxes later on when the need for them is apparent, and the course and nature of the defense program in the latter part of 1942 is clearer.

Finally, other measures than taxation can help to control inflation. Some of these are already in force or are clearly foreshadowed. These have been allowed for in the estimates of tax needs given above. But there are still other measures that would further reduce tax needs. Some examples are: The reduction of Federal non-defense expenditures; more stringent control of consumer credit; and an appeal to State and local governments to reduce their expenditures but not to reduce taxes.

Neither these measures nor taxation nor both together can prevent price rises resulting from special factors affecting particular commodities -- for example, the part of the recent increases in the prices of cotton and wheat caused by the government's loan program, and increases in the prices of some imported commodities.

MINIMUM AMOUNT OF TAXES
NEEDED IN CALENDAR YEAR 1942

217

	Annual rate in		Increase from
	October 1941	Calendar 1942	October 1941 to calendar 1942
(In billions of dollars)			
1. Defense expenditures <u>1/</u>	\$21.2	\$31.2	\$10.0
2. Federal non-defense expenditures	6.5	6.5	-
3. Total defense and non-defense expenditures (item 1+item 2) <u>1/</u>	27.7	37.7	10.0
4. Total tax receipts under existing legislation	9.6	16.0	6.4
5. Excess of expenditures over receipts (item 3 - item 4) <u>1/</u>	18.1	21.7	3.6
6. National income, at October 1941 prices	95.	98.	3.0
7. National income available for civilian use (item 6 - item 1) <u>2/</u>	73.8	66.8	(decrease) 7.0
8. Total amount of excess purchasing power (item 5 + item 7)			10.6
9. Minimum amount of additional taxes out of current income needed in calendar 1942 to keep prices at the October 1941 level.			4.5

1/ Includes expenditures by National Defense Corporations and purchases by foreign countries financed outside of the budget.

2/ Business taxes approximately equal non-defense spending in October 1941. For this reason, it is proper to arrive at national income available for civilian use, including use by State and local governments, by deducting the defense expenditures from national income. Otherwise, an adjustment would have been necessary.

MINIMUM AMOUNT OF TAXES NEEDED
FOR CALENDAR YEAR 1942

Inflationary forces are now at work driving prices upward. These will be intensified by changes during the coming months in government expenditures and other factors. These changes are described below.

In October 1941, total expenditures for defense were running at the rate of \$21 billion a year. 1/ In addition the Federal Government non-defense expenditures were at a rate of \$6½ billion a year. Thus in October 1941, expenditures for defense and the regular activities of the Federal Government were at the rate of \$27½ billion a year.

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- 4 -

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It should be emphasized that these estimates are for the calendar year 1942. Since defense spending is expected to rise throughout 1942, a smaller amount of additional taxes will be needed early in the year, a larger amount later in the year. For this reason, it might be desirable to impose now only the minimum amount of taxes with the expectation of imposing additional taxes later on when the need for them is apparent, and the course and nature of the defense program in the latter part of 1942 is clearer.

Finally, other measures than taxation can help to control inflation. Some of these are already in force or are clearly foreshadowed. These have been allowed for in the estimates of tax needs given above. But there are still other measures that would further reduce tax needs. Some examples are: The reduction of Federal non-defense expenditures; more stringent control of consumer credit; and an appeal to State and local governments to reduce their expenditures but not to reduce taxes.

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MINIMUM AMOUNT OF TAXES
NEEDED IN CALENDAR YEAR 1942

223

Annual rate in	:	Increase from
October : Calendar	:	October 1941
1941 : 1942	:	to
	:	calendar 1942
(in billions of dollars)		

1. Defense expenditures <u>1/</u>	\$21.2	\$31.2	\$10.0
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Revision of
November 4, 1941

MEMORANDUM FOR THE USE OF THE SECRETARY
IN OUTLINING THE PROPOSED REVENUE PROGRAM

When I appeared before the Senate Finance Committee on August 8, 1941, I pointed out that, in the light of rapidly changing conditions, the all-out defense program would necessitate all-out taxation, that much more revenue would be required not only to strengthen the government's fiscal position but especially to maintain economic stability and prevent "inflationary price rises which threaten to increase the cost of the defense program, unbalance family budgets, and seriously disturb our economic life."

Since that time the price rises have been accentuated and cost of living has gone up substantially. The cost of living in the United States has risen over 5½ percent during the last five months. From August to September alone it rose by almost 2 percent. An intensive study of the problem of meeting this inflationary threat has been under way for several months and certain tentative conclusions are now at hand. They have such an important bearing on the immediate fiscal program that I wish to summarize them for you.

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On the basis of these studies it appears that by June, 1942, the defense spending of the Federal Government will be at a rate of about \$15½ billion per year above the rate of defense spending in June, 1941. It appears that revenues will be coming in during June, 1942, at the rate of about \$6 billion above the rate of June, 1941, such increase being due in part to the effects of the rate increases of the Revenue Acts of 1940 and 1941 and in part to the larger flow of income.

Another \$3 billion, at most, of the increased defense expenditure may be counteracted by a reduction in consumer spending on consumption goods and services and by a reduction of business spending on private capital goods. Such reductions will be caused by defense savings bond purchases, by priorities, by the unavailability of goods and by a number of other restrictive factors.

Finally, \$1 billion is likely to be absorbed by an increase in corporate reserves, and will not reach the hands of consumers.

The total offset to the increased government spending is, therefore, about \$10 billion, leaving \$5½ billion of purchasing power that will be pushing prices upward.

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At the same time that this increased purchasing power will be available for expenditure, the flow of goods for civilian use will be at a reduced rate. Defense needs will, as stated above, require about \$15½ billion more by next June than last June. Yet by June, 1942, the total real output of goods and services will probably be no more than \$10½ billion per year higher than in June, 1941. Hence, civilian output must be cut down by about \$5 billion in the same period. As noted above, \$3 billion of this decline may come about as a result of defense savings bonds purchases, priorities, shortages and other factors, but the rest of the decline must be achieved through increased taxation or other expenditure controls if prices are not to rise.

To absorb the excess purchasing power of \$5½ billion and to also reduce private spending at the rate of an additional \$2 billion, a total of \$7½ billion, will require about \$6½ billion in increased taxes withdrawn currently from the incomes of consumers. The apparent discrepancy of \$1 billion here reflects the indirect effects of the additional taxes. If the decline in private spending due to priorities and unavailability

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of goods is less than the \$3 billion mentioned above, an even larger amount of taxes will be needed. Indeed, the total amount of taxes needed to prevent a substantial rise in prices in June, 1942, may be as high as \$9 billion annually.

For technical reasons the figures given above were computed as of the month of June, 1942. The need for increased tax revenue would not be quite as great in January, 1942, but will be very much greater than the revenue to be derived from laws now in effect. Furthermore, beyond June, 1942, the needed rate of increased taxes may be even greater than for June, 1942.

It should be very clear that the burden of the taxes necessary to hold down price rises will be no greater than the burden of the price rises themselves. If the cost of living goes up 5 percent, it imposes in effect a 5 percent gross income tax without exemption on the lowest income groups in the country. Inflation imposes burdens as real as taxes but in the case of inflation the money does not go to the government.

It should not be necessary to mention the very serious evils of inflation and the great importance of preventing it. We are all familiar with the way in which

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it burdens the great bulk of the population, including the lowest income groups, financially embarrasses State and local governments, increases the cost of defense materials, gives opportunities for profiteering and otherwise harming and demoralizing the people. What I would like to stress is that we have reached the point where vigorous action is needed now - without delay - if we are not to have an accelerated, destructive inflationary price rise.

The problem of preventing inflation needs to be attacked simultaneously on all fronts. I have repeatedly said that non-defense expenditures should be reduced and that it is important for individuals to increase their purchases of defense bonds. From time to time I have mentioned other methods that should be adopted to help stave off destructive price rises. But all these plans together will fail if the deficit now estimated at \$12.6 billion for the fiscal year 1942 continues to grow and the Federal Government continues to pour out purchasing power to consumers without at the same time taking back a very substantial part of the increase in the form of taxes. The money is being paid out now. If the taxes are to help prevent price increases they must be imposed at once and collected currently with the income payments.

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For this reason I propose to present to the Congress a major revenue raising program. The program roughly consists of three parts: (1) Taxes to be imposed as soon as possible and to be collected beginning January 1, 1942; (2) other major tax increases and changes to increase revenue and to balance the impact of the anti-inflation program on small incomes; and (3) changes to close important loopholes in the tax system and to remove hardships which have developed under the tax laws.

1. Anti-inflation taxes which should be imposed immediately.

The first recommendations relate to taxes which should be imposed at once so that collection may begin January 1, 1942. They are taxes which will withdraw purchasing power from consumers before it is spent.

The first recommendation for anti-inflationary taxation is the imposition of a new supplementary tax on net income to be withheld at the source on salaries, wages, dividends, bond interest, and similar items and collected quarterly throughout the year on other incomes. These taxes would thus be collected insofar as possible like the payroll taxes. They would, however, have

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personal exemptions and credits for dependents. It is tentatively recommended that the rate of this tax be 15 percent and that the existing personal exemptions of \$750 for single persons and \$1,500 for married couples, with \$400 credit for each dependent be allowed. The supplementary withholding tax would be deducted from net income in computing the income tax. Because of this deduction and because of the personal exemptions the increase in effective rate of tax would never be the full 15 percent and indeed would never be more than about 11 percent. A married couple with no children and \$2,000 of income would have their combined withholding and income tax increased from \$42 to \$110, or \$68 more, which is 3.4 percent of the \$2,000 income.

It is estimated that at present income levels, this tax will yield annually about \$2.6 billion

It is recommended second that the payroll taxes for old-age and survivors' insurance be increased. These taxes are at the present time imposed at a rate of 1 percent on employers and 1 percent on employees and are scheduled to rise on January 1, 1943 to 2 percent on employers and 2 percent on employees. The recommendation is that this increase be made one year

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sooner than was scheduled. It will be recalled that no increase was made on January 1, 1940 when it was originally scheduled.

The increase in tax would yield during 1942 increased revenue of approximately \$0.9 billion

I would like to stress the very great importance of considering and passing these two tax increases at once in order that the money may be taken out of the hands of consumers before it can be spent by them, thus reducing the inflationary pressure of the increased defense expenditures.

Further, it is recommended that as soon as practicable, the Social Security Board's program relating to the extension of coverage for old-age and survivors' insurance and unemployment insurance and the revision of the unemployment insurance system should be enacted. The change with respect to unemployment insurance involves an additional 1 percent tax on the employees.

The combined effect of these changes would be to increase the revenue by approximately \$1.0 billion

The above anti-inflationary taxes recommended for imposition as soon as possible would yield a total increased revenue of \$4.7 billion

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2. Other changes to increase revenue and to balance the impact of the anti-inflation tax program.

The additional social security payroll taxes and the new supplementary individual income tax would fall very largely on the low income classes. Substantial increases in other taxes are necessary to balance the burden of these taxes, to restore an equitable distribution of the total tax load and to raise the revenue needed to finance the defense effort.

It is recommended that the surtax rates of the individual income tax be increased; that the excess profits tax be made more effective; that the corporation income tax be increased; that the estate and gift tax rates be increased and the exemptions lowered; and that the defense excise taxes be extended to important items requiring diversion for defense purposes.

These tax increases should be designed to raise a total additional revenue of from . . . \$1 to \$2 billion

3. Changes to prevent avoidance and promote equity.

Finally, in an all-out tax program, it is extremely important that all known avenues of tax avoidance be closed. It is likewise important that hardships and

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inequities to certain taxpayers under present law be eliminated. The higher taxes of the defense period make these hardships and inequities increasingly burdensome and irritating. The elimination of both tax avoidance and tax hardships is desirable not only for fiscal reasons but for the promotion of equity and the maintenance of morale.

It is my understanding that the House Ways and Means Committee and the Senate Finance Committee are planning to undertake revisions along these lines in the very near future, in the so-called "administrative bill."

November 5, 1941
10:29 a.m.

Grace Kelly: Yes, Mr. Secretary, good morning. How are you?

WJr: Fine, how are you?

G: Fine, thank you, sir.

WJr: It was "Blithe Spirit."

G: Huh? It was "Blithe Spirit", uh huh.

WJr: Yes.

G: (Laughs)

WJr: Grace,....

G: Yes.

WJr: Senator Walter George - have you got a pencil?

G: Yes, sir.

WJr: Bob Doughton just left here after an hour and a half,....

G: Yeah.

WJr: Now, I put up to them this thing of getting more taxes this year.

G: Uh huh.

WJr: Both as taxes and Social Security.

G: Yes.

WJr: And they're going back and speak to the members of their committee,....

G: Yes.

WJr:and Doughton may ask me to come up this afternoon to explain it to Ways and Means.

G: Yes.

- 2 -

BJr: Now, I told the President that I wasn't going to attempt to explain it to him until I found out whether there was any chance of getting it passed or getting it considered this year.

T: Yes.

BJr: But I want him to know that Walter George was very receptive.....

T: Uh huh.

BJr:and Doughton - well, he didn't know. The boys might want to go home.

T: Yeah.

BJr: So if the President sees anything in the paper, it's all still in the air and as soon as I know what Senator George and Doughton tell me what I can or cannot do.....

T: Yes.

BJr: I will let him know.

T: Yes, sir.

BJr: But I'm not bothering him until I know.

T: Yes. All right, fine, Mr. Secretary. I'll give him that message; and then I'll call you later to tell you about tomorrow.

BJr: Yeah, I.....

T: I still don't know about tomorrow yet.

BJr: Well, then, I'm waiting to hear.

T: All right, sir.

BJr: Thank you.

T: Fine. Good-bye.

November 5, 1941
10:31 a.m.

HMJr: Did they explain to you why I couldn't come to the phone?

Secretary
Stimson:

Oh, yes. That's all right. I've had word from the president of the Curtiss-Wright Company that they had received a letter from the Treasury requesting information on contracts, prices, deliveries, and other things that we're keeping secret. Now, I wanted to say this, that I - it will be very much safer if all of those requests come to us and the information be given out through us than if it's done directly to different corporations that do this.

HMJr: Yeah.

S: Because then - I mean, we're holding them under very tight rein.

HMJr: Yeah.

S: As - for reasons that you can understand perfectly. And if they - if those reins are relaxed or if they're in the hands of more than one driver, they'll be - the thing will get out and the secrecy which is getting more and more important every other day - every day - will be destroyed.

Now, I'm having those things made up, and can I talk with you again again?

HMJr: Well, I've written a letter to you, asking you whether you would see Mr. George Haas, who's in charge of our statistics, and turn him over to whoever the right person is.

S: I haven't seen that letter yet.

HMJr: No, because I'm - it.....

S: It hasn't come yet, I suppose.

HMJr: No, it hasn't come yet; but I mean, I wrote it, and I was going to call you this morning.

- 2 -

- S: Well, I didn't want to just answer you by a letter. I wanted to call you up and talk with you about this thing so that you'd understand the condition.
- HMJr: Well, would you - what time this afternoon could you just see him to turn him over to whoever the proper person is after you've seen the letter.
- S: Well, can my - if I - I was going to be away this afternoon. If I left it in the hands of Lovett, for instance, could you.....
- HMJr: Well.....
- S: He could go right to Lovett.
- HMJr: Well, it isn't just - it's the whole question, I mean, of contracts - how much has been spend and how much will be spent. It's the over-all picture.
- S: Yes.
- HMJr: I mean.....
- S: I mean, you want it for what purpose?
- HMJr: I want it both for the President and myself, and I've got to appear this afternoon - I mean, I.....
- S: I can easily imagine perfectly.....
- HMJr: I mean, how am I.....
- S:the very important reasons.
- HMJr: Well, I mean.....
- S: Well, I was just asking.....
- HMJr: Well, there's thousands of reasons. I mean - why I can't ever keep track of how fast this money is going to be spent.....
- S: Yes, I see.
- HMJr:you see all these figures about.....

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S: Now, if I tell Lovett to.....

HMJr: Well, the man that I'd like him to see is Ayres. That's the man I want him to see.

S: Oh, Ayres.

HMJr: Yes.

S: All right. Look, if he could come tomorrow morning or this morning, I could do it myself; but if he comes this afternoon, I'll have to have Lovett do it for me.

HMJr: Well, he can come this morning.

S: Well, all right.

HMJr: All I want to do is just to show you what I want, and then if you turn him over to Ayres.

S: Yes. All right.

HMJr: What time could you see him this morning?

S: Well, say, twelve o'clock?

HMJr: He'll be at your office. His name is George Haas - H double a, s; and he'll have a letter from me.

S: All right. Thank you very much.

HMJr: Thank you.

November 5, 1941
10:45 a.m.

GROUP MEETING

Present: Mr. Morris
Mr. Barnard
Mr. Thompson
Mr. Haas
Mr. Gaston
Mr. Buffington
Mr. Foley
Mr. Kuhn
Mr. Sullivan
Mr. White
Mr. Bell
Mrs. Klotz
Mr. Schwarz

H.M.Jr: I thought I would tell you people in strictest confidence where we stand on taxing. I missed you (Gaston) yesterday at three o'clock.

Gaston: Oh, I am sorry.

H.M.Jr: Once you got started, I thought you would keep coming. You have still got time to get in.

Barnard: That is probably my fault. I don't know if you were notified, were you?

Gaston: Well, I heard about the meeting. I forget just how I got it.

H.M.Jr: Well, at any others I want Mr. Gaston to sit in on them, if he is free. We went for almost an hour and a half, and to condense it

- 2 -

down, Walter George felt all right about the withholding tax and shortening the Social Security tax, making the higher rate effective January 1 this year instead of '43. He didn't want to do any more than that because he said that they promised the Senator from California a chance in December for a hearing on Social Security and he said that is going to be a long job. He said he called you (Bell) up for some figures recently on expenditures and that the figures didn't surprise him any. Doughton was very, very hesitant. Then he put it up to George, which came first. You can't do two things at the same time. Should he do Social -- should he do taxes or economy, which comes first. So George said, "Well, the taxes came first." So then George said - then Doughton wanted to know whether this was for revenue or for inflation, and I said, "Inflation." He said, "Well, nobody in my home town is worried about inflation. I don't get a letter about inflation." I said, "Well, you will, and I will send some women up there." He said, "Well, see that they don't have beards." (Laughter). Then he says, "No, you had better not send any women up to me." But we want to send Miss Elliott. I will make a note. I want to get Miss Elliott to go up. But he said, "I never hear anything of it. All my letters are on economy. Nobody ever writes me about inflation."

Well, the upshot of the thing is this. Doughton may invite me and John to come up this afternoon to an executive meeting to explain it to the whole Committee, what we want. George is going to speak to his people. I don't think he is going to have any meeting. He will let me know this afternoon whether they will do it or not. So that is about where it stands.

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Sullivan: Would you like act two?

H.M.Jr: Act two?

Sullivan: Yes. Mr. Doughton called at about twenty-five minutes past ten and he had gotten into an argument with Senator George riding back. Doughton says that Senator George misunderstood this, that this thing is a substitute for the income tax, and isn't something in addition to it, and he said, "But the thing that is troubling me is that it is a substitute and not an addition to it. How do you get anything extra out of it?" So I went through that until just when I came in here. In the meantime, Senator George was on the other line wanting me to get hold of Doughton and straighten him out.

Now, I think he knows that it is in addition to, but I am not sure how clear he is about it.

H.M.Jr: Well, how did he think when we ran down the thing and got two, eight and then so much more and so much more --

Sullivan: That is what troubled him. He didn't see how you could get any money if this is a substitute tax.

H.M.Jr: The poor old boy is too old.

Sullivan: He is straight on it now.

H.M.Jr: Well, that is really the principal thing. We may have to go up this afternoon.

The tax notes, how much did we sell in October? Did you (Bell) tell me four seventy?

Buffington: Four seventy-four.

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H.M.Jr: I figured four seventy-four and two seventy-six for the others made a total of seven fifty.

Buffington: "A" notes are off a million.

Haas: That was the small class, "A", wasn't it?

Buffington: No, the total was four seventy-four.

H.M.Jr: How much of that was small?

Buffington: Five million seven hundred and fifty, preliminary figures, so our net result of our effort is off a million from the month before (laughter).

Haas: I thought you were giving that low figure.

H.M.Jr: Norman, have you got anything?

Thompson: If I could stay a couple of minutes, I have a number of things.

H.M.Jr: Where is George Haas? Have you got those letters?

Haas: I will have them before the meeting is over.

H.M.Jr: Because Mr. Stimson will see you at twelve.

Haas: Swell. I haven't had a chance to clear them with Dan, yet. They are still in the typewriter.

H.M.Jr: Well, he called me up about another thing, complaining, and so I acted as though - well, he wouldn't believe me - that I already had these letters written. He had heard I was trying to get some information. Do you (Thompson) want to see me?

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Thompson: Yes.

H.M.Jr: I would rather let it go until this afternoon. I have sent for Allan Barth. You ask Fitz for an appointment.

Thompson: It will keep.

H.M.Jr: Dan?

Bell: You remember a year or so ago we had a Government self-insurance bill that we worked on and got through, and it is now in operation. Since that time we have been working on a bonding bill, that is, giving surety bonds to Government employees that certify payrolls and disbursing offices and so forth. We pay the premiums into a fund. That has all been cleared by the Departments and the Budget, and it is ready to go up over your signature, and it is going to be quite a fight, because the surety companies are all coming in en masse. We have discussed it with a few people on the Hill, and they won't touch it to introduce it as their bill. They will introduce it if you request it. All of them have surety companies in their districts and they don't want to have anything to do with it.

H.M.Jr: Do our own bonding?

Bell: Yes.

H.M.Jr: That has always been a political racket.

Bell: It has always been something that we could never get through because many of the surety companies have Congressmen and other politicians and officers, processing officers in their districts.

H.M.Jr: Sure.

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- Bell: I just wondered if you would like to take on that fight at this time, or shall we delay it until next session?
- H.M.Jr: Well, it is a worthy one. Get it started. One fight more is all right with me.
- Bell: O.K. Phillips handed me this memorandum last week (October 30). It is along the lines of your discussion.
- H.M.Jr: Where is my aide? Come here, aide (Morris).
- Bell: It is along the lines of your discussion with Governor Towers.
- H.M.Jr: I have one from Canada on that, too. He got that last night.
- Morris: I already talked to Harry White about it.
- H.M.Jr: Well, here is another interested party.
- Bell: No, I am just a messenger.
- H.M.Jr: From whom?
- Bell: Phillips. He handed it to me.
- H.M.Jr: Well, it is the same thing, machinery.
- Bell: Absolutely.
- H.M.Jr: Well, we have got the same thing from Canada now.
- Bell: Well, that is the reason he was in. He heard about Governor Towers and he followed him right in the door.
- H.M.Jr: Well, will you --

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- Morrise: Yes.
- H.M., Jr: All right.
- Bell: I am ready to talk to you any time if you are ready on the Ryrd Committee stuff and other things.
- H.M., Jr: Well, this is a little strenuous this morning, but I have got it very much - I woke up in the middle of the night and made a speech on it. My speech was that we keep adding to the engine horsepower on the Agricultural Department to speed it up, but we have forgotten all about the brakes. Now let's give them a smaller engine and bigger brakes. I am ready for you.
- Bell: O.K. Any time you say.
- H.M., Jr: Yes, but I have got to keep myself open for this other thing. If I go up, I want you to go up with us. You had better take a look at the memorandum that came to the house last night.
- Bell: All right. I will try to get up to date. I am a little behind.
- H.M., Jr: Well, you had better get up to date. The man to see is hoy Blough.
- Bell: All right.
- H.M., Jr: And if anybody else hasn't seen it, those people that worked on it, I think you ought to circulate that, Roy, the one I got.
- Blough: There have not been enough copies made, but we will have them made and circulated.
- Ruffington: I have nothing.

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H.M. Jr: Chick?

Schwarz: I have a rough copy of Senator Vandenberg's full statement last night which we can have typed up.

H.M. Jr: I admit it is rough.

Schwarz: He was very rough. He only gave out carbons. We got a ticker carbon that came down from the Hill downtown. You will be asked about it tomorrow.

H.M. Jr: Well, we will know much more by sunset tonight.

Schwarz: Fine. That is all.

H.M. Jr: Harry?

White: Were you commenting just now something with regard to agricultural speculation, because if so, I have a bit of information that might be pertinent.

H.M. Jr: I was talking about a billion two hundred million dollar appropriation.

White: Oh. The man who is in charge of agriculture speculation happens to be an old colleague of mine, and he came to see me.

H.M. Jr: Mehl?

White: No, he is the technical man under him, Beach.

H.M. Jr: Did you see the top fellow or the fellow under him?

White: I think I saw the fellow who must be the fellow under him, but he is the fellow who knows about stuff.

H.M. Jr: Will you speak to George about it?

White: Yes, I will.

Haas: I think he was in the meeting when I went over.

H.M.Jr: George is watching it for me. Will you pass it on to George?

White: Yes, I will do that.

H.M.Jr: What else, Harry?

White: I have some material I think you would like to see this morning if you have any time. I think you ought to see it this morning. It will be ready in about fifteen minutes.

H.M.Jr: You are not ready?

White: Well, it is typed. It is probably ready now.

H.M.Jr: I will see you between now and twelve. Is that boy coming in at a quarter of twelve?

Kuhn: Yes, sir.

H.M.Jr: Well, will you be here at ten minutes to twelve? Do you think you will be ready, Harry?

White: Ten minutes of twelve, definitely, yes.

H.M.Jr: George?

Haas: Speaking of agriculture speculation, did you notice in the Business Review that the margin requirements for cottonseed oil were reduced from fifteen per cent to ten?

H.M.Jr: That is good.

Haas: No, it should go the other way.

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H.M.Jr: Oh, yes. Well, who does that.

Haas: New York Produce Exchange.

Bell: Doesn't that come under the Commodity Exchange controlled by Agriculture.

Haas: No, they don't have authorities. They were set up to protect farmers' interest, you know, in speculation. They are set up as the Securities and Exchange is to protect the individual speculator from being - getting into trouble, so they don't have authority to change it. They can ask them and maybe the exchange would change, but I don't know what their experience has been. But it is interesting that it is going the other way rather than tightening up.

H.M.Jr: How about my writing a letter to Claude Wickard on it?

Haas: It would be all right.

H.M.Jr: Saying, is there anything he can do about it.

Haas: I think it would be all right.

H.M.Jr: Would you do that for me?

Haas: Yes, sir.

H.M.Jr: I will sign it.

Haas: All right.

White: Are you sure there is something that can be done about it?

H.M.Jr: Harry--

Haas: They can make a recommendation on it.

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- White: This futures business, Mr. Secretary, is very complicated and as long as you are satisfied that you are right, O.K.
- H.V. Jr: Listen, if I was in there, I could send for the president of the Produce Exchange and say, "Look, old man, do you want to stay in business?" "Sure." "All right. Then run this thing right or we will get legislation that will stop all legislation."
- Haas: Me made a speech the other day, Harry, and told them.
- White: There is a great deal to this, and if you are on top of it, fine.
- H.M. Jr: Well, talk to George. Tell George what you have got in your mind.
- Haas: They put that--
- H.M. Jr: The whole trouble with that Department over there, they are set up to look after the packer and the big miller. They have got no more idea of the consumer than anybody I ever saw, and I told that to Wickard, and Wickard agrees with me. Wickard is shocked to think that the people that take the rap on this speculation, that take the short end, are the little fellows, and he said, when it was brought to his attention, he was just as shocked as I am, and he said they had never thought of it. He said he had never thought of it, that the people that buy the hedges that the millers sell are the dentist and the gasoline station fellow. What is this?
- Haas: They put it in the form of a draft. You see, I thought I would have time to clear it with Dan before I brought it in, but if you can clear it, we can have a draft of that.

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- H.M.Jr: Well, you have got to get it over there by twelve o'clock, and you have got to get it on my stationery. Let Bell see it.
- Will you (White) talk to George?
- White: Yes, I intend to definitely; if George is satisfied after what I tell him, fine. (Laughter).
- H.M.Jr: I didn't ask you whether you - when you told me - when you asked me was I on top of the thing, I didn't answer you.
- White: I didn't mean whether you were on top of it.
- H.M.Jr: I didn't answer you. I don't know whether I am or not.
- White: Well, what I have to say I will pass on to George, and I am sure that he will give it the consideration it deserves. That is what we say in our letters when we want to throw something in the waste basket. (Laughter)
- H.M.Jr: Mrs. Roosevelt used the figures I sent her right in her column, the ones that George furnished me. Isn't that swell. This is some more?
- Haas: Yes, that is some more.
- H.M.Jr: Will you fix it up in a letter for me to Mrs. Roosevelt?
- Haas: All right.
- H.M.Jr: That is grand. I didn't notice that.
- Klotz: We can just send a covering letter.
- H.M.Jr: That is swell. There are our figures right in there.

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Klotz: Yes.

Haas: I thought you would be interested in that clipping, also.

H.M.Jr: That is good.

Haas: Yes, it is verbatim.

H.M.Jr: Do your boys know that?

Haas: I asked them to look over her column yesterday and they found that. Here is your regular savings bond report. Here is the redemptions on the Defense Savings Bonds. They look pretty good. I have not been able to get hold of Phil Young yet, but I am pretty sure that information is available. In fact, here is the chart in their report which shows it.

H.M.Jr: Well, not now. I will get it this afternoon.

Haas: All right.

Barnard: Here is a weekly report on the Procurement.

H.M.Jr: Do you want to hear a good story?

Barnard: Yes.

H.M.Jr: I sent a copy of these over to Harry Hopkins, this weekly report, and Harry says, "I couldn't make them out, so I sent them down to Lubin, and I said, 'Lubin, look them over.' So Lubin sent back word, 'The Treasury is O.K.'" He says, "That is all I want to know."

Would you (Barnard) prepare letters for me to Hopkins, Stettinius, and Morris Wilson on this, and if you tell Fitz, I would like to see you sometime tomorrow, you and Cliff Mack.

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Barnard: All right.

H.M.Jr: Does this show an improvement?

Barnard: In some places yes and other places no. It will be up and down. The machinery orders are the ones that are going to give us more and more trouble. This spreading of the business among small fellows will also introduce delays in there that otherwise wouldn't be in. But it is a good showing, I would say.

Haas: Yes, in the average for everything, there is an improvement; but, as Mr. Barnard says, there are some of them that don't.

H.M.Jr: Well, whatever it is.

White: Is it possible to segregate the spreading of orders among small fellows and make that a separate matter, because that in itself is an achievement, even though there may be delay. It shouldn't be combined with the customary routine because one--

H.M.Jr: Look into that, will you?

Barnard: Yes.

H.M.Jr: Please.

Barnard: Yes, sir.

H.M.Jr: Machinery is the worst, isn't it?

Barnard: Yes.

H.M.Jr: All right. Anything else?

Barnard: That is all.

H.M.Jr: Roy?

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Blough: Nothing.

H.M.Jr: You can be excused if you want to get to work, Roy.

Blough: All right.

(Mr. Blough left the conference.)

H.M.Jr: Will you (Kuhn) stay behind with Allan Barth?

Kuhn: Surely. The Reader's Digest is so much interested in that Nucky Johnson material that they have advanced a thousand dollars to a writer to get busy on it at once and see if he can do something with it. I thought you would be interested.

H.M.Jr: Reader's Digest?

Kuhn: It has a circulation of four million.

H.M.Jr: They are going to take it?

Kuhn: They take it. They have it made into a book. They print a condensation of the book, and then you get double circulation that way.

H.M.Jr: And they give the book to some publisher, is that it?

Kuhn: But they commission it, and they advance money to a writer who is good.

H.M.Jr: Am I right? I had a little discussion with Mrs. Klotz that that was the first time that it ever was prepared that way for me.

Kuhn: You mean that material?

H.M.Jr: Well, I mean - I take it Elmer Irey did that.

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- Kuhn: Well, I spoke to him about it. I don't think it is the first time, but it is the first time it has ever been done so well.
- Schwarz: You had a good report on the Pendergast case, Mr. Secretary. They made one going back on the whole--
- H.M.Jr: Well, I have never seen one, have you?
- Gaston: I don't think I have seen that. That is a recapitulation on the Nucky Johnson case.
- H.M.Jr: Yes. Have you seen it?
- Gaston: No, I haven't.
- H.M.Jr: Well, it was a good this thick, you see, the whole thing, and I said I had never seen one before like it. Well, anyway, it was a good job. Would you get word to - well, this comes under you. Would you get word to him that I would like very much to have a similar job on the Skidmore case?
- Gaston: On the Skidmore case? Yes.
- H.M.Jr: And anything else that feeds into the Skidmore case.
- Gaston: Yes. The Chicago cases.
- H.M.Jr: But you see we just won the Skidmore case yesterday.
- Foley: Well, it was affirmed in the appellate court.
- H.M.Jr: But I never use those things until they are finished. It is finished now, isn't it?
- Foley: Well, they can still apply for certiorari to the supreme court. I doubt if they would get

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it granted.

- H.M.Jr: Do you think it would be a mistake to publish something?
- Bell: It will last ninety days, won't it?
- Foley: Yes.
- H.M.Jr: I cleared this Nucky Johnson thing through you (Foley), didn't I, to release it?
- Foley: No.
- H.M.Jr: Didn't it? I thought I said to show it to you.
- Kuhn: You cleared it with Irely.
- Foley: The Nucky Johnson case could be appealed too. That hasn't even gone to the circuit court.
- H.M.Jr: Well, it is the facts. It is only stuff which has appeared in court.
- Schwarz: It is a conviction.
- H.M.Jr: You had better let the general council make a hundred percent sure that that stuff can be released, just doubly sure, will you?
- Kuhn: Surely.
- H.M.Jr: But somebody - will you (Gaston) tell him to do me a job on the Skidmore case?
- Gaston: Yes, I will do that.
- Kuhn: I have some other things that Mr. Streit has brought down from New York and I will give them to you in a little memorandum.

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Gaston: I see the man, Shields, got himself into Time, taking credit for the Nucky Johnson case, with a picture.

H.M.Jr: Shields?

Gaston: The man that came to see you back in '36.

H.M.Jr: Is he the little fellow that came in?

Gaston: Yes.

H.M.Jr: He is a nice man. All right?

Kuhn: Yes.

H.M.Jr: Treasury hour was good last night.

Gaston: I thought so.

Kuhn: I didn't hear it.

H.M.Jr: It was good. I don't know who did the thing at the end about the Nazis. It was a little further than we have ever gone. It was good.

Kuhn: Walter Pidgeon was the narrator.

H.M.Jr: Whoever wrote it did a good job.

Schwarz: Ben Hecht and Charlie McArthur.

H.M.Jr: Is that who did it? It was good.

Kuhn: But it was not original.

H.M.Jr: I know it was not original, but where did I hear it?

Kuhn: It was in the New York Times Magazine section one week.

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H.M.Jr: It was good.

Morris: Fitzgerald said you wanted a little more
dope on the appointment I asked for regard-
ing Swiss gold.

H.M.Jr: Yes. Are you read to report on it?

Morris: Yes. Foley is ready to report on it.

H.M.Jr: I mean, it is all tied up?

Morris: We think the application ought to be denied.

H.M.Jr: Have you got the facts? I mean, are you
ready? Do you want to bring that group or
do you want to see me alone?

Morris: No, I wanted the whole group who have been
working on it to give it to you. I didn't
want to give it to you.

H.M.Jr: Pending until I hear from Doughton and all
the others, you will be on my list outside.
I am just waiting on this - I am in the
midst of this whole tax thing. You give
Fitzgerald a list of who you want.

Morris: He has it already.

H.M.Jr: I didn't know that.

Morris: He had the whole list.

H.M.Jr: All right.

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- Morris: Did you want to mention anything about telegrams today or not.
- H.M.Jr: Telegrams?
- Morris: You spoke about the telegrams sent in your name.
- H.M.Jr: No, we took care of that.
What's-his-name is up seeing Bendix now, Graves.
- Sullivan: You may hear from the Senators from Arizona. There is a movement out there for a national lottery that would yield three billion dollars a year and give free ticket to every man in military service and they are apparently doing quite a bit of publicity on it. They have written to me and I am of course telling them that we are not in favor of any such thing. I think the Arizona Senators may call you, so I thought you would want to know about it.
- White: I still think lotteries are a good thing, anytime you want to reconsider your position.

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H.M.Jr: Well --

Klotz: Didn't that come to the Secretary?

Sullivan: No.

Gaston: One did come to the Secretary and I just gave a little perfunctory acknowledgment of it.

Klotz: I thought I saw it.

H.M.Jr: Harry, are you interested from the standpoint of a sporting man or from the standpoint of inflation?

White: I think I am interested from the point of view of being able to buy Heaven cheaply. Not bad. (Laughter)

Haas: You mean take a chance on Heaven cheaply.

White: No, buy Heaven. Heaven is all in your mind anyway.

H.M.Jr: We will pass that.

Foley: We got a report from our people out in Honolulu yesterday on the Young case and it doesn't look very good. This fellow of yours, the Customs Guard, has got a police record. He has been arrested three times, once for assault and battery on a policeman, once for drunkenness and once for loitering, so of course that record will come out. They think that he should be defended by the United States Attorney, one, because the incident occurred while the man was on duty, and two, because of the effect it would have on the morale of the Customs Service if the United States Attorney washed his hands of it and refused to defend him.

They are sending a report which should arrive

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today or tomorrow and when we have considered that, we will have a talk with Justice about the matter. They think there is less than a fifty-fifty chance of getting this fellow off.

H.M.Jr: Can I, through Mr. Gaston and the Customs Service, ask why such a man, with such a record, is in the Customs Service?

Gaston: Yes, you can well ask that. Fred Gardner is out there now, the supervising agent on the Pacific Coast, and I asked Johnson to have Fred Gardner stay after this thing is completed and do a thorough going-over there. There are other indications that the organization is not good out there, and we are going to have a thorough investigation and report. I would agree with Ed, on the basis of what we know now, I think that probably justice would be done if this man were convicted of manslaughter.

H.M.Jr: Well, I am not going that far, but what I am asking is how many other men are there in Customs that have got police records.

Gaston: Yes. That is one thing that Gardner is specifically doing.

H.M.Jr: How about wherever else we have Customs? How many other Customs people have we got that have got police records?

Gaston: I doubt that we have any.

H.M.Jr: Well, may I officially ask you to begin an investigation of that at once.

Gaston: Of the complete service?

H.M.Jr: Of the complete service, from top to bottom.

Gaston: I think particularly that --

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- H.M.Jr: I mean, anybody that has police powers in Customs Service, I want to know if he has a police record.
- Gaston: And what kind of a record?
- H.M.Jr: And what kind of a record. Would you start that at once?
- Gaston: Yes.
- H.M.Jr: I mean, anybody that has police powers, what kind of a record has he got. That is terrible. Got any other good news?
- Foley: Leon Henderson is about to take some action in so far as the supply of rubber for automobile tires and tubes is concerned and he would like to utilize the good offices of our people in the field to determine as of a particular date that he will give us the retail prices for tires and tubes so that he can check the result of his action on an increase in prices.
- Now, we can do that if it is agreeable with you because in connection with the collection of excises on tires and tubes, our people have experience.
- H.M.Jr: Well now, we are doing something now for Nelson. He is using our field offices of Procurement, isn't he? At least, he asked me for the use of them.
- Barnard: I don't know about it.
- H.M.Jr: Yes, and I said he could. Now, this would be through whom?
- Foley: This would be through the deputy collectors in

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the field who are in contact with the tire retailers in connection with the excise taxes.

- H.M.Jr: Suppose we begin to do this. Look at the burden on all prices. They will want to know what a can of this and that are worth. Well, look, let me appoint a committee of you and John and Bell and you decide what you want, see, and let Dave sit in on it, but you three decide, will you?
- Foley: All right.
- H.M.Jr: Will you do that?
- Foley: Sure.
- H.M.Jr: You decide. Whatever you decide, just let me know.
- Barnard: I hope they decide to cooperate, though.
- H.M.Jr: All right, you are on the committee too.
- Foley: I don't think it would be much of a job. I think we can do it easily and I think we should.
- H.M.Jr: Well, frankly, gentlemen, I had a tough morning and I am just oozing inflation.
- Foley: Well, Dan will call the meetings, and whenever Dan has time we will come in. John and I are still ready on speculation and commodity futures, whenever you would like to see us.
- H.M.Jr: All right. Get on my waiting list.
- Foley: Yes, sir.
- H.M.Jr: Anything else?
- Foley: No.

H.M.Jr: Herbert?

Gaston: One matter that doesn't much belong to me but since I took it up - I mentioned it to you on the phone, so I will mention it again. That is the matter of Mrs. Friedman. She is very discontented about the prospect of having to work for the Navy. She doesn't want to work for the Navy. She was originally a Customs employee and was borrowed by Coast Guard from Customs. She has a good organization. Perhaps it is as good as there is in the Government, as you know, on cryptanalysis. She has herself three civilian employees. They would all like to get out of the Navy and come to the Treasury.

She would have some usefulness in the Treasury, especially in connection with the security of our own code work and the Foreign Funds' investigations. I think she would be most useful in some consolidated government cryptanalytical set up but there is no such set up. What she is very rebellious and gloomy about is the prospect of working with the Navy and the question is would you want to ask Secretary Knox for permission to transfer that unit over to the Treasury.

H.M.Jr: If you (Gaston) and Norman will fix up a letter from Mrs. Friedman to me asking me for this and at the same time write a letter from me to Secretary Knox, I will sign it.

Gaston: Don't you think it had better be something initiated by us?

H.M.Jr: Yes, but I want Mrs. Friedman to ask me. Don't you want something in the record that she wants to stay?

Foley: Well, I don't think we need to put that in a

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letter to the Secretary of the Navy.

- H.M.Jr: No, just for the Treasury record.
- Thompson: Well, that would be all right.
- Foley: A memorandum as to how she would be useful if she were retained in the Treasury addressed to you and then a separate letter that wouldn't incorporate the memorandum.
- H.M.Jr: Excuse me. I want Mrs. Friedman to write me a letter, "My dear Mr. Morgenthau, I would like to stay in the Treasury for the following reasons," and then based on that letter, we will write a letter to Secretary Knox. I just don't want it to appear that I am taking the initiative. I don't send her letter to Knox.
- Thompson: I don't see any reason why you shouldn't do that.
- White: I don't like to butt into this, Mr. Secretary, but I understood that she is one of the best in the country. Is that correct?
- Gaston: She says her husband is very much better than she is, but I think she is very good.
- White: Does her husband work for the Government?
- Gaston: Her husband works for the War Department.
- White: Then what I was going to say doesn't have point. I thought if she was best in the Government she belongs, at a time like this, in the War and Navy.
- H.M.Jr: That is why I said I wouldn't take her out without Knox having the chance to know about it.

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- Gaston: Well, she spoke to Sam and Sam spoke to me and I told Sam that very thing, that I knew you wouldn't do it unless Knox fully agreed.
- H.M. Jr: Well, it is much further than that, any more than, for instance, if I kept one boat out or anything like that. I have told Knox he can have the whole works. Now Mrs. Friedman says she wants to stay. I am willing to say to Knox, "Here is one group of employees who would like to stay. Is it agreeable to you?"
- Gaston: Well, I look at it a little differently from that. I don't think it is a question of whether she wants to stay that is as important as whether we have a place for her here.
- H.M. Jr: If you don't mind, I differ with you, because I feel that any Treasury employee that wants to stay with the Treasury can either walk in to see me or write me. It is on that basis.
- Bell: Isn't this almost analogous to being drafted? An employee might be drafted but would like to stay in the Treasury but here they have been transferred to the Navy for the duration of the war.
- Gaston: I think if the Navy wants the outfit we would be in a weak position to try to hold them.
- Bell: I think so.
- Thompson: I think it is perfectly proper to ask.
- H.M. Jr: I agree with you, Dan. The woman wants to stay. We could use her. The chances are nine out of ten the Navy thinks they are so good they don't need her, but if Frank Knox says, "Yes, we want her," I won't argue any more than when Stark called up and said, "I need the Coast Guard today." I said, "You say you need it, and I say you have it,"

- 28 -

just like that. So if he comes back and says, "I want Mrs. Friedman," but why shouldn't I give her a chance to stay. It will be just as a matter of kindness, that is all.

- Bell: It is all right. If Knox says no, then you don't argue about it.
- H.M.Jr: That is right. I am not going to argue about it.
- Gaston: We can give you that memorandum from Mrs. Friedman.
- Foley: That is different, Norman, because the lawyers are not part of the Coast Guard. They are part of the General Counsel's office.
- H.M.Jr: But they normally would go to the Navy unless you transferred them to your office.
- Foley: Well, I want to keep two. I want to keep --
- H.M.Jr: Well, this same thing applies. I didn't know anything about the lawyers.
- Foley: Well, they are not part of the Coast Guard, Mr. Secretary; they are part of the General Counsel's office.
- H.M.Jr: Well, get it straight.
- Foley: Sure. I have sent a memorandum to Norman.
- Gaston: We will get you a memorandum from Mrs. Friedman and another memorandum stating what we think her use would be.

TREASURY DEPARTMENT
INTER-OFFICE COMMUNICATION

DATE November 5, 1941.

TO Secretary Morgenthau
FROM Mr. Julian Street, Jr.

Ralph Henderson, book editor of the Reader's Digest, is very much interested in the Mucky Johnson report. He plans to give a \$1,000 advance to Jack Alexander to write a book based on the report. If this turns out satisfactorily, the Reader's Digest will publish it as a book section.

In their monthly surveys of reader's opinion the book section generally far outstrips all other features in popularity. I believe this to be the first time the Reader's Digest has sponsored the publication of a book.

Julian Street, Jr.

cc Mr. Ireby
Mr. Kuhn

November 5, 1941
11:23 a.m.

Secretary
Stimson:

Hello.

HMJr:

Harry.....

S:

Yes.

HMJr:

.....I was a little bothered after I talked
to you about your call. Hello.....

S:

Yes.

HMJr:

.....because the letter which I had dictated
this morning - while it's along the same outlines
that you'll see. I am working on something, which
I don't want to say over the phone; but if you
want to send somebody so that - I don't want you
to think that I'm withholding any information
from you as to my purpose, you see?

S:

Yes.

HMJr:

So if there's one of your assistant secretaries
that you have extreme confidence in, and.....

S:

I have in them all.

HMJr:

Well, anyone that you want, that you'll send over
to us, I will tell him just what my purpose is
so there can be no possible misunderstanding
between you and me.

S:

Well, I think it would be pretty hard to get.....

HMJr:

No, as long as you - I don't know what Curtise-
Wright wrote you, you see?

S:

Well, I haven't seen the letter except that.....

HMJr:

Well, if you.....

S:

.....I gave the substance from the memorandum
to me.

HMJr:

Well, if you send somebody - whether it's - what's

- 2 -

the man you mentioned?

- S: Well, I think it would normally fall into the hands - being an air matter - into the hands of Assistant Secretary Lovett.
- HMJr: Well, if Bob Lovett would come over to see me with the letter and show me the letter, I don't know what they wrote, I will tell him - for your ears only - just what I've been doing.
- S: All right.
- HMJr: Because I just can't ever have any possible misunderstanding between the two of us.
- S: Well, I don't want to in the least.
- HMJr: See?
- S: And I hope you didn't.....
- HMJr: No, no.
- S:misunderstand anything that I.....
- HMJr: But I don't know what they wrote. But if he'll come over with that letter - let me see it - I'll tell Lovett what I'm doing, because what I'm doing again is one of these things for the President and I want you to know it.
- S: Why, sure.
- HMJr: Okay?
- S: I don't think there's anything in the letter except what I wrote you about, but I'd be very glad to do what you suggest, and I'll ask Lovett to go over there.
- HMJr: All right. And then, George Haas will be at your office at twelve with the other letter which may or may not be what Curtiss-Wright wrote you about, you see?
- S: Well, could you see Lovett now?

- 3 -

HMJr: Well.....

S: Between now and that time, I mean?

HMJr: I'd rather see him.....

S: I mean, I was only thinking that this probably was - the chronological sequence of the two steps would be for you to see the other letter first, and Lovett, tell him, and then I'll have him meet Haas when he comes here.

HMJr: Well, the only trouble, between now and twelve I'm booked every minute.

S: Yes.

HMJr: I'd rather see him this afternoon.

S: Well, could - well, I wonder whether it isn't better to have Haas come this afternoon and you meet Lovett then beforehand at twelve o'clock, or what time you can do it.

HMJr: Well, you mean keep Haas until this afternoon.

S: Yes. Then he could.....

HMJr: Well, what time.....

S: Then you'd have the letter first.

HMJr: All right. Well, tell Bob Lovett.....

S: Then Lovett could arrange then at that time with you and Haas what time Haas is to bring the other letter.

HMJr: What I - if Bob Lovett could be at my office at three. Then Haas can go back over to your office with Lovett. Would that be all right?

S: Except that - yes. Except that I would not personally be here then. He could go to the person that you wanted him to see.

HMJr: Well, could Lovett.....

- 4 -

S: And I understood it was Ayres.

HMJr: Could Lovett direct him there?

S: Surely.

HMJr: Okay. Then if I don't hear from you, Lovett will be here at three?

S: Just - he's right - he happens to be here on another matter at this moment.

HMJr: Could he come over at three?

S: (Talks aside to Mr. Lovett) Yes, he can come then.

HMJr: Three o'clock.

S: Yes.

HMJr: Thank you so much.

S: No, no. He'll come at three.

HMJr: At three.

S: Yes. I said - what did I say? I said twelve by mistake.

(Talks aside) Can you be there at three? Oh.
(Laughs) Yes.

Well, at three o'clock he's having a dentist appointment.

HMJr: Well, look. Let him - is he free - can he come in.....

S: He's free at twelve.

HMJr: I'll change my appointments. I'll see him at twelve.

S: All right. He'll come over at twelve.

HMJr: Thank you.

S: All right.

November 5, 1941.

My dear Mr. Secretary:

I should greatly appreciate it if you would make arrangements to supply me as soon as possible with the following information for each appropriation act and contract authorization act, approved since January 1, 1940, providing for War Department ^{and other} purchases of equipment for national defense:

- (1) Name of act
- (2) Date approved
- (3) Amount appropriated or authorized for purchases of military equipment (and excluding payrolls, subsistence, travel, etc.)
- (4) Value of contracts let to date
- (5) Disbursements made to date
- (6) Deliveries received to date, expressed as a percentage of the total value of contracts let.

I have asked Mr. George C. Haas, Director of Research and Statistics of the Treasury Department, to assemble this information for me. Please have the requested information for each act forwarded to him as soon as it has been compiled rather than holding it until the information for all of the acts has been compiled.

Sincerely,

(Signed) B. Morgenthau, Jr.

The Honorable,
The Secretary of War,
Washington, D. C.

GCH:ek 

FILE COPY

N. M. C.

November 5, 1941.

My dear Mr. Secretary:

I should greatly appreciate it if you would make arrangements to supply me as soon as possible with the following information for each appropriation act and contract authorization act, approved since January 1, 1940, providing for Navy Department and defense aid purchases of equipment for national defense:

- (1) Name of act
- (2) Date approved
- (3) Amount appropriated or authorized for purchases of military equipment (and excluding payrolls, subsistence, travel, etc.)
- (4) Value of contracts let to date
- (5) Disbursements made to date
- (6) Deliveries received to date, expressed as a percentage of the total value of contracts let.

I have asked Mr. George C. Haas, Director of Research and Statistics of the Treasury Department, to assemble this information for me. Please have the requested information for each act forwarded to him as soon as it has been compiled rather than holding it until the information for all of the acts has been compiled.

Sincerely,

(Byd) H. Morgenthau Jr.

The Honorable,
The Secretary of the Navy,
Washington, D. C.

OCH:ek

FILE COPY

n. m. c.

November 5, 1941
2:23 p.m.

HMJr: Hello.

Grace Tully: Hello, Mr. Secretary.

HMJr: Yes, Grace.

T: Mr. Secretary, I spoke to the President about the appointment for tomorrow. Now, Harry won't be here. He said he'd rather have Harry there, and would it be all right to defer it another couple of days.

HMJr: Well, I tell you. If I could see him tomorrow and just talk about what George and Doughton have told me.

T: Yes.

HMJr: I really ought to clear that.

T: All right, fine.

HMJr: I really ought to clear that.

T: Yeah. Well, all right, I'll ask him. Then you mean just come in alone, then?

HMJr: Yeah, but just on that - on the matter that Doughton and George were here on.

T: Yes.

HMJr: See?

T: All right, I'll tell him then not.....

HMJr: They've sent for me to come up at three o'clock, and I'll have to give them an answer tomorrow.

T: Uh huh. All right, fine. Then I'll tell him that you'd like to come in alone and talk to him on that other matter.

HMJr: Right.

T: All right. I'll let you know about that.

HMJr: Thank you.

T: All right, Mr. Secretary.

November 13, 1941

MEMORANDUM

To: The Secretary

From: Mr. Blough

Subject: Conference with members of the Ways and Means Committee, Wednesday, November 5, from 3 to about 4:30 p.m.

The meeting took place in Room 1105, New House Office Building. Present at the meeting, from the Treasury, were Secretary Morgenthau, Assistant Secretary Sullivan, Mr. Barnard, and Mr. Blough. Committee members present included Chairman Doughton and Messrs. Cooper, Boehne, Disney, Buck, West, Robertson, Hill, Healey, Treadway, Crowther, Knutson, Woodruff, and Carlson.

Chairman Doughton said that Senator George and he had been at Secretary Morgenthau's office and that the Secretary had submitted a proposal to them which the Chairman thought should be submitted to all the members of the Committee; that the Secretary was there to present the matter to them and that the Chairman had asked to have it presented in the same way as in the morning.

The Secretary then outlined the problem much as he had to Senator George and Mr. Doughton in the morning. He pointed out the expenditures, taxes and deficits for 1941 and 1942 and said that the size alarmed him. He then mentioned the increases in cost of living and prices that are taking place and his fear that a serious inflation similar to that of the World War period would result. He pointed out that the purchasing power which people would want to spend would be \$5 to \$10 billion greater than the civilian goods available and that price rises were accordingly inevitable unless something was done to mop up this extra purchasing power. It was for this reason particularly that he was suggesting at this time that immediate action be taken to impose about

- 2 -

\$4.5 billion of new taxes to mop up purchasing power. He then read from the memorandum the plan regarding the withholding tax, increases in old-age insurance taxes, and revision of the unemployment insurance system.

The proposals to revise social security raised a great deal of discussion. Mr. Cooper asked a number of questions to make clear that the \$1 billion shown as the revenue under the suggestion to extend coverage and increase the unemployment insurance tax by 1 percent would involve not merely a rate increase to secure this amount, but a substantial revision of the system. It was pointed out that about \$450 million might come from the increase in the tax rate but that the balance would be derived from the extension of coverage under old-age and survivors' insurance and unemployment insurance. Considerable hostility to the social security program was apparent and it was stated by a number of people that if the question of revising the system came up it would involve a very long period of discussion and consideration.

There followed an exchange of views between Mr. Treadway and Mr. Cooper regarding the method of procedure which should be followed, Mr. Treadway preferring an open public hearing at which the Secretary would present his views, while Mr. Cooper preferred an executive session at which the Committee would consider the general subject in private.

Mr. Robertson said he wanted assurance from the White House that there would be no social security reform message presented while the tax bill was under consideration. He thought if that assurance could be received, the Committee should go ahead with the Secretary's proposal. He said he had been for the 2 and 2 percent rates for old-age insurance before and that the present inflationary situation reinforced his view.

Mr. Knutsen expressed himself against any bill that carried any tax on the employer and said that there would be a minority report on any such bill. It was pointed out to him that the taxes would go up January 1, 1943 under present law. He said they would try to get that stopped too.

- 3 -

Mr. Cooper raised questions about the plan, particularly as to why everyone was not permitted to pay quarterly and whether withdrawal from the wage earner and not from the proprietor would not be a discrimination against the wage earner. Mr. Sullivan said he thought that withholding was really helpful to the wage earner but Mr. Cooper doubted that.

Question arose regarding the effective rate of the tax. Mr. Sullivan read some effective rates to the Committee. Mr. Doughton said that the 1941 income tax was high and had not yet been paid. This addition to the 1941 tax would have to be paid in 1942 also, thus doubling the burden. Mr. Sullivan pointed out that this would be true for all years and not only in 1942, since the regular income tax is always a year behind, but that current payment of the tax was necessary to give the anti-inflationary effect.

Mr. Cooper said he could see how inflationary prices constituted a tax. If the program is effective the taxpayers will benefit in the long run. Mr. Buck asked how much the price level would go up if this were not done. Mr. Blough endeavored to point out some of the factors involved and the experience during the last war, without giving a figure.

Mr. Knutson said he was disturbed about the wages paid on cost-plus projects. He said he would not vote for any more taxes until non-defense economy had been achieved. He said we are under a dictatorship of labor and that there is much needless waste in the spending of public money.

Mr. Woodruff suggested that higher taxes would speed up strikes since the workers would strike to make up the amount paid in taxes. Secretary Morgenthau differed with him, expressing the view that the tax program would mean less strikes since inflationary price rises result in strikes and the taxes would hold down these price rises.

Mr. Disney asked if the general manufacturers' excise tax had been considered. The Secretary said that higher taxes on automobiles, radios and other

- 4 -

products had been considered but the excise taxes had been confined to that kind of item. Mr. Disney suggested that a general manufacturers' excise tax would help in inflation control.

Mr. Disney then asked why the price problem should not be approached directly instead of through taxes. The Secretary said that the tax proposals were made with the idea in mind that there would also be a strong price control bill.

Mr. Disney suggested that taxpayers be given defense bonds and paid later.

Mr. Carlson asked whether if only the withholding tax were approved, would that be desirable without the social security changes. The Secretary said that if we could get \$3 billion from that source the effect would be very good. Mr. Carlson expressed opposition to the proposal for revising the social security system. The Secretary said he had brought all of the matters up so as not to undermine the Social Security Board's program by putting something else ahead of it.

Mr. Healey asked about the English system of forced saving. The Secretary said that such a plan might very well be necessary in the long run but he would rather not go into such a plan now at this early stage. Mr. Healey suggested that people would take the plan with better grace if the money were to be given back later. Mr. Cooper suggested that such a plan would not wipe out the deficit and that there would be nothing to pay back with later.

Mr. Doughton asserted that Congress must be active in economy or neither the taxpayers nor the bond buyers would stand for it and that, furthermore, the Government must stop strikes. Mr. Disney suggested that the situation would have to get worse before anything would be done about strikes.

At this point the meeting became more or less generally confused and the Treasury representatives departed.

Roy Blough

November 5, 1941

This is the material used by the Secretary when he appeared, in Executive Session, before the House Ways and Means Committee at 3:30 pm, today.

[Faint handwritten notes, possibly including "1941" and other illegible text]

^{was Klotz}
This is the ~~statement~~ ²⁷⁹

I used when I went
before Ways & Means to
ask them if they
would hear me and
not turned down. W. H.

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November 5, 1941

This is a duplicate set of the material
on the tax proposal which the President
approved when HM, Jr saw him on 11/6. See
meeting of 11/6 when HM, Jr repeated to the
tax group his conversation with the Presi-
dent.

November 6, 1941

This is the material I used when I appeared, in Executive Session, before the House Ways and Means Committee at 3:30 pm, Wednesday, November 5.

This morning the President read it, when I saw him at 9:30, and he approved it.

November 5, 1941

MEMORANDUM REGARDING THE PROPOSED REVENUE PROGRAM

When I appeared before the Senate Finance Committee on August 8, 1941, I pointed out that, in the light of rapidly changing conditions, the all-out defense program would necessitate all-out taxation, that much more revenue would be required not only to strengthen the government's fiscal position but especially to maintain economic stability and prevent "inflationary price rises which threaten to increase the cost of the defense program, unbalance family budgets, and seriously disturb our economic life."

At that time it appeared that early in 1942 would be soon enough to pass the next major revenue measure, but our study of the rapid developments of the past few months has convinced me that immediate passage of about \$4.5 billion of additional taxes whose collection would begin January 1, 1942 is imperative if we are to avoid further inflationary price rises.

- 2 -

Prices have been rising rapidly. The cost of living in the United States has risen over 5½ percent during the last five months. (See attached chart "Cost of living and selected items.") The budgetary and economic situations which face us during the next few months threaten still higher and more rapidly rising prices unless we take steps now to meet the problem.

The Federal Government will spend about \$20 billion during the calendar year 1941. In October we were spending at the rate of \$26 billion. The present prospect is that in calendar 1942 we shall spend \$37 billion or nearly twice as much as in calendar 1941. The whole of the increase will be in defense spending which is expected to reach over \$30 billion in calendar year 1942.

Some of the increased spending will be covered by increased yield from the existing tax structure. In calendar 1941 we shall collect approximately \$9.5 billion and our collections in October were at about that rate. In calendar 1942 we shall collect about \$16 billion. That will leave us a deficit (before setting aside old-age reserves) of \$21 billion as compared with about

- 3 -

\$10.5 billion in calendar 1941, or twice as much. That increased money is going out into the hands of people who, for the most part, are going to try to buy goods with it. They are not going to be able to get the goods. We are not far from the top of our national production for the next year or so. We may be able to expand at only about \$5 billion more in the course of a year. At the most, it looks as though we could expand by only about \$8 billion more. We shall need all of this increase, and more, for defense. That means that there will be less goods left than now for civilians to buy with their greatly increased incomes.

If we do not do something decisive about this promptly, the cost-of-living situation threatens to get away from us as it did during the first World War.

It should not be necessary to mention the very serious evils of inflation and the great importance of preventing it. We are all familiar with the way in which it burdens the great bulk of the population, including the lowest income groups, financially embarrasses State and local governments, increases the cost of defense materials, gives opportunities for profiteering and otherwise harms and demoralizes the

- 4 -

people. What I would like to stress is that we have reached the point where vigorous action is needed now - without delay - if we are not to have an accelerated, destructive inflationary price rise.

The money is being paid out now. If the taxes are to help prevent price increases they must be imposed at once and collected currently.

After a great deal of study we have come to the conclusion that the minimum of taxes that should be imposed at once and collected currently beginning January 1, 1942, to hold down the cost of living, is \$4.5 billion. If Congress reduces non-defense spending, the minimum need for new taxes will be somewhat reduced.

The \$4.5 billion is an amount which should be imposed at once to control inflation. Beyond this we shall, of course, need a revenue program in 1942 for fiscal purposes. Even with \$4.5 billion more of taxes the deficit in calendar 1942 will still be \$16.5 billion, an amount which we shall have to borrow. To keep my financing problem at manageable levels and to avoid the difficulties and dangers of high interest charges and an overwhelming debt after the war, we should increase taxes even more than is indicated to avoid inflation.

- 5 -

For this reason I want to urge upon you the desirability of a major revenue raising program to be initiated this month. The program would consist roughly of three parts: (1) Taxes to be imposed as soon as possible and to be collected beginning January 1, 1942; (2) other major tax increases and changes to increase revenue and to balance the impact of the anti-inflation program on small incomes; and (3) changes to close important loopholes in the tax system and to remove hardships which have developed under the tax laws.

1. Anti-inflation taxes which should be imposed immediately.

The first recommendations relate to taxes which should be imposed at once so that collection may begin January 1, 1942. They are taxes which will withdraw purchasing power from consumers before it is spent.

The first recommendation for anti-inflationary taxation is the imposition of a new supplementary tax on net income to be withheld at the source on salaries, wages, dividends, bond interest, and similar items and collected quarterly throughout the year on other incomes. These taxes would thus be collected insofar as possible like the payroll taxes. They would, however, have

- 6 -

personal exemptions and credits for dependents. The supplementary withholding tax would be deducted from net income in computing the income tax. Because of this deduction and because of the personal exemptions the increase in effective rate of tax would never be as high as the stated rate of tax. For example, if the rate of this withholding tax were 15 percent and the existing personal income tax exemptions of \$750 for single persons and \$1,500 for married couples, with \$400 credit for each dependent were allowed, a married couple with no children and \$2,000 of income would have their combined withholding and income tax increased from \$42 to \$110, or \$68 more, which is only 3.4 percent of the \$2,000 income.

At the rates and with the exemptions indicated, it is estimated that at present income levels, the withholding tax would yield annually about . . . \$2.8 billion

It is recommended, second, that the payroll taxes for old-age and survivors' insurance be increased. These taxes are at the present time imposed at a rate of 1 percent on employers and 1 percent on employees and are scheduled to rise on January 1, 1943 to 2 percent on employers and 2 percent on employees. The recommendation is that this increase be made one year

- 7 -

sooner than was scheduled. It will be recalled that no increase was made on January 1, 1940 when it was originally scheduled.

The increase in tax would yield during 1942 increased revenue of approximately \$0.9 billion

I would like to stress the very great importance of considering and passing these two tax increases at once in order that the money may be taken out of the hands of consumers before it can be spent by them, thus reducing the inflationary pressure of the increased defense expenditures.

Further, it is recommended that as soon as practicable, the Social Security Board's program relating to the extension of coverage for old-age and survivors' insurance and unemployment insurance and the revision of the unemployment insurance system should be enacted. The change with respect to unemployment insurance involves an additional 1 percent tax on the employees.

The combined effect of these changes would be to increase the revenue by approximately \$1.0 billion

The above anti-inflationary taxes recommended for imposition as soon as possible would yield a total increased revenue of \$4.7 billion

- 4 -

2. Other changes to increase revenues and to balance the impact of the anti-inflation tax program.

The additional social security payroll taxes and the new supplementary individual income tax would fall very largely on the low income classes. Substantial increases in other taxes are necessary to balance the burden of these taxes, to restore an equitable distribution of the total tax load and to raise the revenue needed to finance the defense effort.

It is recommended that the surtax rates of the individual income tax be increased; that the excess profits tax be made more effective; that the corporation income tax be increased; that the estate and gift tax rates be increased and the exemptions lowered; and that the defense excise taxes be extended to important items requiring diversion for defense purposes.

These tax increases should be designed to raise a total additional revenue of from . . . \$1 to \$3 billion

3. Changes to prevent avoidances and promote equity.

Finally, in an all-out tax program, it is extremely important that all known avenues of tax avoidances be closed. It is likewise important that hardships and

- 9 -

inequities to certain taxpayers under present law be eliminated. The higher taxes of the defense period make these hardships and inequities increasingly burdensome and irritating. The elimination of both tax avoidance and tax hardships is desirable not only for fiscal reasons but for the promotion of equity and the maintenance of morale.

It is my understanding that the House Ways and Means Committee and the Senate Finance Committee are planning to undertake revisions along these lines in the very near future, in the so-called "administrative bill."

RB:dad
11/5/41

Comparison of present individual income tax and individual income tax giving effect to proposed supplementary tax, for net incomes of selected sizes 1/

Single person - No dependents
(Supplementary tax computed on basis of present exemptions)

Net income before personal exemption and credit for dependents 2/	Amount of tax		Effective rate	
	Present law	Proposal Total Tax	Present law	Proposal Total Tax
\$ 700	-	-	-	-
800	3	11	0.4%	1.4%
900	11	33	1.2	3.7
1,000	21	56	2.1	5.6
1,500	69	171	4.6	11.4
2,000	117	287	5.9	14.4
2,500	165	403	6.6	16.1
3,000	221	519	7.4	17.3
4,000	347	773	8.7	19.3
5,000	483	1,030	9.7	20.6
6,000	649	1,306	10.8	21.7
8,000	1,031	1,895	12.9	23.7
10,000	1,493	2,545	14.9	25.5
12,500	2,178	3,437	17.4	27.5
15,000	2,994	4,423	20.0	29.5
20,000	4,929	6,653	24.6	33.3
25,000	7,224	9,157	28.9	36.6
50,000	20,882	23,953	41.8	47.9
75,000	36,487	40,522	48.6	54.0
100,000	53,214	58,034	53.2	58.0
500,000	345,654	363,627	69.1	72.7
1,000,000	733,139	766,114	73.3	76.6
5,000,000	3,923,124	4,073,101	78.5	81.5

Treasury Department, Division of Tax Research

November 4, 1941

1/ Under the proposal a supplementary tax is imposed at the rate of 15 percent of net income after the deduction of the personal exemptions. No earned income credit is allowed under the supplementary tax.

2/ Maximum earned income assumed.

Comparison of present individual income tax and individual income tax giving effect to proposed supplementary tax, for net incomes of selected sizes ^{1/}

Married persons - No dependents

(Supplementary tax computed on basis of present exemptions)

Net income before personal exemption and credit for dependents ^{2/}	Amount of tax		Effective rate	
	Present law	Proposal	Present law	Proposal
\$ 1,500	-	-	-	-
1,800	23	63	1.3%	3.5%
2,000	42	110	2.1	5.5
2,500	90	226	3.6	9.0
3,000	138	342	4.6	11.4
4,000	249	576	6.2	14.4
5,000	375	834	7.5	16.7
6,000	521	1,091	8.7	18.2
8,000	873	1,666	10.9	20.8
10,000	1,305	2,297	13.1	23.0
12,500	1,960	3,165	15.7	25.3
15,000	2,739	4,121	18.3	27.5
20,000	4,614	6,300	23.1	31.5
25,000	6,864	8,759	27.5	35.0
50,000	20,439	23,477	40.9	47.0
75,000	35,999	40,008	48.0	53.3
100,000	52,704	57,495	52.7	57.5
500,000	345,084	363,030	69.0	72.6
1,000,000	732,554	765,505	73.3	76.6
5,000,000	3,922,524	4,072,479	78.5	81.4

Treasury Department, Division of Tax Research

November 4, 1941

^{1/} Under the proposal a supplementary tax is imposed at the rate of 15 percent of net income after the deduction of the personal exemptions. No earned income credit is allowed under the supplementary tax.

^{2/} Maximum earned income assumed.

Comparison of present individual income tax and individual income tax giving effect to proposed supplementary tax, for net incomes of selected sizes 1/

Married person - Two dependents
(Supplementary tax computed on basis of present exemptions)

Net income before personal exemption and credit for dependents 2/	Amount of tax		Effective rate	
	Present law	Proposed 15% Tax	Present law	Proposed 15% Tax
\$ 1,200	-	-		
1,800	-	-		
1,800	-	-		
2,000	-	-		
2,800	\$ 12	\$ 40	0.8%	1.8%
3,000	58	153	1.9	5.1
4,000	154	385	3.9	9.6
5,000	271	626	5.4	12.5
6,000	397	892	6.6	14.7
8,000	717	1,420	9.0	17.9
10,000	1,117	2,034	11.2	20.3
12,800	1,728	2,874	13.5	23.0
18,000	3,476	5,803	18.8	25.4
20,000	4,387	6,936	21.4	29.7
26,000	6,480	8,353	25.9	33.4
50,000	19,987	22,970	39.9	45.9
75,000	36,479	39,460	47.3	52.6
100,000	52,180	56,919	52.2	56.9
500,000	344,476	382,293	68.9	72.5
1,000,000	731,930	764,554	75.2	75.5
5,000,000	3,921,884	4,071,818	78.4	81.4

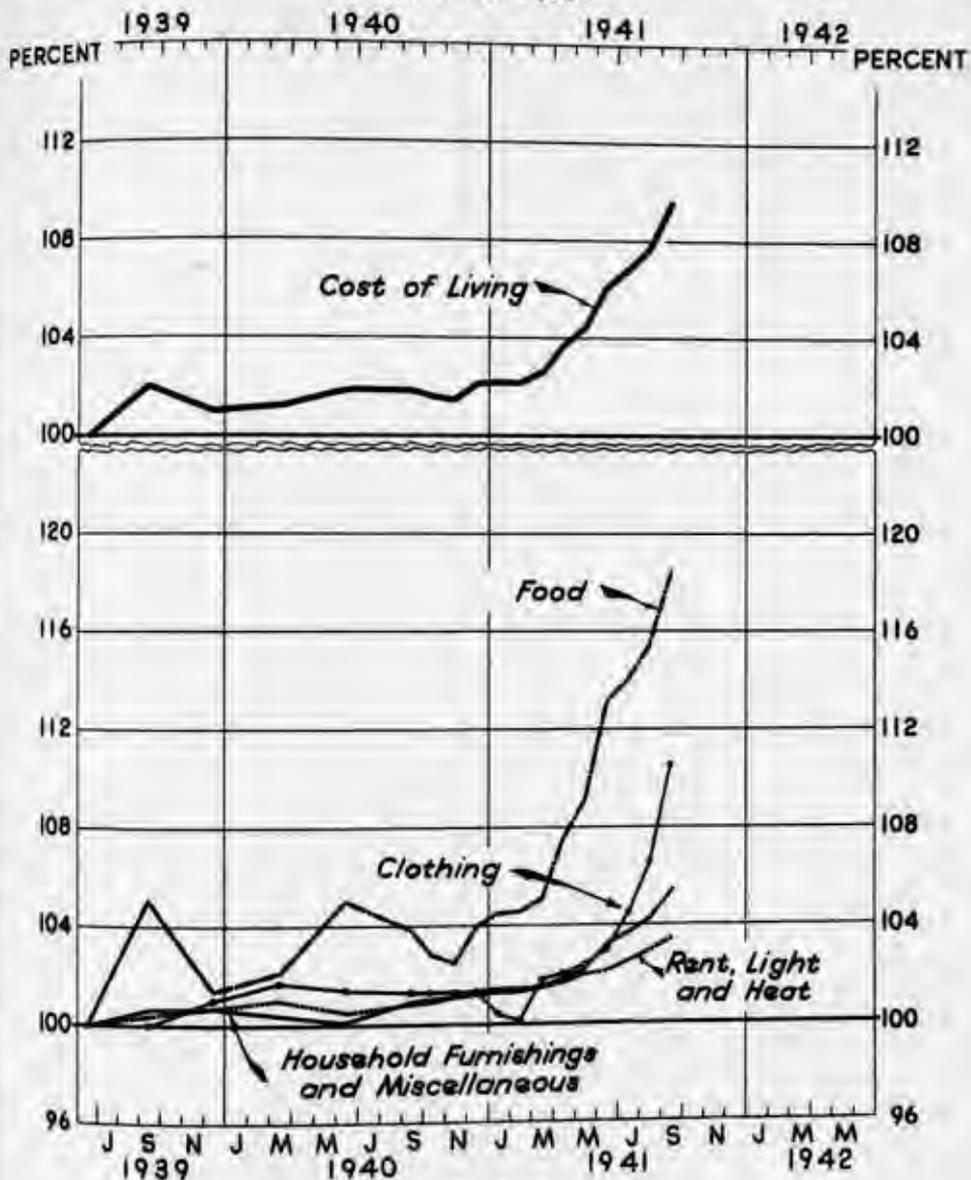
Treasury Department, Division of Tax Research

November 4, 1941

- 1/ Under the proposal a supplementary tax is imposed at the rate of 15 percent of net income after the deduction of the personal exemptions. No earned income credit is allowed under the supplementary tax.
- 2/ Maximum earned income assumed.

COST OF LIVING AND SELECTED ITEMS

June 1939 = 100



Source: B.L.S.

Wise of the Secretary of the Treasury
Bureau of Research and Statistics

C-413

November 5, 1941

MEMORANDUM REGARDING THE PROPOSED REVENUE PROGRAM

Outline

- A. Conclusion: Immediate passage of \$4.5 billion of additional taxes whose collection would begin January 1, 1942 is imperative to avoid further inflationary price rises.
- B. Reasons for revenue program.
1. Cost of living up 5½ % during last 5 months. (See chart).
 2. Threatening budgetary and economic situations.
 - a. Federal expenditures.

1941 calendar year	-	\$20 billion
October 1941 rate	-	26 "
1942 calendar year	-	37 "
 - b. Defense spending.

1941 calendar year	-	\$13.5 billion
October 1941 rate	-	19.5 "
1942 calendar year	-	30.5 "
 - c. Tax yields under existing law.

1941 calendar year	-	\$ 9.5 billion
October 1941 rate	-	9.5 "
1942 calendar year	-	16.0 "
 - d. Deficit (before setting aside old-age reserves).

1941 calendar year	-	\$10.5 billion
1942 calendar year	-	21.0 "
 - e. Possible increase in total 1942 national production: \$5 to \$8 billion.
 - f. Summary: Less civilian goods to buy with greatly increased incomes.
Result: Threatening rise in cost of living.
Need: Minimum \$4.5 billion taxes to fight inflation, plus more to help financing.

- 2 -

C. Tax program.

1. Anti-inflation taxes to begin January 1, 1942.

- a. New supplementary withholding tax on net income to yield \$2.8 billion
- b. Increased payroll taxes for old-age and survivors' insurance (add 1% on employers and 1% on employees) to yield \$7.9 billion
- c. Extension of coverage for old-age and survivors' insurance and unemployment insurance; revision of unemployment insurance system; increase unemployment tax 1% on employees, to yield. \$1.0 billion
- Total anti-inflationary taxes . \$4.7 billion

2. Other changes to increase revenue and balance tax system.

Higher individual surtaxes, more effective excess profits tax, higher estate and gift tax rates, and lower exemptions, greater use of defense excise taxes \$1 to \$3 billion

3. Changes to prevent avoidance and promote equity.

RB:ded
11/5/41

November 5, 1941
8:10 a.m.

Mr: Yes.

Jrce
Tully: Mr. Secretary, they told me you called me when I was in with the President, and when I called you, you had gone to the Hill.

Mr: Well, I wanted - I had three people here, and I couldn't explain to you much, see?

T: I see. I haven't yet got word on tomorrow morning because I haven't seen the President since I talked with you.

Mr: Well, since talking to you, the situation has gotten to be very acute.

T: Uh huh.

Mr: Now, here's the thing that's happened, if you'd tell him.

T: Yes.

Mr: After seeing Doughton and George this morning.....

T: Yes.

Mr:Doughton calls his whole Ways and Means Committee together.....

T: Yes.

Mr:and tells me to come up there and tell them what I want.

T: Uh huh.

Mr: Well, now, I made it very, very plain that this was simply a suggestion - my tax program, see?

T: Yeah.

Mr: Social Security. And that unless I knew definitely

- 2 -

that they would pass it - Democrats and Republicans.....

T: Yes.

HMJr:this year, I didn't want to present it.

T: Yes.

HMJr: Now - so then they said, "Well, won't the President send the message?" and I said, "No, I'm not going to ask the President to do anything until I know that you people will entertain a tax bill....."

T: Uh huh.

HMJr:and pass it still this month.

T: Yes.

HMJr: Now, I have never showed it to the President.

T: Uh huh.

HMJr: And they're meeting again at ten-thirty tomorrow.

T: Yes.

HMJr: And I'd like terribly to have a chance tomorrow morning to see him.....

T: Uh huh.

HMJr:and tell him just what I'm doing.

T: All right, fine. I'll call you back just as soon as I can get in. I haven't got in yet, but I expect to see the President shortly.

HMJr: Look, if - I'm going home, because I'm all in.

T: Uh huh, I'll bet. You've had a busy day.

HMJr: And if you get it and I'm not in, could you leave word with somebody at my house?

- 3 -

T: Yes, certainly.

HMJr: With either Mrs. Morgenthau or one of the girls there.

T: All right, fine. I will.

HMJr: Or Mrs. Klotz if she's here.

T: All right. Well, I'll try your office, and if I don't get anybody there that I know will get it to you, then I'll call the house.

HMJr: Do you mind?

T: No, not at all.

HMJr: You see the spot I'm on.

T: Yes, I do. Uh huh.

HMJr: And I haven't any idea what will appear in the papers.

T: Yes. Well, I have the memo for the President and I'll show him that on that and then ask him if you can come in in the morning on this and defer the other meeting until later.

HMJr: Until Harry gets back.

T: Yeah. All right, fine, Mr. Secretary.

HMJr: Thank you. I'm on an awful spot, Grace.

T: Yes. All right, I'll explain it to him.

HMJr: Thank you.

T: All right, Mr. Secretary. Good-bye.

HMJr: Good-bye.

TREASURY DEPARTMENT

300

INTER-OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau
FROM Joseph J. O'Connell, Jr.

November 5, 1941.

For your information

A meeting of the Price Control Committee of the Office of Price Administration was held this morning at 11 o'clock. Leon Henderson was to have presided, but was unexpectedly called to the White House and John Hamm, Deputy Administrator of OPA, handled the meeting.

The main topic of discussion was the present status of the Price Control bill. The House Banking and Currency Committee has changed the bill in several substantial respects, each of which has had the effect of materially weakening the effect of the legislation. The most important single change, of course, is in the agricultural provisions. Under the bill as modified, the Price Control Administration may not fix a ceiling for an agricultural commodity until it has reached the highest of three levels: (1) the price prevailing on October 1, 1941; (2) 110% of parity; or (3) the average price for the 1919 to 1929 period. Leon's people stated that if agricultural prices are permitted to rise to the extent they can rise under the bill as revised, it will mean an increase in the cost of living of from 13 to 15 per cent over existing levels.

The Committee also removed the licensing provisions of the bill, which were the most important means by which it was hoped price control could be enforced, and eliminated the right given to private individuals to sue for three times any price they might be charged in excess of an established price ceiling. The revised bill also creates an office of price administrator whereas the bill as introduced delegated broad power to the President to enforce its provisions through such agency as he might create or determine.

Secretary Morgenthau,

2.

Chairman Steagall has not yet put the Committee bill into the hopper, and there is some slight hope that he may be prevailed upon to reconvene the Committee for the purpose of reconsidering the agricultural provisions and of restoring the licensing provisions. I am informed that the vote on the new agricultural provision in the Committee was 12 to 11 and that the Chairman originally voted against the provision but later changed his vote in order to give the proponents of the provision a majority. Furthermore, two known opponents to the provision were absent.

There is also a slight possibility that even though the Committee does not change its stand the bill might be made more acceptable by amendment from the floor of the House. The feeling seemed to be that the Senate would be inclined to be at least as favorably disposed towards agriculture as the House.

Mr. Ezekiel suggested that it might be possible to work out and issue a general statement of Administration labor policy which would be satisfactory to labor and which might have the effect of ending the assumed alliance between labor and the farm block and in this way to obtain a more satisfactory treatment of farm prices. (Mr. Galbraith indicated that in his judgment there is no substantial evidence that such a coalition actually exists. He also stated that he thought the members of the House Committee who sponsored the agricultural provisions were going further than any substantial farm group had felt desirable but that these groups could hardly be expected at this point to oppose the favorable treatment given to farm commodities.)

In my judgment, unless sufficient pressure is brought on Steagall to have his Committee reconsider the bill, there is not very much chance of getting a better bill out of the House. It all comes back to the proposition that unless a firm stand is taken by someone in authority the

Secretary Morgenthau,

3.

// farm block will win by default, and one might almost
as well have no price control bill. // ←

The rest of the discussion was of a general nature, with members of the OPA staff reporting on recent activities of the agency.

Mr. Hamm explained that pressure of other work had made it impossible to have regular meetings of the Committee during the past few weeks, but that it is hoped to hold them every week from now on.

The meeting adjourned at 12.30.

Joseph J. O'Connell

November 24, 1941.

Mr. O'Connell

Dave H. Morris, Jr.

On November 18th, just before I left for New York, I was finally able to give the Secretary your report regarding the Price Control bill. The Secretary said he knew about its status, but that he could do nothing further under present conditions. He thanked you for your report.

DHM
DHM, Jr./DWB

Secretary Morgenthau

S. H. Foley, Jr.

Leon Henderson's office has asked whether the Department is in a position to use some of its field people to make a check, as of a certain date, on retail prices being charged for automobile tires and tubes.

It is my understanding that OPA is expecting to cut down materially on the supply of rubber for automobile tires and tubes and that OPA anticipates that this move will result in a material enhancement of the retail price of tires and tubes unless something is done to prevent it. In order that they may operate intelligently, it is important that they have accurate information on retail prices being charged prior to the proposed curtailment, and with that in mind, they have asked that we assist them by having some of our field people make a spot check on retail tire and tube prices.

I am informed by Deputy Commissioner Schoeneman that, in connection with the operation of the excise tax on tires and tubes, Deputy Collectors are presently in touch with the various retail tire dealers, and that the information requested by Mr. Henderson could be obtained without great difficulty.

I see no reason why we should not comply with Mr. Henderson's request. If you agree, I will tell Mr. O'Connell to work out the details.

WJC:Jr/Lsw
11-4-41

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE FOR EMERGENCY MANAGEMENT
OFFICE MEMORANDUM

305

To: The Supply, Priorities and Allocation Board
From: Leon Henderson
Subject: How Fiscal Policy Can Aid the Work of SPAS

Date: November 5, 1941

In response to the Chairman's request I have briefly described in this memorandum the contribution which fiscal measures, especially taxes, can make in allocating resources in the interests of defense. The allocation of resources is the heart of the problem of defense production and all economic policies must be considered in relation to this problem.

As a basis for this discussion, I want to emphasize that there is no such thing as a tax system "for revenue only" or one which is "economically neutral." Any tax system affects various income classes, geographical areas, industries and commodities differently. Any tax system will affect in varying degrees the demand for and the supply of certain commodities. The issue in tax policy is solely whether or not we want to disregard these economic effects, i.e., whether we want the tax system to be an unconscious and haphazard, or a conscious and purposive tool of economic policy. In our present situation the choice is between a tax system which at best ignores and at worst impedes the exigencies of the defense program, and one which is framed with regard to, or even with primary consideration for, the needs of maximum defense production.

Fiscal measures can be employed to absorb excess income in the hands of consumers and thus, combined with selective price controls, can aid in reducing the danger of inflation. We all agree that the prevention of inflation is an indispensable condition for achieving maximum defense output. Price inflation disturbs the orderly functioning of the whole economy -- civilian and military -- and makes it impossible for the business-~~man~~, the farmer, the laborer, or the Government procurement agency to plan ahead. It prevents an equitable distribution of defense burdens. From the point of view of SPAS the over-all problem of allocation will certainly be greatly simplified if civilian demand for goods is kept in close relation to the supply of consumer goods. This is the problem of the "inflationary gap."

HEM-82

In addition, specific fiscal and tax measures, while not providing a sufficient instrument for achieving the desired allocation of specific commodities, can be used to facilitate the proper distribution of scarce goods, if employed in conjunction with priorities, allocation order, rationing schemes, and similar measures.

These two different roles of fiscal policy in the allocation of resources in a defense economy, can be illustrated by an oversimplified example. Assume that at the levels of national income reached in the fiscal year 1941-42, civilian consumers would normally want to buy 6 million new passenger automobiles. Assume further that defense requirements necessitate a curtailment of new car production to 2.5 million cars. Somehow the demand must be brought down to the level of new car production. Fiscal policy can be extremely useful in this process. In the first place, about one million prospective buyers, after paying their taxes, are no longer inclined to buy a new automobile. Thus, broad measures of fiscal control mop up the excess spending from the income side. In the second place, heavy excise taxes and installment credit restrictions on sales of new automobiles may increase the price and stiffen the terms of purchasing automobiles so much that perhaps another 2 million prospective buyers decide not to purchase new cars after all, while those who do buy cars transfer to the Government a part of their income in the form of taxes. The remaining half a million prospective purchasers can be eliminated from the market by a relatively mild form of rationing, thus leaving a final demand and supply of 2.5 million.

To indicate the vital role of fiscal measures in helping solve our allocation problems, we only need consider the size of the administrative and enforcement problem which we would have on our hands if we should rely entirely on a rationing system to adjust a 6 million car demand to a 2.5 million car supply. If we adopt the rationing approach unsupplemented by adequate fiscal measures, we do not only have to face the job of rationing automobiles but we have to face the consequences on the demand for other commodities, many of which also use scarce materials, of the excess consumer income which has been prevented from going into automobiles. Thus, to impose rationing in the case of one commodity, without taking appropriate fiscal measures, may lead to the necessity for rationing other commodities.

1. The Problem of Excess Consumer Income

The general price level is determined by the relationship between the quantity of goods available for civilian consumption and the size of civilian

- 3 -

spending. Whenever civilian spending exceeds for a protracted period the value (at starting point) of the production of goods for civilian use, inflation sets in. The volume of goods and services available for civilian use equals the total volume of production minus defense production. The size of civilian money income, however, depends on the total value of production, whether for civilian or defense purposes. The value of civilian spending equals the amount of total income less taxes and saving.

This October, which we may take as a starting point, the total volume of production (i.e. gross national income, or net national income plus depreciation allowances) was running at the rate of about \$8-3/4 billion per month. Our estimates - as well as studies made by other governmental and private research organizations - indicate that we will hardly be able to increase the total volume of production within a year or so to more than \$9-3/4 billion a month at present prices. Such an increase of about 11% in the physical volume of production assumes that we have considerable success in shifting from civilian to defense production without great friction; it also assumes that we achieve a substantial expansion of our productive facilities both in the basic raw materials and in the finished armament industries. Defense disbursements (including Defense Aid, M.F.C., and foreign arms purchases) amounted to nearly \$1-3/4 billion in October, 1941. Twelve months from now defense disbursements will be at the level of about \$2 1/2 billion a month if present plans are realized. If the present program is expanded in line with recent discussions, disbursements would be considerably larger - perhaps about \$3 1/2 billion - by September, 1942. I shall assume, however, for purpose of this memorandum, that the monthly disbursements on armaments reaches about \$2-3/4 billion by next September. Assuming a fairly regular increase over the year this would imply a total armament outlay of \$21 billion for the fiscal year 1941-42, and about \$27 billion in the next 12 months.

With the gross national income and defense disbursements increasing as estimated, what will happen to the production of goods for civilian use? In October 1941 there was about \$7 billion a month left for civilian purposes, including consumption, replacement and new investment. This is probably about the same as the level of civilian production achieved in the middle of 1940 but somewhat below the peak of civilian production of about \$7 1/2 billion which was reached around the middle of 1941. On the basis of the assumptions made above, there will still be \$7 billion a month available for civilian use in September 1942.

Should we fail to increase the monthly rate of production by \$1 billion the amount of goods available for civilian use will be that much smaller. If we increase defense disbursements beyond the \$2-3/4 billion level in Sep-

tember, 1942 assumed above, another reduction in the amount left for civilian purposes will be required. If defense disbursements reach \$3-4 billion a month by next fall, for example, the volume of goods at the disposition of civilians would be reduced to not much over \$6 billion a month. On the other hand, of course, if defense disbursements failed to reach the level assumed, and total production nevertheless rose to the level estimated above, there would be more left over for civilian production than at the present time. (All figures are based on the price level prevailing in October 1941 and represent only the roughest of estimates.)

Over the next year monthly Federal expenditures will thus probably increase by about \$1 billion. The tax revenue of the Treasury, however, will rise by only about \$1/2 billion a month in this period, the greater part coming from the automatic increase in revenues which accompanies expansion in national income and only the smaller part reflecting the additional levies of the Revenue Act of 1941. The Government will be disbursing about \$1/2 billion net additional income to civilians, while the amount of goods and services available for civilian purchase will not have increased. Consequently spendable civilian income will be about \$1/2 billion a month in excess of the amount of goods available for civilian consumption replacement and investment, assuming that prices do not rise, and assuming further, as we probably may, that other net income creating expenditures remain in the aggregate at their present level. This excess is currently referred to as the "inflationary gap." In this situation, prices would necessarily rise if nothing were done about the gap.

We face this inflationary gap today, this month, next month - and have faced it for at least half a year. It does not wait until the end of the calendar or fiscal year or for the legislative calendar. Prices have risen over 5% between July 1 and October 31 because July's, August's, September's and October's gaps were not closed by any deliberate measure but were left to be closed by the price rise. Any forecast of the size of the gap for any long period such as the next six months or twelve months is necessarily rough and based on many unpredictable factors, but, even though only a crude tool, it can be of great use. Although the gap, estimated on the assumption made above, would probably be only in the order of magnitude of \$3 billion over the next twelve months, ^{1/} since it is a growing phenomenon any fiscal measure

^{1/} This figure is lower than some estimates which have been circulating around town. The difference, however, is apparent rather than real because (a) the other estimates start from mid-1941 rather than from October 1941 and (b) they represent monthly rates of the gap for mid-1942 multiplied by 12 rather than the aggregate of the gaps for each of the individual twelve months October 1941 to September 1942.

designed to correct it must be capable of absorbing larger amounts of income as the gap increases.

(table to be supplies later)

2. Closing the Inflationary Gap

In real terms the gap must be closed by bringing the magnitude of civilian goods demanded into equality with the production of civilian goods. An expansion in the output of civilian goods is one way of achieving this, but aside from the amount needed to meet increased armament expenditures, no substantial expansion of output can be expected. This equality can also be brought about by reducing civilian consumption or civilian capital expenditures. Drawing on inventories and curtailment of maintenance and replacement expenditures are only temporary though important expedients which may be regarded as forms of reduced civilian expenditures.

Closing the gap by allowing prices to rise is one means of accomplishing the reduction in the real value of civilian expenditure. The other available means are increasing taxes and increasing saving. The gap cannot be closed, without inflation, by a mere change in the ownership of existing assets, not even by the transformation of bank deposits into government securities.

An increase in voluntary purchases of government securities out of current income must in our situation remain a secondary, though important, means of closing the gap. Chief reliance must, therefore, be placed on taxation. To close the inflationary gap by taxation we need taxes which will begin to flow immediately, which are able to yield large amounts, which will increase in yield as armament expenditures rise, and which are flexible enough to be adapted to a rapidly changing need for additional revenue.

The problem before us is not a new one. It has been a pressing actuality for at least half a year and could be, and was, anticipated well before that time by many competent economists. The suggestions I am going to make are not new either. I have discussed them on many occasions during the last year, in most detail probably when I appeared before the Ways and Means Committee of the House of Representatives, on May 7, last.

3. Closing Loopholes

Before introducing new taxes or radically changing existing ones, it is advisable from every point of view to close a number of important loopholes in our present system of income, gift and inheritance taxes. This involves primarily reform of the joint return provisions from husbands and wives; abolition of the preferred treatment of capital gains; prevention of future issues of tax exempt securities; tightening of the provisions of the estate and gift tax law; abolition of the credit for interest paid in corporate tax returns, and elimination of several unwarranted interest and tax deductions

in the personal income tax. These changes are far from negligible as a means of raising additional revenue, although they can hardly yield much revenue during the remainder of 1941-42. As a matter of fact it has been estimated that they would yield about \$1 billion in a full fiscal year at present levels of national income.

b. Advancing Income Tax Payment Dates

One source of revenue which would begin to flow immediately and which would yield considerable revenue before the fiscal year 1942-43 starts, is an advancement of the payment dates of the income taxes for the calendar year 1941. Under the present procedure these taxes are payable in four equal quarterly installments due March 15, June 15, September 15, and December 15, 1942. If this procedure were amended to require payment in full on March 15 - or, if this were regarded as too harsh, payment in two installments only on March 15 and June 15 respectively - the revenue of the Federal Government during the fiscal year 1941-42 would increase by something like \$3 billion. The Treasury's income in the first half of the fiscal year 1942-43 would be reduced by an equal amount, of course, but this is less important, since it certainly would be easier to provide for additional revenue sources in the second half of 1942 than in the first half.

Any such speeding up of income tax collection would be a very unpopular step to take. However, the compulsion involved in this arrangement could be mitigated by various schemes giving the taxpayer some economical incentive for early payment. The recently introduced tax anticipation certificates are an example of the possibilities.

c. Collection at Source

The average lag between accrual of income and payment of tax now amounts to something over a year. Even if the date of tax payments were advanced as outlined above, the lag would still average about nine months. This lag would be of little, if any, significance if income tax yields were stable. In a period, however, where both taxable income and tax rates are sharply increasing, the long lag between accrual and payment of tax robs the income tax a good deal of the anti-inflationary effect it would otherwise have. It is therefore, essential to find a way to cut the lag and to receive part of the total income tax yield immediately as it accrues.

One means of accomplishing this is the introduction of a new flat rate income tax to be deducted at source, i.e. paid currently to the Treasury by employers for wage and salary income. This tax could cover a wider range of incomes by reducing the exemption limit to as low as \$500 for a single individual and \$1,000 for a married couple, plus \$300 for each dependent. The rate might well be subject to periodic changes as the need for additional revenue and for more or less control over inflationary developments arose. I should favor leaving changes within statutory limits to the discretion of the Treasury and am against making the rates follow any hard and fast automatic formula.

If collection of 1941 income taxes is not speeded up, this tax should be introduced as soon as possible. To mitigate overlapping with the 1941 income tax payments due in 1942 the rate of tax would have to be kept relatively low say around 5% in the beginning (the current Canadian rate is 7% with less generous exemptions), but it might be well stepped up considerably after 1941 income taxes are paid. At a rate of 10% such a tax should yield about \$3 billion a year on a national income of \$90 billion.

Instead of discussing the numerous technical problems arising in connection with such a tax and its integration with the present income tax, that has been done sufficiently within the appropriate Federal agencies and in numerous inter-agency conferences - I should like to point out that Great Britain and Germany have used collection at source for many years and, what may be of more significance, that Canada introduced it in 1940. My information indicates that the Canadian experiment has been entirely successful, that no serious administrative difficulties have arisen, and that neither the taxpaying public nor the employers, who are used as collecting agencies, have raised serious objections.

There are, of course, various other possibilities of collecting income tax at source which have been considered but I will not go into them here.

d. Compulsory Saving

I do not feel that the time has come yet to incorporate into our income tax a forced savings feature. In principle, I strongly favor the Keynes plan in preference to other similar schemes. (This plan provides that a part of individual income taxes paid is credited to the taxpayer, to be repaid after the war. The portion credited varies inversely with the size of the taxable income, i.e. the lower the income the higher the proportion credited.) I believe, however, that for the fiscal year 1941-42 we can do without any com-

- 9 -

pulsory savings feature. If armament expenditures should be considerably increased after mid-1942, above the level now planned, we will probably have to fall back on some such compulsory savings plan to supplement the income tax.

e. Social Security Taxes

Our Social Security system at the present time works to a large extent as a forced savings scheme and provides the Treasury with considerable amounts of revenue. In the fiscal year 1940-41, for instance, total receipts of the Social Security organization amounted to \$2 billion, only about \$3/4 billion were needed to pay claims and \$1 1/2 billion were used to buy Treasury securities. In 1941-42 the purchase of Treasury securities for these funds probably will rise to about \$1 1/2 billion.

The present rates of Social Security taxes (3% unemployment insurance, and 2% for old age insurance) can be raised without either administrative difficulties or great hardship. Every increase of 1% is equivalent to an addition of about \$1/2 billion to the Treasury's revenue, an increase which takes effect almost instantaneously. While a moderate increase in the rates of contribution meets no objection, I am not in favor of making the Social Security machinery the major source of the additional revenues which we need.

My objections to doing this are, to name only the more important ones, that the Social Security system as yet covers only about one-half of all wage and salary earners; that because of absence of allowances for family status the contributions bear most heavily on the employees with low incomes or large families, and the added pressure on prices which a sharp increase in employers' contribution may generate. What is more significant from the view point of SPAB, the regressive incidence of Social Security rates will lead to a curtailment in the demand for just those goods - particularly cheap foods and textiles - of which there is a relatively ample supply and which do not seriously compete with defense products.

f. Excess Profits Taxes

I also want to repeat a suggestion which I have repeatedly made, namely that the corporate excess profits tax should be stiffened. An increase in the yield from the excess profits tax is important from our present point of

view as an anti-inflationary measure to the extent that it reduces payments of dividends and thus the excess purchasing power in the hands of civilians. By what method the increase in the yield of the excess profits tax should be obtained is a much discussed question which involves economic, fiscal, and administrative problems of great difficulty. I do not want, therefore, to take a position on this question now.

G. The General Sales Tax

I should like to dispose of one tax - the general sales tax - which has numerous supporters as an instrument of inflation control, but which would in fact have results directly contrary to the requirements of SPAB.

As I emphasized in my testimony before the House Ways and Means Committee on May 7 and on many other occasions, the general sales tax is from almost every point of view about the worst in the whole arsenal of taxes. Even if this tax took an equal proportion of the income of all persons, it would be highly inequitable because the loss of a given percentage of his income hurts a poor man more than a wealthier one. But the general sales tax takes a larger part of the income of low income persons than of individuals with higher incomes, because a larger proportion of the low incomes is spent upon items which would be subject to the sales tax. Our calculations indicate that the percentage of income spent on commodities subject to the sales tax falls continuously as you go up the income scale, from about 94% from incomes under \$500 to about 22% for incomes over \$20,000. And because the general sales tax bears so heavily on persons with low incomes, its chief restrictive effect would be upon the demand for articles of mass consumption, the supply of which can still be expanded, primarily foods and cheap textiles. It would have little effect upon the demand for consumers durable goods - automobiles, refrigerators, etc. - the output of which must be curtailed. That is not all, however. The tax has a tendency to be cumulated in the process of passing through the economic machinery and thus to lead to serious rises in prices. These in turn will intensify demands for increased wages with the result that the tax will defeat its own end.

3. Tax and Other Measures Which Can Aid in Allocating Specific Commodities

Fiscal measures designed to close the inflationary gap are not sufficient either to prevent important rises in strategic prices or to enforce the necessary diversion of materials and facilities to defense production. These objectives can be reached only through measures dealing with particular commodities and services, a field not touched, or influenced only secondarily by the over-all fiscal measures discussed in the previous section. What is needed is taxation and other financial restrictions which will reduce the civilian use of scarce commodities.

Thus far SPAB has been little concerned with the problem of distributing scarce commodities among final retail consumers. As a result of civilian curtailment orders, however, it is perfectly obvious that in many scarce goods shortages will increasingly appear at the retail level. Sooner or later then we will have to face the problem of consumer rationing. The prospect of administering and enforcing widespread consumer rationing schemes is not an inviting one. Fortunately, however, there are tax measures and various other measures of financial control which will aid us in making an efficient and fairly equitable final allocation of scarce commodities at the retail level without resorting to universal rationing.

a) Selective Excise Taxes

Selective excise taxes upon commodities produced by resources which are needed in the defense program are probably the most efficient weapon in the arsenal of taxation to bring about the liberation of specific scarce resources. Such taxes will reduce the quantity of the scarce resources demanded by civilians, either directly releasing them for the defense effort or helping to solve the difficult problems of allocating the residual supply after defense needs are met. Properly applied they are consistent with defense objectives and definitely helpful to SPAB.

Conversely a system of excises applied indiscriminately or without regard to the requirements of the arms program is at least useless and may be harmful from the standpoint of defense. By making commodities, which do not compete with defense, expensive to buy, such an indiscriminate excise system may shift demand to articles which do compete, and thus complicate the problems of SPAB. The excise taxes in force when the defense program began fell largely into this category of levies useless or harmful to the defense program.

When the first Revenue Act of 1941 was under consideration, I went before the Ways and Means Committee of the House of Representatives on May 7th to urge that new or higher excises should recognize the needs of defense. I

strongly recommended that heavy excises be placed on automobiles, refrigerators, radios, washing machines, tires and other consumers' durable goods produced from materials, labor and equipment needed for military output. At the same time I opposed additional or new taxes on such non-competitive items as tobacco, liquor, admissions, matches, toilet preparations and soft drinks. Chairman Eccles concurred in these recommendations.

Unfortunately the law as finally enacted did not reflect this philosophy of excise taxes. Instead it followed the old principle of "where you see a head, hit it!" It is true that some new or additional excises were imposed on the defense-competitive items, but at rates too low to be of significant help in the economic mobilization program. For example, the tax on new automobile sales was raised only from $3\frac{1}{2}\%$ to 7% ; I had recommended - on the assumption of only a 20% cut in production - a tax of at least 20%.

The need for excise taxes integrated with the defense program is not less, but greater, now than it was in May. The necessary curtailment of civilian supplies in certain lines now is much greater than was anticipated six months ago, and the difficulty of allocating the residual supply is correspondingly increased. Excise taxes should now be applied on selected consumers' durable goods, not at the rate of approximately 20% as I suggested in May, but in many cases at a much higher rate. Furthermore, the excise taxes should be so constructed that they bear more severely upon the more expensive, heavier, and more complicated models. Using the automobile again as an example the excise tax could first be graduated according to the sales price of the car, as is done in Canada where the tax rises to a marginal rate of 80%, so that the higher the price the higher the rate of tax. If the progression were sufficiently steep this would deter the production and sale of heavier models in general and of deluxe models in particular. With an adequate graduation of rates, an incentive might even be given to the construction of much lighter cars than are now generally in use. Further refinements are possible in the direction of lower rates for cars which use smaller than average amounts of scarce materials.

b) Installment Credit Restrictions

Restrictions on installment credit are an example of a measure of fiscal, or more accurately, financial policy which is well adapted to the needs of SPAB. Installment purchases are directed mainly towards goods which require considerable quantities of scarce raw materials, plant facilities and labor in direct competition with defense production. Increases in the minimum down payment and limitation of the duration of the contract tend to reduce installment purchases and probably also to reduce the total demand, both on

cash and credit, for goods competing with defense production. The measure recently taken by the Board of Governors of the Federal Reserve System was therefore generally in accordance with SPAB policies. I am glad that OPA played an important role in working it out.

From the point of view of SPAB, however, stiffer restrictions than actually imposed might well have been put on the purchase of goods which represent the most direct and important competition for scarce resources. Conversely goods produced from still relatively ample materials might have been treated more leniently and possibly even left entirely outside the range of the restrictive regulations. Changes of this nature, may, I hope, be fitted into the system at a later date.

c) Other Measures

It is very doubtful whether taxation or other measures of fiscal policy can or should be used to a significant extent to reduce the volume of private investment. It is, of course, possible to devise taxes which will fall with particular force on private expenditures for plant, equipment and inventory. Such taxes, however, would have to be extremely complicated if they were to avoid flagrant inequities and it is extremely difficult to make them evasion-proof. They are, moreover, likely to be very much resented by the business community. I am of the opinion that the degree of restriction of private investment which is necessary in order to permit maximum diversion of resources to defense production should be obtained by other means. Among these means are restrictions on the allocation of materials essential for plant and equipment expenditures, (such as steel, cement, machine tools and other machinery); control of inventories and control of capital issues.

I would like to conclude this subject with one last thought. A proper fiscal policy is essential to the successful achievement of the defense effort. Although it can never be substituted for specific measures which directly effectuate allocation, rightly used, it will facilitate defense objectives; wrongly applied, it will make our problems far more difficult. But in my experience the impact of tax and other financial measures on the direction of civilian spending, on savings habits, on investment and on labor relations, which determines its effect on production and on allocation of resources, is extremely complicated. For this reason, the integration of fiscal policies with defense policies is a very difficult and technical problem to which the most careful and detailed consideration must be given.

The President and the Prime Minister of Canada have set up a Joint Defense Production Committee to coordinate the capacities of the two countries for the production of defense materiel. This action puts into effect a recommendation of the Joint Economic Committee of Canada and the United States.

The President and the Prime Minister respectively have appointed the following members of the newly created joint committee:

American Members

Wilo Perkins, Executive Director, Economic Defense Board, Chairman
 J. W. Forrestal, Under Secretary of the Navy
 W. H. Harrison, Director, Production Division, Office of Production Management
 R. P. Patterson, Under Secretary of War
 E. A. Stettinius, Jr., Administrator, Office of Lend-Lease Administration
 R. L. Vickery, Vice Chairman, United States Maritime Commission

Canadian Members

G. K. Sneils, Deputy Minister, Department of Munitions and Supply, Chairman
 J. A. Donald, Director General, Chemicals & Explosives Branch, Department of Munitions and Supply
 H. J. Carmichael, Director General, Munitions Production Branch, Department of Munitions and Supply
 R. F. Bell, Director General, Aircraft Production Branch, Department of Munitions and Supply
 H. A. MacMillan, President, War-Time Merchant Shipping, Ltd.
 Walter Gordon, Department of Finance

The resolution of the Joint Economic Committee, in accordance with which the Joint Defense Production Committee has been established, is as follows:

WHEREAS: (A) At Hyde Park on April 20, 1941, the Prime Minister of Canada and the President of the United States agreed "as a general principle that in mobilizing the resources of this continent, each country should provide the other with the defense articles which it is best able to produce, and above all, produce quickly, and that production programs should be coordinated to this end"; and

(B) The two Governments have established joint bodies in the field of military strategy (the Permanent Joint Board on Defense), in the field of primary materials (the Joint Materials Coordinating Committee), and in the field of general economic relations (the Joint Economic Committee); but

(C) no machinery has been established for the specific purpose of most effectively coordinating capacities of the two countries for the production of defense materiel;

WHEREFORE, The Joint Economic Committee

RECOMMENDS: (1) That the Governments of Canada and of the United States establish a joint committee on defense production to survey the capacity and potential capacity for the production of defense materiel in each country to the end that in mobilizing the resources of the two countries each country should provide for the common defense effort the defense articles which it is best able to produce, taking into consideration the desirability of so arranging production for defense purposes as to minimize, as far as possible and consistent with the maximum defense effort, maladjustments in the post-defense period;

- 2 -

(2) That the said joint committee be directed to report from time to time to the Prime Minister of Canada and to the President of the United States, with such recommendations as are found to be necessary to secure the purposes set forth above, as well as reports on progress made under their recommendations.

(3) That the said joint committee be furnished with such studies as have already been initiated in this field by the Joint Economic Committees and the Joint Materials Coordinating Committee; that the said joint committee be directed currently to furnish to the Joint Economic Committee copies of its surveys, findings and recommendations and reports, and to take appropriate steps to insure a continuing liaison between its secretariat and members and the secretariat and members of the Joint Economic Committees; and that the said joint committee be invited to consult with the Joint Economic Committees through joint meetings or otherwise, as occasion may indicate to be desirable, particularly with regard to the objective of minimizing post-defense economic readjustments.

Signed:

(W. A. Mackintosh)
Canadian Chairman.

(Alvin H. Hansen)
United States Chairman.

Date:

September 19, 1941.

November 5, 1941

Dear Eleanor:

I am sending you herewith an additional report on the prices of clothing and household furnishings which you may wish to use in your broadcast.

Affectionately,

(Signed) Henry

Mrs. Franklin D. Roosevelt,
The White House.

By Messenger *Stinger* 4:10
11/6/41
nmc

Prices of clothing and household furnishings sharply increased

With the coming of the winter season, the "average shopper" will find that it costs substantially more to clothe her family than it did even a few months ago. Department of Labor retail price data for September 15 show that clothing in the average worker's family budget costs 10 percent more than in the pre-war month of June 1939, 9 percent of which increase has occurred since last year, and 4 percent in the single month between August 15 and September 15. Average price increases since last year for typical clothing items are shown in the following table:

Clothing item	Percent increase since September 1940
Men's topcoats	8
Men's suits	12
Men's business shirts	7
Men's street shoes	9
Men's work shoes	11
Women's fur trimmed dress coats	13
Women's sport coats	10
Women's wool dresses	11
Women's silk hose	13

The "average housewife", in refurbishing her home, finds that it costs her 12 percent more than it would have cost a year ago, according to September 15 price data. It costs her 6 percent more than it would have cost in June of this year. The rise in prices of household furnishings seems to cover most of the necessary household articles. Price increases for typical items are shown below:

Housefurnishing item	Percent increase since September 1940
Living room suite	25
Bedroom suite	19
Washing machines	13
Electric refrigerators	6
Rugs	7
Mattresses	12
Cotton sheets	23

Office of the Secretary of the Treasury, November 4, 1941.
Division of Research and Statistics.

November 5, 1941

My dear Mr. Hoover:

Thank you for your letter of November 1. I appreciated having the information it contained.

Yours sincerely,

(Signed) E. Sargent Clegg

Mr. J. Edgar Hoover,
Federal Bureau of Investigation,
Department of Justice,
Washington, D. C.

71-211-C

J. EDGAR HOOVER
DIRECTOR

100 32
Federal Bureau of Investigation
United States Department of Justice
Washington, D. C.

November 1, 1941

PERSONAL AND CONFIDENTIAL
BY SPECIAL MESSENGER

The Honorable
The Secretary of the Treasury
Washington, D. C.

My dear Mr. Secretary:

As of possible interest to you, information has been received from a reliable, confidential source to the effect that on June 22, 1941, 35,000 bags of maize were shipped by Arnaldo de Castro of Rio de Janeiro, Brazil, to the Societe Cooperative Suisse des Cereales et Matieres Fourrageres, Berne, Switzerland, for the account of the Swiss Government. This shipment weighed 2,133,600 kilograms and was shipped directly to Lisbon, Portugal.

Sincerely yours,

J. E. Hoover

copy to {
gaston
Foley
White

November 9, 1941.

My dear Mr. Prime Minister:

It gives me great pleasure to send you a recording of our Defense Bond campaign song, "Buy Bonds Today", and another of the Iceland song, "The Ballad of the Leathernecks". These records are going under separate cover and I trust that they will reach you safely.

With cordial regards and good wishes,

Sincerely,

(Signed) H. Nergenthan, Jr.

Honorable W. L. Mackenzie King,
Prime Minister of Canada,
Ottawa, Canada.

See Mail

GZF/dba

11 29/41

THE SECRETARY OF THE NAVY
WASHINGTON

November 5, 1941

My dear Henry:

Thank you for sending me the two records of the Navy Department's participation in the Treasury Hour. I appreciate your thought very much, indeed.

Yours sincerely



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

ed.

From the May

November 5, 1941

Attached are:

1. Memorandum entitled "Some Typical Lend-Lease Cases" which indicates delays heretofore encountered in getting allocation letters and transfer directives to the War Department. This is considerably improved now.
2. Memorandum entitled "Some Typical Contract Distribution Cases", which indicates divided responsibility within OPM.
3. Memorandum as to delay in placing contracts.
4. Extract of Mr. Odlum's testimony before the Truman Committee on October 7, 1941.

Encls.

SOME TYPICAL, LEND-LEASE CASES

Case One:

- April 25 - Requisition received by Defense Aid Reports.
- May 1 - Requisition received by War Department.
- May 14 - Recommendation (Form LLA 3) forwarded by War Department to Defense Aid Reports.
- June 4 - Allocation letter sent to War Department.
- Oct. 21 - Transfer Directive sent to War Department.

Case Two:

- May 16 - Requisition received by Defense Aid Reports.
- May 17 - Requisition received by War Department.
- May 30 - Recommendation (Form LLA 3) forwarded by War Department to Defense Aid Reports.
- June 18 - Allocation letter sent to War Department.
- Sept. 26 - Transfer Directive sent to War Department.

Case Three:

- July 11 - Requisition received by Defense Aid Reports.
- July 12 - Requisition received by War Department.
- Sept. 11 - Recommendation (Form LLA 3) forwarded by War Department to Defense Aid Reports.
- Oct. 7 - Allocation letter sent to War Department.
Transfer Directive not yet received by War Department.

Case Four:

- July 31 - Requisition received by Defense Aid Reports.
- Aug. 1 - Requisition received by War Department.
- Aug. 2 - Recommendation (Form LLA 3) forwarded by War Department to Defense Aid Reports.
- Sept. 4 - Allocation letter sent to War Department.
- Oct. 21 - Transfer Directive sent to War Department.

November 5, 1941

SOME TYPICAL CONTRACT DISTRIBUTION CASES

Case One:

The Contract Distribution Division of OPM certified to the War Department the Community of Kenosha - Racine, Wisconsin, as being in a distress area, having threatened unemployment due to priority. The Simmons Company was specifically mentioned as one which would require assistance. The War Department entered into special negotiations with this company for the manufacture of hospital beds and bedside tables. After these negotiations proceeded, representatives of the Purchase Division of OPM objected to this business going to the Simmons Company, saying it should go to a firm in Connecticut. The War Department's negotiations for placing the business were concluded last Friday but representative of OPM requested that action be withheld and that the certificate mentioning Simmons specifically would be amended by Monday. Such amendment has not yet been received and the procurement is being held up.

Case Two:

The War Department is procuring incendiary bombs, the metal components of which are ideally suited for wide distribution among many firms. In consultation with OPM, a plan for procurement of these components was devised which would spread the work throughout the United States and involve at least 200 firms in the procurement. Owing to the desire of OPM to be advised in advance of important procurements, this information was given to OPM and a delay of ten days in completing the negotiations resulted.

Case Three:

The Contract Distribution Division of OPM, requested that a bid for recoil mechanisms be given to a certain company because it was stated that it could subcontract 71% of its work. The Production Division of OPM, however, took the position that this item was not, in its opinion, properly designed for subcontracting. Accordingly, the War Department is waiting to place the procurement until the differences within OPM are reconciled.

November 5, 1941

November 5, 1941

1. The true progress of the Defense Program cannot be measured merely by showing the "delay" in placing contracts. The objective is not to place contracts but to get the goods manufactured and delivered.

2. The use of approved contracts as a measuring rod does not give an accurate picture of the amount of money that has actually been started working. There are two principal reasons for this:

- a. There is a reserve of about 10% which is held to meet contingencies which may arise, such as obligations from escalator clauses, etc.
- b. The contracts placed includes only those cases in which the contracts have been signed but does not include the large number of cases where letters of intent have been sent and in most of which cases work has actually commenced.

3. It would be a simple enough job to place contracts with great speed if the supplies being purchased were readily available in the market or if proper attention was not paid to the many difficult problems which must be solved in advance of placing a contract. These problems include selecting a manufacturer competent and able to produce, arranging with him for solution of engineering and other problems which will insure prompt delivery of an acceptable product and arranging a proper price.

4. While there are doubtless things which can be done to speed up the placing of contracts, such speeding up should not be made the objective, but merely the means. Overstressing the need for speeding-up in the placing of contracts may lead to overlooking the need for care in placing contracts. Careful work of negotiation will result in earlier and better production, than careless but speedy placing of contracts.

Verbatim Record of Proceedings of
SENATE COMMITTEE
INVESTIGATING
NATIONAL DEFENSE PROGRAM

Monday, October 27, 1941.

Mr. Floyd Odlum

Mr. Fulton: There is another thing on that whole point that you were making about saving time by utilizing existing tools, even though perhaps the operation that would be performed on the existing tools would cost a few cents more than it would on a brand new tool, newly constructed. Doesn't that bring very much into importance the question as to whether he should be permitted to get tax amortization certificates whereby he can, in effect, deduct the cost of this new tool from his taxes?

Mr. Odlum: Exactly so. That is one of the further matters that I have been studying—this Tax Amortization Law.

Mr. Fulton: Because if he can deduct that from his taxes, one of the reasons he is cheaper and able to underbid is that he has what really amounts to an unfair tax advantage over his competitor with existing machinery.

Mr. Odlum: I think it is bad from every standpoint to build up a lot of new plant which he will have after the war work, while at the same time we are letting existing plants fall into disuse. I don't mean by that that there is not a lot of plant that doesn't have to be built, because there are many things that must be made that cannot be made efficiently in existing plants, such as big parts of tanks, and so on, but I think there has to be a line drawn between not the question of cost, because cost is measured in terms of results—and personally, I don't care whether an item costs 50 per cent more, if it can be acquired now with the existing plant, I think if it is cheaper than to get that same item a year or two from now at 30 per cent to 50 per cent less, with a lot of new plant that has to be amortized.

The Chairman: And that won't be used after this thing is over.

Mr. Odlum: Well, it probably will be used after this is over, at the expense of the plant that is already in existence, because it will be the efficient plant. I sat in on a committee that helped draft the Amortization Bill a year or two ago. Personally, I believe in the essence of that Bill, but I think it is wrong in its detail. In the first place, I don't think that you can amortize a plant, no matter in what year the plant has been built, over a fixed five-year period. The five years were taken as an assumed period of the emergency at the time,

and I think that a plant that has been built in the first year of the emergency should get one treatment and a plant that is built in the fourth year of the emergency should get another treatment. On the other hand, I believe that when a plant is built that doesn't need to be built, it shouldn't have the right to amortize and therefore, if there could be some elasticity in the certification of what plant could be amortized under that bill, it would be the most powerful, potent weapon—not weapon, but club, let me say, or piece of sugar, to get this subcontracting spread out before any new plant site owner gets the right to amortize. Even before he gets the right to build the plant, we should have the right to pass on it to see if that plant is needed.

Mr. Fulton: It was for that reason that Senator Truman directed that a letter be sent to you, asking you to check on tax amortization certificates, for the purpose of making sure that those plants which are built unnecessarily and which unduly compete with existing industry which could do the same work, do not get the additional tax benefit.

Mr. Odium: The bill as finally enacted says that out, but I don't think that would go to the problem anyway. After the plant has been built, if it has been built under Government order or contract, I think we have probably, just like this Plant Site Committee, passed the stage where we can do our effective work. I think we should be in there on the negotiation that leads up to the question of machine tools, new machine tools, or plant, and that if we have not found some as a substitute for that new machine tool and new plant, the man very logically should have the right to amortize it—and over the remaining period of the emergency, not for five years in the future.

On the other hand, if we do find that there is something in our opinion that can be used to do that work and they still go ahead and build the plant, then I don't think we should have the right to amortize it at all. He should just have the ordinary depreciation on the plant, as he would have on anything else he buys.

Mr. Fulton: The Committee would appreciate it if you would inform us from time to time of those situations where you don't think amortization would be proper because existing facilities could do the job.

Mr. Odium: Yes.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

332

DATE November 5, 1941

TO: Secretary Morgenthau
FROM: Mr. White
Subject: Developments in British Cash Position

1. I presume Secretary Stimson has not yet replied to your second letter (dated October 30) on the transfer of supply contracts.
2. There are appended two tentative drafts for the letter to Sir Kingsley Wood, the first being suggested in the event that Secretary Stimson should agree to the transfer and the second being suggested if he should not agree. These drafts need not be studied until either an answer has been received from Secretary Stimson or you propose not to wait for an answer.
3. There are also appended a set of memoranda summarizing the origin of your commitment to provide dollar relief to the British, the present status of dollar relief projects, and the present and prospective gold and dollar position of the British. After Secretary Stimson's reply has been received these memoranda should be read, for I believe that the Treasury has reached a turning point in its responsibilities for the British cash position. After you have read these memoranda I should very much appreciate your providing a half-hour in which we might re-convey the entire British situation.
4. In addition to the possibilities of transferring supply contracts, hinging upon Secretary Stimson's reply, there are only three matters currently active.
 - (a) The legal division is working on the possibility of tax relief through the exemption from the withholding tax of private British holdings pledged to the A.F.C. (This is a different matter from that of tax relief through the tax convention just negotiated.)
 - (b) The transfer of plant facilities is now being delayed only by administrative difficulties in the A.F.C. I believe you could be very helpful in this matter if you would write to Mr. Jones, asking that his examination of the British properties be speeded up.
 - (c) The letter to Mr. Ralph W. Close, Envoy Extraordinary and Minister Plenipotentiary of the Union of South Africa which is to report our position on South Africa's request for

- 2 -

Gold mining machinery is awaiting a memorandum from Mr. J. A. Reid, member of the South African Purchasing Commission and an authority on gold mining. Mr. Reid made a very strong oral case for his Government's request at a conference in my office Friday, but agreed to submit a more detailed case in memorandum form.

5. The following points were discussed at the last meeting with the British:

(a) Transfer of supply contracts - I informed the meeting of your letter to Secretary Stimson and said that no answer had yet been received.

(b) Dominion and Colonial Lend-Lease arrangements - It was reported that the list of eligibility rules for Dominion and Colonial Lend-Lease requisitions had been submitted unofficially to the Dominion representatives.

(c) Gold mining machinery - I reported that no decision had been made on South Africa's request for steel plates for her gold mines. Sir Frederick said that glycerine, required for the war explosives industry and for the gold mines, was becoming scarce, and he agreed to submit a memorandum on this point.

(d) Sugar for Russia - Sir Frederick reported that the United Kingdom had agreed to send sugar to Russia, and he was concerned lest the sugar would have to be bought from the dollar area. Mr. Brown agreed to put him in touch with those who would be familiar with this problem.

(e) Withholding tax - Sir Frederick agreed to submit a memorandum to Mr. Kades on the possibility of exempting from the withholding tax private British securities pledged to the R.F.C.

(f) Base costs in Iceland - Mr. Bewley reported that he understood that funds provided the Navy Department for Iceland had not been spent. Mr. Brown was unable to provide the information they requested at the moment, but agreed to provide it later.

(g) Film settlement - Sir Frederick reported that British dollar expenditures for American films will be increased by the terms of a new agreement. The British Government has agreed to release 50 percent of the blocked sterling of American film companies (about £ 4 million) and to permit repatriation in the future of about £ 5 million per year.

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Treasury Department
Division of Monetary Research

Date.....19

To:

First Draft

For use if Secretary Stimson approves
the transfer.

MR. WHITE
Branch 2058 - Room 214 $\frac{1}{2}$



THE SECRETARY OF THE TREASURY
WASHINGTON

Excellency:

For the past six months the United States Treasury has been endeavoring to find means of strengthening the dollar position of the British Treasury in order that it might be able to build up a gold and dollar balance sufficient for advance planning and efficient prosecution of the war.

The United States Army has been asked to take over certain supply contracts made by the British Purchasing Missions, and the Reconstruction Finance Corporation, through its subsidiary the Defense Plant Corporation, has been asked to finance the purchase by this Government of some of the armament facilities constructed by the Missions in this country.

Up to the present dollar relief obtained, or certain to be obtained, for the British Treasury totals \$226 million, as follows:

Plant Transfers:

Tennecose Powder	\$21 million	
(This sum has already been received.)		
4 machine gun plants	24	"
(\$7.9 million has already been received, and no difficulty is expected in recovering the remainder.)		
11 other plants, costing \$79 million	55	"
(The U.S. Army has certified these plants to the R.F.C. as necessary for national defense, and no further difficulties, other than administrative, will be encountered in recovering the sum. The \$55 figure is a provisional estimate of the amount of recovery made by the B.P.M.)		

Supply Contract Transfers:

4 machine gun contracts	28	"
(\$5.9 has already been received on these contracts, and no difficulty is expected in recovering the remainder.)		

Vultee Airplane contract	\$11 million
(Relief from the \$6 million commitment for these planes has been provided. Return of the \$5 million of British advance payments is expected shortly.)	
Remington Rifle contract	32 "
(Agreement to substitute a War Department contract for this contract is expected very shortly.)	
Savage Rifle contract	24 "
(Agreement to substitute a War Department contract for this contract is expected very shortly.)	
Ordnance contracts signed after March 11 .	31 "
(Substitution of War Department contracts for these contracts has been approved by the Lend-Lease Administration, and approval of the War Department is expected shortly.)	
Total	\$226 million

An additional list of six plants suitable for transfer has recently been submitted by the British Purchasing Missions. These plants cost \$31 million, and, while no action has yet been taken in arranging for their transfer, ultimate recovery of some portion of the \$31 million is probable.

Possible dollar relief projects remaining at this date are principally two groups of supply contracts aggregating \$84 million. On November the Secretary of War informed me that the Army thought these contracts could be taken over and that he would make every effort to expedite the negotiations. It may, therefore, be assumed, that, given time, this relief will be provided. In that event, the total dollar relief provided for the British Treasury will be \$310 million, plus some portion, say \$21 million, of the cost of the six additional plants.

In addition to this relief the British dollar position has been improved by the extension of Lend-Lease to cover many expenditures for which the British Treasury had expected to need dollars. The extension of the Lend-Lease procedure to cover United Kingdom purchases for which dollars had previously been considered necessary has been estimated by Mr. Keynes to amount to about \$100 million per year.

- 3 -

A similar extension to cover many non-military purchases of the Dominions has been estimated to amount to about \$12 million per month at present and to about \$300 million per year after January 1, 1942. To the above should also be added the extension of Lend-Lease to cover many shipping services, the ferrying of airplanes, and dollars paid to the Norwegians for the use of the Norwegian merchant marine, together with the tax relief expected to materialize from a tax convention now being negotiated. These may total \$100 million during the next twelve months.

This review of steps taken during the past six months shows that the British Treasury's hopes for dollar relief have been amply fulfilled.

Very sincerely yours,

Secretary of the Treasury

His Excellency the Chancellor of the Exchequer,
London, England.

Treasury Department 338 ✓
Division of Monetary Research

Date Nov. 5, 1941 19

To: Secretary Morgenthau

I think you will be interested in learning of the step Winant is taking with regard to setting up a Financial Section of the Embassy, and provision for current reports on financial matters.

H.D.W.

MR. WHITE
Branch 2058 - Room 214 $\frac{1}{2}$

TREASURY DEPARTMENT

339

INTER OFFICE COMMUNICATION

DATE October 30, 1941

TO Mr. White
FROM Mr. Hoflich

Subject: Mr. Casaday's Mission and Financial Reporting from the American Embassy in London

1. The weekly financial report from London henceforth will be prepared by the Financial Section of the Embassy, consisting of Casaday and four other persons. This is a step in the direction of exclusive reporting of financial and related matters by the Financial Section of the Embassy. The first of these reports, dated October 13, has been received.

2. An effort is being made to coordinate the economic, commercial, and financial research and reporting of the Embassy. For this purpose there has been established a centralized Economic Coordination Records File of completed reports, investigations, and the contacts established thereby. Attached is an Embassy memorandum concerning this file, also two Weekly Summaries of Reporting Activities showing the types of projects reported thus far by the Financial Section and other Sections of the Embassy.

3. Casaday has been assigned the designation "Attache for the Treasury".

(Letter from Casaday, London, October 17, 1941.)

ifc



EMBASSY OF THE
UNITED STATES OF AMERICA

LONDON, October 17, 1941.

AIR POUCH

Dear Mr. Secretary:

This will be of interest to Dr. White's Division.

Enclosed are:

- (1) A copy of the first weekly financial report, prepared by the Financial Section of the Embassy,
- (2) A copy of the weekly summary of reporting activities in the Embassy for the weeks ending October 6 and October 13, and
- (3) A copy of an administrative circular concerning the coordination of economic reporting and the establishing of a special file. The following paragraphs deal with these and related matters.

I. The Weekly Report.

After a number of conversations with the Commercial Attaché and others, it was decided that the Financial Section of the Embassy should take responsibility for the preparation of a weekly financial report. It has been agreed that this report should be primarily designed for the Treasury Department and that its cover sheet should be headed Voluntary Report (For the Treasury Department). It is assumed, however, that the preparation of this report will eliminate the necessity on the part of the Consular office of preparing a report on the same subject for the benefit of the Department of Commerce and of the Commercial Section of the Department of State. Accordingly, the coverage has been planned with a view to meeting the needs of these Departments as well as those of the Treasury and copies presumably will be made available to them.

After

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

-2-

After due consideration and discussion it has seemed to me that all reporting of financial and related matters should be done exclusively by the Financial Section of the Embassy. The agreement with respect to the weekly financial report is a step in this direction.

The coverage and the emphasis will naturally vary from week to week, and some subjects may not be treated at all in a particular week if developments do not seem to justify it. Each week in a covering letter I shall call attention to any section of the report which I feel may be of outstanding or particular interest to the Treasury. In the enclosed report for the week ending October 4, particular attention is called to the section on Foreign Exchange found on page 13. It may happen that developments covered in the weekly report will also be reported via despatch or cable. A despatch was sent yesterday, for example, on the subject of post-war stabilization, discussed on page 13 of the enclosed report. It is felt that any duplication that may come about in this way will not be amiss.

Any suggestions as to the form and content of the weekly report which will make it more useful for Treasury needs will be appreciated.

II and III. Reporting and Filing System
For the Embassy.

As the enclosed memorandum and weekly summaries of reporting activities indicate, an effort is being made to coordinate the economic, commercial and financial research and reporting of the Embassy. Each officer under whose direction any such research and reporting is conducted is asked, upon completion of the work, to fill out a card (sample enclosed) giving the particulars called for. This card will then be filed centrally for the information of the Embassy staff. Each officer is asked to report each Monday the projects his section contemplates undertaking, those in progress and those completed.

The need for some such plan as the one now being inaugurated has been apparent. It should help to avoid the duplication of effort on the part of the different sections of the Embassy, of which there has been considerable.

Accordingly

-3-

Accordingly, I have agreed to the plan in principle. The enclosed weekly summaries of reporting activities show the types of projects reported thus far by the Financial Section and the other Sections of the Embassy. Presumably, matters of high policy or projects initiated as the result of specific confidential instructions from Washington or from the Ambassador would not be so reported. I shall send in a copy of the weekly summary each week in order that the Department may be informed as to the work the Financial Section is doing and contemplates.

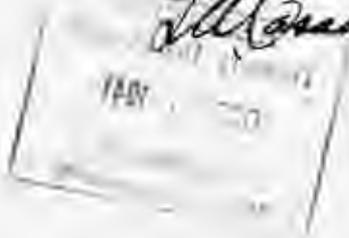
Miscellaneous.

I have now been assigned, after consultation between the Ambassador and the Counsellor of the Embassy, the designation "Attaché for the Treasury". I am told that this form was decided upon rather than "Treasury Attaché" for the reason that formerly there were persons here representing Treasury (Customs, I believe) to whom the latter term was applied although they were not, in fact, officers of the Embassy.

Our Financial Section consists at present of four persons, Mrs. Egerton, Mrs. Winton (a research assistant), Miss Chisholm and myself. For a time we had a second stenographer but he was transferred elsewhere after a week or two. I have been promised another full time stenographer when a group of six or so arrives from Washington. Two of these are said to be on the way here at present.

Sincerely yours,

J. M. [Signature]



TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

343

DATE November 5, 1941.

TO: Secretary Worgenthan

FROM: D. W. Bell

STABILIZATION AGREEMENTS

China: During October, no change took place under the July 14, 1937 agreement with the Central Bank of China, covering our purchase of yuan up to a total value of \$50,000,000. At present, we hold about 65,000,000 yuan, with a gold dollar value of \$19,112,500, and this is collateralized by \$19,373,015.65 in gold held at the New York Federal Reserve Bank.

On April 1, 1941, we made an agreement with the National Government of the Republic of China and the Central Bank of China wherein we agreed to purchase Chinese yuan up to the equivalent of \$50,000,000, no collateral being required. So far, we have made no yuan purchases. The Chinese-American-British Stabilization Board began to operate in mid-August, and the Chinese Government banks have furnished their contribution of \$20,000,000 to the Joint Stabilization Fund. By October 31, net withdrawals from this amount totaled about \$9,746,000, leaving a balance of \$10,254,000.

Brazil: During October, no change took place under the July 15, 1937 agreement with the United States of Brazil, wherein we agreed to (1) purchase milreis up to a total value of \$60,000,000, to be collateralized by gold, and (2) sell Brazil up to \$60,000,000 in gold, which would be earmarked for account of Brazil at the New York Federal Reserve Bank. By a September 2, 1938, modification of this agreement, Brazil was also permitted to ship gold here to be added to this earmarked account. On October 31, we held no milreis under the first part of this agreement. Up to the end of October, we had sold \$23,465,770.30 in gold to Brazil, and Brazil had shipped \$11,532,765.19 in gold to New York — these amounts are earmarked at the Federal.

Argentina: During October, no change took place under the January 1, 1941 agreement with the Banco Central de la Republica Argentina and the Government of Argentina, calling for our purchase of Argentine pesos up to a total value of \$20,000,000, for which no collateral is required. Since this agreement has not yet been ratified by the Argentine Legislature, it is inoperative at present.

Mexico: An agreement with the Government of the Republic of Mexico and the Banco de Mexico is ready for signature, involving our purchase of Mexican pesos up to a total value of \$40,000,000, no collateral being required. The agreement with Mexico gives that country 180 days' notice and then an additional 180 days in which to repurchase. The State Department is still carrying on negotiations with Mexico, and the Stabilization agreement will probably be

signed when such negotiations are consummated. Also pending is a silver agreement between the Treasury and Mexico covering our purchase of up to 6,000,000 ounces of silver monthly, under an arrangement similar to that which we have with Canada.

Colombia: A Stabilization agreement is being discussed with Colombia, under which we would buy Colombian pesos up to the equivalent of \$5,000,000, no collateral being required.

Ecuador: A Stabilization agreement with Ecuador is being discussed. In earlier conversations, \$5,000,000 was considered as the limit to such an agreement but from an October 24 meeting with the Ecuadorian Ambassador, it was gathered that the maximum amount may be reduced to \$3,000,000, and \$1,000,000 of this would be provided by Ecuador.

Bolivia: In a recent preliminary discussion with the Bolivian Minister regarding a Stabilization agreement, the Minister stated his belief that Bolivia would need between \$5,000,000 and \$8,000,000 to stabilize its currency.

Iceland: Discussion for a \$2,000,000 Stabilization agreement with Iceland began about the end of September. It was anticipated that Icelandic kronur purchased by us under this agreement would be repurchased with dollars acquired by Iceland through the sale of its products to the United States Government, such products then being Lend-Leased to Great Britain. Although Mr. Cumming of the State Department indicated on October 8 the possibility that Iceland would not need dollars from us if an advance were made to that country by the Lend-Lease group, consideration is still being given to a Stabilization agreement.

GOLD PURCHASE AGREEMENTS

Russia: On August 15, we agreed to purchase from the Government of the U.S.S.R. about \$10,535,000 in gold for delivery within 90 days, and gave Russia an advance of \$10,000,000. On September 19, the Russians deposited about \$5,051,000 in gold at the San Francisco Mint for the Secretary's account. Another shipment, valued at \$5,549,000, was so deposited on October 20. Of the latter, \$4,884,000 was used to complete delivery under the August 15 agreement. It will be noted that the second Russian deposit was made 66 days after the August 15 agreement.

The remaining \$665,000 worth of gold in the Russian deposit of October 20 was applied against the October 10 agreement to purchase about \$31,605,000 in gold from the Russian Government, such gold to be delivered within 180 days. An advance of \$30,000,000 to Russia under the October 10 agreement has since been reduced to \$28,828,730.

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THE CHASE NATIONAL BANK
of the City of New York.

345

RECEIVED
NOV 5-1941
L. W. K.

November 5, 1941

2-45-ESP

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

Dear Mr. Knoke,

We are in receipt of instructions from Amtorg Trading Corporation, requesting us to notify you, as fiscal agents of the United States, that, at the instance of the State Bank of the U.S.S.R., we are authorized to deposit forthwith all of the gold that arrives on the s/s "Azerbaidjan" at the San Francisco Mint, for account of the Secretary of the Treasury.

We are telegraphing our San Francisco Representative accordingly.

Kindly forward copy of this letter to the Treasury Department in Washington.

Very truly yours,

/s/ E. C. Funck
E. C. Funck
Second Vice President

Copy:hr:11-5-41.

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346

November 5, 1941

My dear Mr. Secretary:

On or about November 6, 1941 there will be deposited at the United States Mint, San Francisco, gold valued at approximately \$5,000,000 for account of the Secretary of the Treasury of the United States by order of the Government of the Union of Soviet Socialist Republics. This gold has arrived on the S.S. Azarbaijan and is to be applied against the amount of gold sold under the agreement of October 10, 1941.

Very truly yours,

A. Gromyko
Charge d'Affaires

The Honorable

The Secretary of the Treasury
Washington

copy:eh
11-5-41

Exchange Stabilisation Fund

Superintendent,
United States Mint,
San Francisco, California.

On or about November 5, 1941 you will receive gold valued at approximately \$5,000,000 for the account of the Secretary of the Treasury by order of the Government of the Union of Soviet Socialist Republics. Upon receipt of this gold you are hereby authorized and instructed to melt and determine its value. After determination of the value you are further authorized and instructed to purchase the gold at the flat price of \$35 per fine troy ounce without subtracting the $1/4$ of 1 percent handling charge, to draw the deposit certificate accordingly and to draw your check for the net value of the gold (less the usual mint charges) to the order of the Federal Reserve Bank of San Francisco for account of the Federal Reserve Bank of New York for credit to the "Secretary of the Treasury, Special Account." Please instruct the Federal Reserve Bank of San Francisco to transfer this amount by telegraph to the Federal Reserve Bank of New York for credit to the "Secretary of the Treasury, Special Account." Please have the Federal Reserve Bank of San Francisco include in its telegram to the Federal Reserve Bank of New York the outturn of the number of fine ounces, the total dollar value, the amount of the regular $1/4$ of 1 percent handling charge, and the mint charges which have been deducted, as well as the name of the ship on which the gold was transported, and the date of its arrival. Please prepare six copies of Mint Form 42-R in the usual manner inserting in the prepared spaces at the foot of the report the total value of the gold, the melting charge, the handling charge, the total charges, and the net value of the gold, with the handling and other charges deducted, but without other extraneous notations on the form. Please do not mention on the report, as was done in the case of the September transaction, that the $1/4$ handling charge has been computed but not charged. Please forward these forms to the Secretary of the Treasury, Attention: Frank Distich, Treasury Department, Washington, D.C. You will observe from the instructions that you are not to deduct the $1/4$ of 1% handling charge.

Secretary of the Treasury.

EXPENSES TO RUSSIA BY WEEKS ENDING JULY 20,
1941.

(thousands of dollars)

July 26	-	Aug. 2	4,523
Aug. 4	-	Aug. 9	551
Aug. 11	-	Aug. 16	988
Aug. 18	-	Aug. 23	2,735
Aug. 25	-	Aug. 30	1,025
Sept. 2	-	Sept. 6	4,720
Sept. 8	-	Sept. 13	5,217
Sept. 15	-	Sept. 20	752
Sept. 22	-	Sept. 27	2,333
Sept. 29	-	Oct. 4	523
Oct. 6	-	Oct. 11	8,365
Oct. 13	-	Oct. 18	1,924
Oct. 20	-	Oct. 25	5,623
Oct. 27	-	Nov. 1	<u>4,434</u>
Total			41,599

DEPARTMENT OF STATE
WASHINGTON

In reply refer to
77

November 5, 1941

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits herewith copies of telegram no. 388 dated November 4, 1941 to the American Consulate General at Hong Kong transmitting a message from the Secretary of the Treasury to Mr. A. Manuel Fox.

Enclosure:

Copies of telegram no. 388,
November 4, 1941, to American
Consulate General, Hong Kong.

TELEGRAM SENT

EJ

GRAY

November 4, 1941

11 a.m.

AMERICAN CONSUL,

HONG KONG.

388.

FOR FOX FROM THE SECRETARY OF THE TREASURY.

QUOTE The following letter has been sent on October 30 to the Chinese Ambassador in Washington:

"This note is in response to the informal memorandum you left with me on October 13th. I have given consideration to the two requests from the Government of China set out therein.

"The Department appreciates the action of the Government of China in proposing to ask Mr. A. Manuel Fox to become Adviser to the Ministry of Finance. We have no objection to this appointment, providing Mr. Fox does not feel that the duties of the new position will in any way conflict with his duties as Member of the Stabilization Board.

"With reference to the possibility of the Federal Reserve Bank appointing a person to assist the Central Bank of China, the matter has been discussed with the

Honorable

Honorable Marriner S. Eccles, Chairman of the Board of Governors of the Federal Reserve System. Mr. Eccles advises that he will be glad to discuss the matter with you at your convenience. It is therefore suggested that you communicate directly with him for an appointment. END QUOTE.

HULL
(AF)

FF:VOL

EA

FE

Copy:hr:11-6-41.

DEPARTMENT OF STATE
WASHINGTON

November 5, 1941

In reply refer to
FF

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits herewith copies of telegram no. 389 dated November 4, 1941 to the American Consulate General at Hong Kong transmitting a message from the Secretary of the Treasury to Mr. A. Manuel Fox.

Enclosure:

Copies of telegram no. 389,
November 4, 1941, to American
Consulate General, Hong Kong.

Copy:lc:11/7/41

EJ

TELEGRAM SENT

GRAY

November 4, 1941

3 p.m.

AMERICAN CONSUL,
HONG KONG, (CHINA)

389.

FOR FOX FROM THE SECRETARY OF THE TREASURY.

QUOTE On October 9, 1941 at the request of the Chinese Embassy General License No. 73 was issued freeing the accounts of certain Chinese partnerships doing business in the continental United States. On October 23, 1941 General License No. 32 was amended so that free dollars could not accrue to the Axis. Slight modifications were also made in General License No. 33. The problem of remittances to China is not affected by these amendments. We are asking Sayre to cable texts of general licenses and accompanying press release to you.UNQUOTE.

HULL
(FF)

FF:MFA

P

PARAPHRASE

Y

A telegram of November 5, 1941 from the American Consul at Kunming reads substantially as follows:

According to information received from an authoritative source, control of transportation on the Burma Road, probably as far as Kweiyang, will be taken over by a new organization, China Burma Transportation Administration. The Director of the new organization is to be General Yu Fei-peng and the Deputy Director will be Mr. T. C. Chen, Kunming head of Southwest Transportation Company. The informant from whom the information was received says that the new organization will absorb Southwest Transportation Company. However, until this really takes place, this statement is viewed by the Consul with reservation. Following the visit to Kunming recently of the Chief of Revenue Guards of the Minister of Finance (Tai Li) there are optimistic reports to the effect that the number of taxes and tax stations on the Burma Road are to be reduced probably through the use of subsidies. Tai Li's visit to Kunming was connected also with prohibition of smuggling on the highway, it is understood. A decrease from the September high mark for import traffic on the Burma Road is indicated by the preliminary figures for October.

COPY:hmd:11/12/41.

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Santiago, Chile.

DATE: November 5, 1941, 8 p.m.

NO: 451

THIS IS STRICTLY CONFIDENTIAL.

It has been reported that 100,000 United States dollars are being spent each month by the local French Mission for propaganda purposes and perhaps for subsidies to local French firms which are unable to obtain imports. It is requested that the Embassy please investigate and report on this matter.

WILL
(14)

OFFICE CORRESPONDENCE

Federal Reserve Bank of
New York

Date: November 5, 1941

To: Mr. Knoke

Subject: National Bank of Egypt.

From: W. Feuerlein

Copies to Messrs. Williams, Hoelse (Sanford), Cameron (Liddy)

(at the request of Mr. Knoke)

The National Bank of Egypt was founded in 1898, and at that time it received from the Egyptian Government the exclusive privilege of issuing notes. This privilege was renewed on August 3, 1940, for a period of 40 years.

The National Bank of Egypt is a corporation with headquarters at Cairo and several branches throughout Egypt and the Sudan. According to the Statutes, it is authorized to perform the following functions (Article 4):

1. To issue bank notes;
2. To make loans to farmers for cultivating the fields;
3. To make advances to the Governments of Egypt and the Sudan and to other public institutions in these two countries;
4. To discount bills, etc., payable in Egypt, which have not been in circulation more than one year;
5. To discount and to make advances on bonds and similar documents;
6. To make loans with interest to persons in Egypt and the Sudan for a maximum period of one year;
7. To accept all kinds of documents for safekeeping and to open checking accounts;
8. To participate in the issuance of stocks and bonds of corporations in Egypt and the Sudan;
9. To issue bills, letters of credit, etc., payable in Egypt or abroad, and to deal in foreign exchange;
10. To deal in precious metals;

- 2 -

11. In general, to conduct for its own account or for the account of third parties all commercial and financial operations in Egypt and the Sudan with the exception of mortgage and real estate operations.

The above summary of the functions of the National Bank of Egypt leads to the conclusion that this Bank performs not only the functions usually associated with a central bank but also those of a purely commercial and financial character. Whether or not it should be considered primarily as a central bank will depend upon the definition of that term.

The fact that the National Bank of Egypt was given the sole right of note issue in Egypt by the Government appears to be the only reason why its statutes were approved by the Egyptian Government. The Egyptian Minister of Finance appoints two commissioners whose task is to see that the decree approving the Statutes of the Bank is strictly observed and that the interests of the Government and public welfare are safeguarded. In practice, this authority seems to be limited to supervision over bank note circulation.

The issuance of bank notes constitutes a very special service of the Bank and is independent of all the other banking operations (Article 5). The amount of notes in circulation is determined by the Board of Directors in agreement with the Egyptian Government. The notes in circulation have to be covered by at least 50 per cent of gold, according to the Statutes. However, under an agreement with the Egyptian Government, the gold cover may fall below 50 per cent, so long as the total amount of notes in circulation is covered by gold and British and Egyptian Government securities. Eighty-nine and one-half per cent of the income from the bonds used as note cover has to be turned over to the Egyptian Government. Since May 2, 1935, the bank notes of the National Bank of Egypt have been legal tender.

WF:amc

Initialed: W.F.

COPY: lsb-11/8/41

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TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE November 5, 1941

TO Secretary Morgenthau

FROM Mr. Dietrich

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£108,000
Purchased from commercial concerns	£114,000

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

The Uruguayan free peso advanced 50 points (1/2¢) to close at .4675.

The Venezuelan bolivar closed at .2530. So far this week, that currency has declined 1/2¢.

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

Canadian dollar	11% discount
Argentine peso (free)	.2385
Brazilian milreis (free)	.0505
Colombian peso	.5775
Mexican peso	.2070
Cuban peso	1/8% discount

There were no purchases or sales of gold consummated by us today.

Under our July 15, 1937 Stabilization agreement with the United States of Brazil, we purchased 160,000,000 Brazilian milreis today from the Banco do Brasil as fiscal agent of the Brazilian Government, and credited the U. S. equivalent, \$8,000,000, to the account on the New York Federal Reserve Bank's books in the name of the Banco do Brasil as fiscal agent of the Brazilian Government. In accordance with the agreement, the Federal Reserve Bank set aside, as collateral, gold valued at \$8,089,091.98 from Brazil's earmarked account. It will be recalled that Brazil sold us 200,000,000 milreis about a year ago, then repurchased half of this on December 13, 1940, and the other half on February 13, 1941.

The Federal Reserve Bank of New York reported the following gold engagements, both of which will be sold to the New York Assay Office:

- 2 -

\$3,723,000 from Canada, shipped by the Bank of Canada to the Federal for account of the Government of Canada.

640,000 from India, shipped by the National Bank of India, Bombay, to the Chase National Bank, New York.

\$4,363,000 Total

Both yesterday and today, spot and forward silver were fixed in London at 23-1/2d, equivalent to 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

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BRITISH EMBASSY,
WASHINGTON, D. C.

November 5th, 1941.

Personal
and Secret.

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

(For the Ambassador)

R. J. Campbell

The Honourable
Henry Morgenthau, Jr.,
United States Treasury,
Washington, D. C.

Telegram from London dated November 4th, 1941.

1. Naval. French convoy intercepted south of Durban proceeding to West London. A.M. November 3rd ships were boarded, scuttling having been attempted. Two ships have engines damaged. French sloop escorting convoy refused to enter convoy port Elizabeth as requested.
2. On November 2nd during air attack east coast convoy one ship severely damaged fate unknown but crew saved. Another small British ship subsequently sank off Spurn Point crew saved.
3. Convoys 152 about 400 miles east of Newfoundland attacked by U-boat night of November 2nd/3rd. Two ships known torpedoed no further details.
4. Three SSB's and two SB's attacked enemy convoy north of Colais night of November 2nd/3rd. One large merchant vessel hit by two torpedoes with rudder and bow broken. All's undamaged one 27' hit in engine room returned to harbour. Other 27' had several wounded has not yet reached harbour.
5. On November 3rd patrol vessel "Guzel" blown up with loss of all hands half a mile east of Wablethorpe.
6. Royal Air Force. United Kingdom. Night of November 2nd/3rd coastal aircraft scored one or two hits on tanker estimated 7,000 tons off Texel.
7. Day November 3rd fighters damaged 400 ton motor-vessel off Cherbourg and probably sank on boat.
8. Night of November 3rd/4th, small forces of bombers operated against Brest, Boulogne and off Dutch coast where merchant ship of 7-10,000 tons was hit.
9. Middle East. November 1st German attacked four aircraft destroyed on the ground. November 1st-2nd attacks on Benghazi, Suda, Serna. On November 2nd merchant vessel

unclassified

-2-

estimated 3,000 tons was hit in Mediterranean.
November 2nd-3rd Castel-Benito aerodrome at Tripoli
(L) attacked, at least 12 aircraft left burning on
the ground.

CONFIDENTIAL

MILITARY INTELLIGENCE DIVISION
WAR DEPARTMENT
Washington, November 5, 1941

TENTATIVE LESSONS BULLETIN
No. 169
MID 461

NOTICE

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

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

MISCELLANEOUS NOTES ON GERMAN
ARMED FORCESSOURCE

The second section of this bulletin is based upon a report submitted on June 14, 1941, by an American official observer in Cairo. The rest of the bulletin contains information compiled by a British official source in July 1941.

CONTENTS

1. CORRECTION OF T.L.B. NO. 146
2. ANTITANK UNITS IN AFRICA
3. MOTORIZED AND ARMORED DIVISIONS
4. 20-MM. ANTITANK GUN

CONFIDENTIAL

CONFIDENTIALMISCELLANEOUS NOTES ON GERMAN
ARMED FORCES1. CORRECTION OF T.L.B. NO. 146

In the last paragraph of Section 5 of Tentative Lessons Bulletin No. 146 a reference was made to a "Fieseler-Storch biplane." This statement was in error; the Fieseler-Storch is a monoplane.

2. ANTITANK UNITS IN AFRICA

The following types of German antitank units have been identified as operating in the Western Desert:

a. Antitank Rifle Section

Each infantry company contains an antitank rifle section which is armed with three antitank rifles.

b. Antitank Platoon

There is an antitank platoon of three 37-mm. guns in the heavy company of each truck-carried infantry battalion*, each motorcycle battalion, and each mechanized reconnaissance unit.

c. Antitank Company

Each infantry regiment, motorized infantry regiment, and truck-carried infantry regiment has an antitank company consisting of four platoons. Each platoon is armed with three 37-mm. guns.

d. Divisional Antitank Battalion

Every infantry division, motorized division, armored division, and mountain division has a fully mechanized divisional antitank battalion of three companies. Each company has three antitank platoons, each containing four 37-mm. or 47-mm. guns. Most of the platoons, however, are equipped with the 37-mm. only.

e. 50-mm. Antitank Platoon

Information from German prisoners of war indicates that there

*It is believed that this is simply a normal infantry battalion which is transported in trucks, as differentiated from an organized motorized battalion. G-2.

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are plans for replacing one normal platoon in each antitank company with a platoon of three 50-mm. guns. The battalion will then have a total of twenty-four 37-mm. guns and nine 50-mm. guns. It is not known to what extent this reorganization has been accomplished, although antitank battalions encountered in the Western Desert so far have contained the 50-mm. platoons.

f. Heavy Antitank Battalion

Heavy antitank battalions are normally army units, but they may be allotted to divisions for specific operations. So far, divisions encountered in the Western Desert have each had one of these units which are believed to be organized into three companies, each with nine guns - probably 47-mm. These antitank battalions may also have some heavier weapons of 75-mm. or 88-mm. Those 75-mm. or 88-mm. guns which were encountered in the Western Desert were firing by direct laying and were either accompanying-gun artillery or battalion heavy antitank weapons*.

g. Superheavy Machine Gun Antitank-Antiaircraft Battalions

These are primarily antiaircraft units, allotted on the basis of one per division, although it is believed that not all divisions have these units. The battalions are organized into three companies, each company armed with twelve 20-mm., superheavy, machine guns. Their role is mainly antiaircraft protection with the secondary role of antitank protection.

h. Mixed Antiaircraft Battalions

These battalions are Air Force units which are allotted to armored and light motorized divisions as necessary. They consist of three heavy batteries, each armed with four 88-mm. antitank-antiaircraft guns, and two light batteries, each armed with twelve 20-mm. guns.

3. MOTORIZED AND ARMORED DIVISIONS

a. Motorized Divisions

The following changes have been noted in the organization of German motorized divisions:

- (1) The number of infantry regiments in a motorized division

*Apparently each German Division operating in Libya has 225 antitank guns available. Observer's Note.

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has been reduced from three to two in at least five instances, and this may be assumed to have occurred in all cases.

(2) In at least one of these five divisions, a motorcycle battalion has been added.

No confirmed information has as yet been received regarding any reorganization of the motorized infantry regiment.

b. Armored Divisions - Normal Type

The following changes have been noted in the organization of German armored divisions:

(1) In at least eight armored divisions of normal type there is now only one tank regiment instead of two, and it is reported that all the armored divisions operating on the Russian front are organized on this basis. The existence of the heavy armored divisions, containing 36-ton, 45-ton, and 90-ton tanks is not yet confirmed.

(2) The strength of the motorized infantry brigade has been increased to two motorized infantry regiments and one motorcycle battalion. The former organization called for one motorized infantry regiment and one motorcycle battalion or, in some cases, two motorized infantry regiments.

4. 20-MM. ANTITANK GUN

Preliminary firing trials with the German 20-mm. antitank gun, Model 41, have given the following results:

a. Velocity

Observed velocity at 90 feet:	4500 feet per second
Muzzle velocity - estimated:	4600 - 4700 feet per second

b. Penetration at 100 Yards

(1) 70-mm. (2.76 in.) Homogeneous Hard Plate

<u>Angle of Impact</u>	<u>Results</u>
Normal	Hole
30°	Dent, bulge at back of plate
45°	Deep impression

(2) 80-mm. (3.15 in.) Machineable Plate

CONFIDENTIAL

CONFIDENTIALAngle of Impact

Normal
30°

Results

Hole
Dent, bulge at back of plate

CONFIDENTIAL

RESTRICTED

G-2/2657-220; No. 537 M.I.D., W.D. 11:00 A.M., November 5, 1941

SITUATION REPORTI. Eastern Theater.

Ground: Situation remains unchanged at Leningrad.

Local attacks and counterattacks continue on the Moscow front.

There is no information covering operations on the southern front north of Rostov.

Operations continue in the Crimea; Germans apparently stopped in front of Sevastopol and are advancing on Kerch.

Air: Gorki, the aircraft manufacturing city 250 miles east of Moscow, was bombed effectively, according to German sources. Russian attempts to leave the Crimea by sea were hampered by heavy bombing of shipping.

Russian planes attacked Helsinki for the first time in several months.

II. Western Theater.

Air: British bombers flew through heavy weather last night to bomb the German Ruhr and Rhineland, as well as Ostend and Dunkirk, on the coast.

III. Middle Eastern Theater.

Air: British reports told of the most destructive raid on Tripoli, which was made Sunday night. The air base and supply docks were reportedly heavily damaged.

The British yesterday raided Sicily and Benghazi. German Stukas operated over Tobruk.

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